BLME

BANK OF LONDON AND THE MIDDLE EAST

Annual Report and Accounts

31 December 2008

Registered number 05897786

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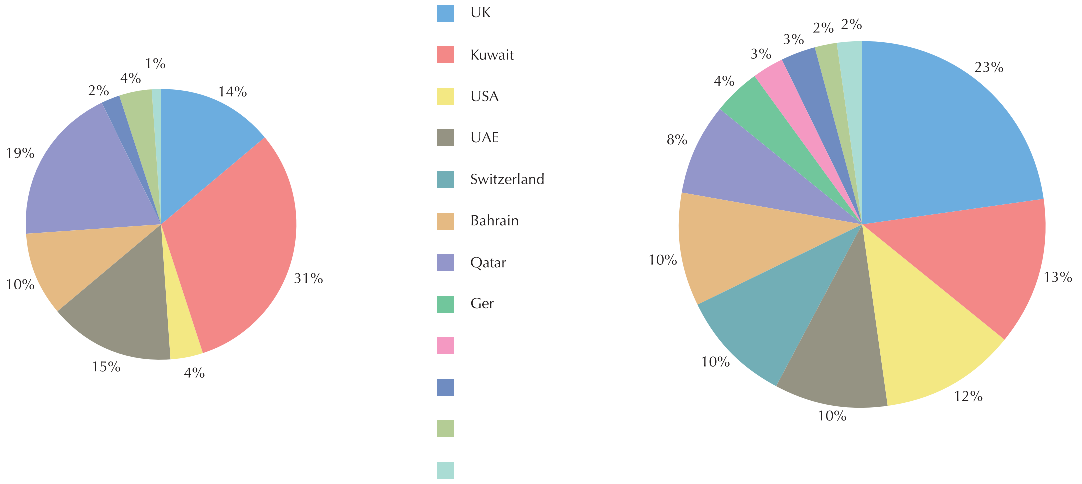
Bank results before consolidation

- Authorised in July 2007, Bank of London and The Middle East plc is the leading Sharia'a compliant bank in Europe by balance sheet, capitalisation and profitability.
- In February 2008 BLME completed its second capital raising of £75 million bringing shareholder funds to more than £250 million.
- In December 2008 BLME opened prestigious West End premises focused on our Wealth Management businesses.

Exposures by Country
at 31 December 2007

Exposures by Country
at 31 December 2008



Information regarding Profit before tax of the Bank can be found in note 17 to the Financial Statements.

Information regarding Exposures by geography for the Bank can be found in note 34a(iii) to the Financial Statements.

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 continued development and the encouraging financial performance of Bank of London and The Middle East plc ("BLME" or the "Bank") in the 12 months to 31 December 2008. The unconsolidated pre-tax profit of £5,833,524 and strong balance sheet growth to £872million, in line with or in excess of the projections set out in the November 2006 Private Placement Memorandum, demonstrate the healthy business momentum which the Bank has continued to achieve since its start up phase.

The consolidated profit before tax, affected by certain timing differences associated with income recognition of the US leasing business, shows a significant increase to £4,446,222 in the year to 31 December 2008 from £332,389 in the period to 31 December 2007.

The fact that the Bank has achieved this in the most difficult global market conditions experienced for many years is testimony to the resilience of the original business plan and the strategy of developing a broad range of client and investor products within BLME's business divisions. This has resulted in BLME becoming the leading European Sharia'a compliant financial institution in terms of balance sheet, capitalisation and profitability.

The widespread downturn in all markets gives your Board pause for thought. I would like to stress that, while we remain optimistic for the continued growth of the Bank, we are cautious about conditions in 2009. We therefore favour preservation of capital and strong liquidity above overly ambitious revenue targets.

In fulfilment of its stated strategy, BLME has built upon its strong financial position and has diversified its business offering including the opening of its Private Banking and Asset Management premises. I am confident that these Wealth Management businesses will provide important access for private and institutional clients to new asset classes, as well as the traditions and skills of the London market place. Within this framework, your Board believes that BLME is particularly well placed to participate strongly in the continued growth of the global Islamic Finance market.

During the year, your Board studied in detail the prospect of seeking admission of BLME's share capital to the Alternative Investment Market of the London Stock Exchange in the 2009 financial year. It concluded that market conditions, and the outlook for stock markets generally, were such that this would not be an appropriate step for the Bank. Furthermore, following the second capital raising in February 2008, I am satisfied that BLME is appropriately capitalised at this stage of its development. It is also clear that a full listing on the London Stock Exchange is more appropriate for a Bank of BLME's standing. Therefore I have encouraged Management to prepare for a full Stock Exchange listing in 2010.

I would lastly like to thank our shareholders for their continued support and our staff, whose experience, commitment and contribution are key factors in BLME's continuing development.

Yacob Al-Muzaini

Chairman

26 March 2009

CHIEF EXECUTIVE OFFICER'S STATEMENT

Business summary

In our first full year of operation following authorisation by the Financial Services Authority (FSA) in July 2007, I am very pleased to report that Bank of London and The Middle East plc was able to fulfil or exceed the 2008 business development and financial targets laid out in the 2006 Private Placement Memorandum. These were accomplished against a background of unprecedented global market turmoil and severely constrained liquidity. Despite this BLME progressed to become the leading European Sharia'a compliant financial institution in terms of balance sheet, capitalisation and profitability. This was assisted by a successful and oversubscribed second capital raising of £75 million in February 2008 that increased BLME's issued share capital to over £250 million. I am proud to advise that BLME's growing market reputation and progress were endorsed by it being voted the Best Islamic Bank – Europe in the recent Islamic Finance News market survey.

Building on our strong client, financial institution and investor relationships, Markets Division was able to grow and diversify BLME's funding base, and further develop its liquidity management techniques. In increasing the Bank Balance Sheet from £297.7 million as at 31 December 2007 to £871.9 million as at 31 December 2008, Markets Division succeeded in funding large increases in Corporate Banking and Investment Book assets, as well as maintaining a liquidity profile that consistently exceeded minimum regulatory and internal prudential guidelines. I am particularly pleased by the pioneering role which BLME played in developing a Sharia'a compliant off-balance sheet profit rate swap structure to hedge fixed rate risk in our Corporate Banking portfolio. Elsewhere, by using our membership of the London Metals Exchange, we became a provider of Commodity Murabaha transactions that fully comply with Sharia'a principles.

The significant investments made in the latter part of 2007 in recruiting experienced Islamic Finance specialists enabled BLME to exceed its 2008 Corporate Banking Division balance sheet and revenue targets. All four Corporate Banking desks (Leasing, Trade, Property and Project Finance) made important contributions. Our strategy of recruiting a specialist US leasing team in 2007 has enabled BLME to grow a substantial business early in our development. The emphasis on asset growth has remained very selective and is founded on identifying higher quality credits at a time in the economic cycle when credit quality and liquidity have been under pressure.

In the course of 2008 we recruited a small number of additional Corporate Banking specialists. This enabled BLME to enter UK and European leasing which is complementary to the Bank's growing on and off-balance sheet aspirations. Furthermore, in the face of difficult market conditions, BLME achieved a significant accomplishment by undertaking our first Corporate Banking syndication deal. We also became an active innovator of new products, such as Wakala Receivables Financing, which is deployed in our Trade Finance business. BLME has been successful in enhancing its growing reputation in Property Finance by winning and completing the financing of a number of high quality and prime location property acquisitions.

2008 also saw the development of our Wealth Management businesses (Asset Management and Private Banking). Following Markets and Corporate Banking, these are the third and fourth components of our core business platform. The principal achievements included the implementation of the legal, IT and operating infrastructure, the recruitment of experienced staff and the opening of prestigious West End premises. Ahead of launching several of its own Islamic Funds in 2009, BLME was able to undertake a significant amount of Restricted Investment Account business that made an important contribution to 2008 profitability. We also received FSA permission to offer Islamic Home Finance as part of our Private Banking product offering.

Market environment for Islamic Finance

2008 witnessed the continued increase in the number of Islamic Financial Institutions in London with two further Islamic Banks and a Takaful company commencing operations. Despite the significant decline in Sukuk activity throughout 2008, due to the continuing credit crunch, demand for Islamic financial solutions based on ethical, transparent and asset backed principles continued to grow.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In the most challenging of market environments, I am pleased to report that BLME has continued to maintain a strong liquidity profile alongside an expanding network of depositors. Under the guidance of the Asset and Liability Committee (ALCO), balance sheet growth and liquidity resources continued to be prudently managed.

Market price risk has remained a small part of BLME's risk profile. In an environment of rapidly falling market rates we were successful in hedging a substantial part of our capital as well as neutralising a large part of the fixed rate risk in the Corporate Banking portfolio.

I am pleased to report in the light of the recent FSA Consultation Papers on Liquidity and Stress Testing, that the Bank, under the governance of ALCO and the Board Risk Committee, has already been applying many of the new and more conservative risk disciplines put forward in these proposals since we commenced business. Consequently, BLME is well placed to implement the proposed guidelines once they are adopted.

Our staff and expertise

For our initial businesses (Markets and Corporate Banking), and for our support areas, BLME has reached a fully operational state where these divisions are appropriately staffed by seasoned professionals with strong levels of Islamic Finance experience. It is pleasing to highlight that staff departures have been running at 6% per annum, approximately half of the market norm. All employees are encouraged to undertake training in Islamic Finance, and over 40% of employees have passed the Securities and Investment Institute's Islamic Finance Qualification.

In Private Banking and Asset Management we are substantially advanced in the recruitment of experienced front office and support staff, and our new West End businesses have been receiving full support from management and staff in our City of London headquarters.

Overall, BLME's financial performance and growing market reputation have been materially assisted by the recruitment of quality staff. Staff retention and development have been further enhanced by the Bank's commitment to implement strategically aligned employee incentive schemes. These have been put in place under the guidance of the Remuneration Committee in conjunction with an established compensation consultancy. All such measures have been adopted with the twin objectives of aligning best market practice with shareholder interests.

I join with our Chairman in thanking our staff for their valued contribution, and our clients and shareholders for their support in enabling BLME to continue to achieve its financial and strategic targets.

Operational effectiveness

In parallel with diversifying and growing our businesses in 2008, we continued to make the necessary investments in IT, operating, control and governance infrastructure. The highlight was the acquisition and refurbishment of new West End premises that are now occupied by our Wealth Management businesses. Over and above our existing and tested disaster recovery capabilities, our West End premises provide BLME with back-up capabilities in a separate London location. In addition, a bespoke and market leading IT system has been implemented to support these new businesses, and to provide our Private Banking customers with first class reporting of their account balances and asset holdings.

Under the guidance of our Audit Committee, BLME's adherence to proper procedures and controls has been underpinned by a programme of internal audits. We have complemented this by undertaking a detailed and forward looking Operational Risk assessment for all areas of the Bank, to enable any necessary adjustments to controls and procedures to be made.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Through our IT Committee we ensure that the Bank is supported by a robust operating infrastructure and effective IT systems.

I would like to express my appreciation and gratitude for the pivotal role played by our Sharia'a Supervisory Board in facilitating product development and supporting the requirements of our clients in terms of timely delivery.

Outlook for the future

Despite a continuing global recession, and in anticipation of tighter regulatory liquidity standards, I am confident that the demand for Islamic Finance and for new Sharia'a compliant investment products will continue to grow. Within this more difficult macro environment, BLME will develop its balance sheet and profitability, albeit at a lower growth rate than in 2008.

This complements BLME's stated strategy of diversifying into Wealth Management businesses, and of using its balance sheet to develop a strong presence in syndication markets as well as providing products for its Asset Management business. As we grow our Asset Management Division, BLME will both undertake the fund management role itself and engage the services of specialist third party fund managers.

In Private Banking we are the first UK independent Sharia'a bank to provide a full range of Islamic Finance solutions in the UK, Europe and the Middle East. BLME deliver a comprehensive product and service offering to clients encompassing straightforward current and deposit accounts through to more sophisticated investment portfolios, advisory services and discretionary management of assets.

In our more established businesses of Markets and Corporate Banking, we will increasingly focus on developing capacities to originate and syndicate higher volumes of business in order to achieve the appropriate balance between supporting our customer relationships and maintaining prudential levels of liquidity and balance sheet size. In parallel with this, all of our business areas will continue to expand and diversify their asset sourcing and liability gathering activities.

Overall, the prospects for all of the Bank's businesses remain good and in 2009 we will strive to build on our position as the pre-eminent Islamic bank in the European time zone.

Against the background of challenging global economic conditions throughout 2009 and beyond we look forward to expanding BLME's existing and new businesses, and promoting the depth and reach of our product offering to current and prospective customers. We are confident that the Bank's business momentum, profitability and advantageous market position will continue in the lead up to BLME undertaking a full market listing and obtaining an investment grade credit rating in 2010.

Humphrey Percy
Chief Executive Officer
26 March 2009

THE BOARD & EXECUTIVE MANAGEMENT

Yacob Yousef Al-Muzaini – Chairman

Yacob is non-executive Chairman of the Board of BLME. Previously he was Chairman and Managing Director of Boubyan Bank, with 24 years of leadership experience in private and public sector financial institutions. Prior to this, Yacob was Chairman and Managing Director of a leading private sector financial services company. Yacob has also held several board memberships of national, international companies and investment funds.

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

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

Executive Directors

Humphrey Richard Percy – CEO

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

Richard Radway Williams – Finance Director

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

Nigel Brodie Denison – Head of Markets

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

Non-Executive Directors

Fuad Saleh Al-Shehab

Fuad was previously General Manager of the Investment Group at Boubyan Bank. He has more than 25 years experience in investment banking encompassing fixed income, equities, real estate and direct investments. Fuad was previously Managing Director of Global Securities House Ltd., the investment arm of The Securities House, one of Kuwait's leading investment groups. Prior to that he was Managing Director of UBK Customer Services, a wholly owned subsidiary of United Bank of Kuwait plc.

Neil Jonathan Holden

Neil is Chairman of BLME's Board Risk and Remuneration Committees. He is a mathematician and Chartered Accountant with more than 25 years experience of international banking focusing on financial control and risk management. His recent executive roles include Head of Corporate and Investment Banking Credit for Standard Bank Group, Head of Risk for Standard Bank Plc, and previously various senior roles at WestLB and Hambros Bank covering all risk, finance and operational disciplines.

Frank Willem Vermeulen

Frank is Chairman of BLME's Audit Committee. He has a master's degree in Dutch law and he has spent more than 20 years in banking, mostly for ABN Bank NV in a variety of roles, including Head of Corporate Banking, Syndications & International for Saudi Hollandi Bank, Riyadh, before joining Olayan Financing Company, Riyadh in 1992 until his retirement at the end of 2006 where he held the position of Treasurer and CFO. Frank currently also holds Board positions with LeasePlan Corporation NV, Optitune plc and Aurelio Resource Corporation, and advisory positions with Jarir Marketing Company and Mitsubishi Chemical Company.

Masood Akbar

Masood is a qualified actuary and is a Director at the Member Investment Advisory Board, EURX Property Fund, as well as at AREF Investment Group in Kuwait, where he is responsible for Sharia'a compliant investments in real estate and private equity. Masood has previously worked as a Director at Genesis Emerging Market Fund, a Guernsey based offshore fund. Prior to that Masood held a number of positions: Chief Executive Officer of Fidelity Investment Bank in Pakistan; the first Managing Director of Jardine Fleming Pakistan; Director, Investment Department at HH The Rulers Office Abu Dhabi and Portfolio Manager Special Situations Fund, for the Abu Dhabi Investment Authority.

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report and audited financial statements for the year ended 31 December 2008.

Principal activities

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

Financial results

The financial statements for the reporting period ended 31 December 2008 are shown on pages 28 to 76. The consolidated Group profit for the year after taxation amounts to £2,372,059 (2007: £171,237). The unconsolidated profit for the Bank for the year after taxation amounts to £3,345,117 (2007: £175,657).

Financial review

In the year to 31 December 2008 BLME continued to build on its Markets and Corporate Banking businesses. Deposits due to financial institutions showed a healthy growth enabling an expansion in financing arrangements and leasing activity. Net fee income primarily arose from non-discretionary asset management activity.

The increase in other operating income, depreciation and amortisation was due to the expansion of the US operating lease business.

Sukuk held within investment securities were transferred to financing arrangements as allowed under amended International Accounting Standards.

Dividends

The Directors do not recommend the payment of a dividend.

Risk

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

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

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

Directors and Directors' interests

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

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

The Directors who held office at 31 December 2008 had the following beneficial interests in the ordinary shares of BLME.

Name	Class of share	Interest at the end of the year	Interest at the start of the year
Yacob Yousef Al-Muzaini	Ordinary 1p	36,500,000	20,000,000
Humphrey Richard Percy	Ordinary 1p	16,342,306	13,942,306
Nigel Brodie Denison	Ordinary 1p	8,846,152	6,846,152
Fuad Saleh Al-Shehab	Ordinary 1p	8,000,001	4,000,001
Richard Radway Williams	Ordinary 1p	7,346,152	5,846,152
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	Ordinary 1p	2,000,000	–
Neil Jonathan Holden	Ordinary 1p	750,000	750,000
Frank Willem Vermeulen	Ordinary 1p	263,051	200,000

Sharia'a Supervisory Board members

The Sharia'a Supervisory Board members are as follows:

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

Policy and practice on payment of creditors

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

Political and charitable contributions

BLME made no political contributions or charitable donations during the period.

Going concern

The Directors have reviewed the business activities and financial position of BLME and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

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

Auditors

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

By order of the Board

Richard Williams
Company Secretary
26 March 2009

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

The following statement describes BLME's structure and processes across the Board, Directors' remuneration, accountability and audit, and relations with shareholders.

Board and Board Committees

The Board of Directors

The Board is responsible for BLME's system of corporate governance. At 31 December 2008 the Board of Directors comprised three executive Directors: Humphrey Percy – Chief Executive Officer, Richard Williams – Finance Director, Nigel Denison – Director and Head of Markets, and six non-executive Directors including the non-executive Chairman.

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

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

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

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

Board Meetings

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

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

The Board met four times during 2008. All Board members attended each meeting, other than the meeting on 2 December, when Yacob Yousef Al-Muzaini was absent.

Board Committees

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

The Board Committees operate within clearly defined terms of reference.

Board Audit Committee

The Audit Committee is chaired by Frank Vermeulen and comprises Sheikh Abdullah Jabar Al-Ahmed Al-Sabah, Fuad Saleh Al-Shehab, Neil Holden and Waleed Khalid Al-Omar.

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

The Board considers that the members of the Audit Committee possess recent and relevant financial experience. The Audit Committee has unrestricted access to BLME's auditors. The external auditors, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2008, non-audit services provided by KPMG comprised advice with regard to taxation, International Financial Reporting Standards compliance, financial due diligence and other miscellaneous services.

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

Board Risk Committee

The Risk Committee is chaired by Neil Holden and comprises Frank Vermeulen, Fuad Saleh Al-Shehab, Masood Akbar and Waleed Khalid Al-Omar.

The role of the Risk Committee is to recommend to the Board the principles of BLME's risk policy and risk management, and to oversee the management of the risk structure and financing portfolios.

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

Board Remuneration Committee

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

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

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

Board Nominations Committee

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

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

The Committee is also responsible for overseeing the annual performance evaluation of the Board, its principal Committees and the Chairman.

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

Chairman and Chief Executive

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

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

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

Board balance

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

Information and professional development

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

Accountability

Financial reporting

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

Internal control

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

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

Relations with shareholders

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

SHARIA'A SUPERVISORY BOARD REPORT

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

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

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

We, the Sharia'a Supervisory Board of BLME have reviewed and monitored the operations, agreements and transactions conducted by BLME during the period 1 January 2008 to 31 December 2008 and have conducted our reviews to form an opinion as to whether BLME has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by BLME during the year 1 January 2008 to 31 December 2008 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.

2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME are in compliance with the principles of the Sharia'a.

3. All profits made by BLME during the year 1 January 2008 to 31 December 2008 have been derived from Sharia'a compliant sources.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar

Chairman

26 March 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

The Group and Bank financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Bank and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Bank to enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law, the Directors are also responsible for preparing a Directors' report that complies with that law.

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

We have audited the Group and Bank financial statements (the ''financial statements'') of Bank of London and The Middle East plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Bank Balance Sheets, the Group and Bank Cash Flow Statements, the Group and Bank Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's 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 and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU are set out in the Statement of Directors' responsibilities on page 18.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of OfPTY–cXOatPXOemPXOUXWaG",dOWPZbOesPTYZcObXOuPXOTYZbOiPX

Opinion

In our opinion:

- the Group and Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's and Bank's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants

8 Salisbury Square
London EC4Y 8BB

26 March 2009

CONSOLIDATED INCOME STATEMENT

For the year 1 January 2008 to 31 December 2008

	Note	For the year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Income			
Income from financing and investing activities	*6*	28,751,197	10,387,347
Returns to financial institutions and customers	*7*	(12,559,184)	(1,953,520)
Net margin		16,192,013	8,433,827
Fee and commission income		7,484,382	–
Fee and commission expense		(5,359,489)	–
Net fee income		2,124,893	–
Net fair value gains on investment securities	*8*	489,806	519,266
Other operating Income	*9*	9,295,380	321,070
Total operating income		**28,102,092**	**9,274,163**
Expenses			
Personnel expenses	*11*	(9,001,510)	(5,344,685)
Depreciation and amortisation		(7,071,316)	(473,403)
Other operating expenses		(6,639,842)	(3,123,686)
Total operating expenses		**(22,712,668)**	**(8,941,774)**
Operating profit before impairment charges		**5,389,424**	**332,389**
Provision for impairments	*15*	(943,202)	–
Net operating profit before tax	*14*	**4,446,222**	**332,389**
Tax	*16*	(2,074,163)	(161,152)
Profit for the year		**2,372,059**	**171,237**

The notes on pages 28 to 76 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 £	2007 £
Assets			
Cash and balances with banks		5,799,089	697,786
Due from financial institutions	18	371,453,122	180,531,933
Investment securities	19	2,364,108	44,831,667
Financing arrangements	21	328,530,815	52,083,973
Finance lease receivables	22	62,690,280	–
Operating lease assets	24	73,320,957	11,933,720
Investment property	20	8,437,371	–
Property and equipment	23	1,625,666	963,045
Intangible assets	25	1,202,848	894,531
Other assets	26	11,571,998	5,601,398
Deferred tax assets	16	279,487	178,128
Total assets		**867,275,741**	**297,716,181**
Liabilities			
Due to financial institutions	27	594,377,061	108,649,281
Due to customers	28	4,700,000	5,601,432
Profit rate swaps	10	5,139,664	–
Other liabilities	29	8,823,246	3,833,544
Current tax liability		1,833,544	234,324
Total liabilities		**614,873,515**	**118,318,581**
Equity			
Share capital	31	48,913,807	37,291,730
Share premium	31	206,125,943	142,204,520
Fair value reserve		(1,181,902)	(269,887)
Cash flow hedging reserve		(4,301,838)	–
Share based payment reserve		470,667	–
Foreign currency translation reserve		(167,747)	–
Retained earnings		2,543,296	171,237
Total equity attributable to equity holders of the Bank		**252,402,226**	**179,397,600**
Total liabilities and equity		**867,275,741**	**297,716,181**

The notes on pages 28 to 76 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2009 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

BANK BALANCE SHEET

As at 31 December 2008

	Note	2008 £	2007 £
Assets			
Cash and balances with banks		4,268,297	697,786
Due from financial institutions	*18*	371,453,122	180,531,933
Investment securities	*19*	2,364,108	44,831,667
Financing arrangements	*21*	433,702,664	64,083,220
Finance lease receivables	*22*	40,256,271	–
Operating lease assets	*24*	6,206,676	–
Property and equipment	*23*	1,625,666	963,045
Intangible assets	*25*	1,202,848	894,531
Other assets	*26*	10,852,801	5,542,186
Deferred tax assets	*16*	–	176,233
Total assets		**871,932,453**	**297,720,601**
Liabilities			
Due to financial institutions	*27*	594,377,061	108,649,281
Due to customers	*28*	4,700,000	5,601,432
Profit rate swaps	*10*	5,139,664	–
Other liabilities	*29*	7,896,243	3,833,544
Current tax liability		1,833,544	234,324
Deferred tax liability	*16*	136,652	–
Total liabilities		**614,083,164**	**118,318,581**
Equity			
Share capital	*31*	48,913,807	37,291,730
Share premium	*31*	206,125,943	142,204,520
Fair value reserve		(1,181,902)	(269,887)
Share based payment reserve		470,667	–
Retained earnings		3,520,774	175,657
Total equity attributable to equity holders of the Bank		257,849,289	179,402,020
Total liabilities and equity		**871,932,453**	**297,720,601**

The notes on pages 28 to 76 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2009 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January to 31 December 2008

	For the year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Cash flows from operating activities		
Operating profit before tax	4,446,222	332,389
Adjusted for:		
Translation exchange differences	(167,747)	–
Exchange rate gain on investment property	(1,771,956)	–
Fair value gain on investment property	(213,973)	–
Provision for impairment	943,202	–
Depreciation and amortisation	7,071,316	473,403
Share awards	1,645,607	543,500
Mark to market losses adjusted in equity	(1,275,546)	(374,843)
Income from financing and investing activities	(28,751,197)	(10,387,347)
Returns to financial institutions and customers	12,559,184	1,953,520
	(5,514,888)	(7,459,378)
Net increase in operating assets:		
Due from financial institutions	(190,921,189)	(180,531,933)
Financing arrangements	(247,546,734)	(52,083,973)
Finance lease receivables	(63,047,475)	–
Operating lease assets	(67,756,453)	(12,106,216)
Other assets	(8,360,327)	(5,774,295)
	(577,632,178)	(250,496,417)
Net increase in operating liabilities:		
Due to financial institutions	485,727,780	108,649,281
Due to customers	(901,432)	5,601,432
Profit rate swaps	5,139,664	–
Other liabilities	4,353,843	3,290,044
	494,319,855	117,540,757
Income from financing and investing activities received	25,471,617	8,932,127
Returns to financial institutions and customers paid	(6,474,089)	(325,403)
Corporation tax paid	(275,000)	–
Net cash outflow from operating activities	**(70,104,683)**	**(131,808,314)**

(Continued on next page)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January to 31 December 2008 (continued)

	For the year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Cash flows from investing activities		
Purchase of property and equipment	(974,207)	(1,115,248)
Purchase of intangible assets	(690,776)	(1,043,235)
Purchase of investment property	(6,451,442)	–
Sale/(Purchase) of investment securities	8,322,411	(44,831,667)
Net cash inflow/(outflow) from investing activities	205,986	(46,990,150)
Cash flows from financing activities		
Net proceeds from issue of share capital	75,000,000	179,496,250
Net change in cash and cash equivalents	**5,101,303**	**697,786**
Cash and cash equivalents at 31 December 2007	697,786	–
Cash and cash equivalents at 31 December 2008	**5,799,089**	**697,786**

The notes on pages 28 to 76 are an integral part of these financial statements.

BANK STATEMENT OF CASH FLOWS

For the year 1 January to 31 December 2008

	For the year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Cash flows from operating activities		
Operating profit before tax	5,833,524	338,705
Adjusted for:		
Provision for impairment	943,202	–
Depreciation and amortisation	830,807	300,907
Share awards	1,645,607	543,500
Mark to market losses adjusted in equity	(1,275,546)	(374,843)
Income from financing and investing activities	(31,370,132)	(10,449,926)
Returns to financial institutions and customers	12,559,184	1,953,520
	(10,833,354)	(7,688,137)
Net increase in operating assets:		
Due from financial institutions	(190,921,189)	(180,531,933)
Financing arrangements	(336,417,498)	(64,083,220)
Finance lease receivables	(40,256,271)	–
Operating lease assets	(6,335,383)	–
Other assets	(8,061,957)	(5,715,083)
	(581,992,298)	(250,330,236)
Net increase in operating liabilities:		
Due to financial institutions	485,727,780	108,649,281
Due to customers	(901,432)	5,601,432
Profit rate swaps	5,139,664	–
Other liabilities	3,431,259	3,290,044
	493,397,271	117,540,757
Income from financing and investing activities received	28,090,553	8,994,705
Returns to financial institutions and customers paid	(6,474,089)	(325,403)
Corporation tax paid	(275,000)	–
Net cash outflow from operating activities	**(78,086,917)**	**(131,808,314)**

(Continued on next page)

BANK STATEMENT OF CASH FLOWS

For the year 1 January to 31 December 2008 (continued)

	For the year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Cash flows from investing activities		
Purchase of property and equipment	(974,207)	(1,115,248)
Purchase of intangible assets	(690,776)	(1,043,235)
Sale/(Purchase) of investment securities	8,322,411	(44,831,667)
Net cash inflow/(outflow) from investing activities	6,657,428	(46,990,150)
Cash flows from financing activities		
Net proceeds from issue of share capital	75,000,000	179,496,250
Net change in cash and cash equivalents	**3,570,511**	**697,786**
Cash and cash equivalents at 31 December 2007	697,786	–
Cash and cash equivalents at 31 December 2008	**4,268,297**	**697,786**

The notes on pages 28 to 76 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	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 7 August 2006	–	–	–	–	–	–	–	–
Shares issued	37,291,730	142,204,520	–	–	–	–	–	179,496,250
Profit for the period	–	–	–	–	–	171,237	–	171,237
Mark to market loss on available for sale securities	–	–	(374,843)	–	–	–	–	(374,843)
Tax on available for sale securities	–	–	104,956	–	–	–	–	104,956
Balance at 31 December 2007	**37,291,730**	**142,204,520**	**(269,887)**	**–**	**–**	**171,237**	**–**	**179,397,600**
Balance at 31 December 2007	37,291,730	142,204,520	(269,887)	–	–	171,237	–	179,397,600
Shares issued	11,622,077	63,921,423	–	–	–	–	–	75,543,500
Losses recognised directly in cash flow hedge reserve	–	–	–	(4,301,838)	–	–	–	(4,301,838)
Profit for the period	–	–	–	–	–	2,372,059	–	2,372,059
Share-based payment award	–	–	–	–	470,667	–	–	470,667
Mark to market loss on available for sale securities	–	–	(1,565,690)	–	–	–	–	(1,565,690)
Mark to market amount transferred to income statement during year	–	–	290,144	–	–	–	–	290,144
Tax on available for sale securities	–	–	363,531	–	–	–	–	363,531
Translation exchange differences	–	–	–	–	–	–	(167,747)	(167,747)
Balance at 31 December 2008	**48,913,807**	**206,125,943**	**(1,181,902)**	**(4,301,838)**	**470,667**	**2,543,296**	**(167,747)**	**252,402,226**

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available for sale investments until the investment is either derecognised or becomes impaired. The mark to market loss on available for sale securities is shown gross with associated deferred tax separately disclosed.

Cash flow hedging reserve

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

Share based payment reserve

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

Foreign currency translation reserve

The transaction reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

The notes on pages 28 to 76 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital	Share premium account	Fair value reserve	Share based payment reserve	Retained earnings	Total
	£	£	£	£	£	£
Balance at 7 August 2006	–	–	–	–	–	–
Shares issued	37,291,730	142,204,520	–	–	–	179,496,250
Profit for the period	–	–	–	–	175,657	175,657
Mark to market loss on available for sale securities	–	–	(374,843)	–	–	(374,843)
Tax on available for sale securities	–	–	104,956	–	–	104,956
Balance at 31 December 2007	**37,291,730**	**142,204,520**	**(269,887)**	**–**	**175,657**	**179,402,020**
Balance at 31 December 2007	37,291,730	142,204,520	(269,887)	–	175,657	179,402,020
Shares issued	11,622,077	63,921,423	–	–	–	75,543,500
Share based payment award	–	–	–	470,667	–	470,667
Profit for the period	–	–	–	–	3,345,117	3,345,117
Mark to market loss on available for sale securities	–	–	(1,565,690)	–	–	(1,565,690)
Mark to market amount transferred to income	–	–	290,144	–	–	290,144
Tax on available for sale securities	–	–	363,531	–	–	363,531
Balance at 31 December 2008	**48,913,807**	**206,125,943**	**(1,181,902)**	**470,667**	**3,520,774**	**257,849,289**

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available for sale investments until the investment is either derecognised or becomes impaired. The MTM loss on available for sale securities is shown gross with associated deferred tax separately disclosed.

Share based payment reserve

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

The notes on pages 28 to 76 are an integral part of these financial statements.

1. Reporting entity

Bank of London and The Middle East plc 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, including a significant US leasing business and private client banking and asset management. The consolidated financial statements of BLME (the "Group") are presented as at and for the 12 months ended 31 December 2008.

The following terms are used in the financial statements:

Murabaha

A Murabaha contract is a deferred sale of goods at cost plus an agreed profit mark-up under which one party purchases goods from a supplier and sells the goods to another party at cost price plus an agreed mark-up. The delivery of the goods is immediate, payment is deferred. Murabaha has a variety of applications and is often used as a financing arrangement, for instance for working capital and trade finance.

Commodity Murabaha

A Commodity Murabaha contract (a subset of Murabaha) is often used as a liquidity management tool by financial institutions. The Commodity Murabaha is today the mainstay of the Islamic interbank short term liquidity market. In these transactions the commodity, usually a London Metal Exchange base metal, is sold on a deferred basis with a mark-up. The mark-up is close to conventional money market levels.

Wakala

Wakala means agency and is often used in an arrangement where one party (the principal) places funds with another (the agent). The agent invests funds on the behalf of the principal for an agreed fee or profit share.

Ijara

An Ijara is a contract allowing the granting of the right to use an asset by one party to another which equates to the leasing of an asset in return for rental payments. Ijara are typically used for medium to long term financing of real estate, equipment, machinery, vehicles, vessels or aircraft.

Mudaraba

A Mudaraba is a partnership contract in which a capital owner (Rab al Mal) enters into a contract with a partner (Mudarib) to undertake a specific business or project. The Mudarib provides the labour or expertise to undertake a business or activity. Profits are shared on a pre-agreed ratio but losses are borne by the Rab al Mal unless negligence of the Mudarib is demonstrated.

Musharakah

An agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his/her contribution.

Sukuk

Sukuk (usually referred to as Islamic bonds) are certificates that reflect ownership in an underlying asset. Profits are calculated according to the performance of the underlying asset or project. Sukuk are issued by Special Purpose Vehicles which are set up to acquire and to issue financial claims on the assets. Such financial claims represent a proportionate beneficial ownership for a defined period when the risk and the return associated with cash-flows generated by the underlying asset are passed to the Sukuk holders. Sukuk are commonly used as funding and investment tools.

Istisna

An Istisna is a contract for the acquisition of a product or property. The asset is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client, and delivered at the agreed date and price. Payment is deferred. Istisna contracts are commonly applied in project finance, construction finance and pre-export finance where the bank acts as an intermediary between the producer and the ultimate client.

Profit rate swaps

A profit rate swap is a contract between two parties where each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty. The fixed or floating rate is multiplied by a notional amount.

Participation agreement

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

2. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs “) as adopted by the EU and approved by the Directors.

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

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

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

The impact of the reclassifications was to increase income before taxes by £282,419. For further information, please refer to note 5 below.

b. Standards and interpretations issued but not yet effective

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

- IAS 1 Revised Presentation of Financial Statements (effective 1 January 2009)
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instrument and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 January 2009)
- IFRS 1 (Amendments) First-time Adoption of International Financial Reporting Standards and IAS 27 (Amendments) Consolidated and Separate Financial Statements (effective 1 January 2009), issued but not yet endorsed by the EU at year end
- IFRS 2 (Amendments) Share-Based Payment (effective 1 January 2009)
- IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements (effective 1 July 2009), issued but not yet endorsed by the EU at year end
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation already effective but not yet endorsed by the EU at year end

The Bank anticipates that the accounting pronouncements which have not been early adopted will have no material effect on the financial statements.

c. Basis of consolidation

i. Subsidiaries

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

ii. Special Purpose Vehicles (SPV)

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

d. Consolidation of foreign entities

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

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

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

e. Basis of measurement

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

f. Functional and presentation currency

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

g. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

Information about significant areas of estimation and uncertainty are described in notes 4 and 34.

3. Significant accounting policies

a. Foreign currency

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

b. Revenue recognition

i. Murabaha, Wakala, Mudaraba, Sukuk and Istisna income and expense

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

Investment securities includes both 'fair value through profit and loss' and 'available for sale' Sukuk portfolios until 30 June 2008. The determinable profit share on Sukuk is recognised in income using the 'effective profit share rate' basis and any fair valuation gain or loss is accounted for in the 'income statement' in the case of fair value through profit and loss securities and 'statement of changes in equity' in the case of available for sale securities. From 1 July 2008 all Sukuk (both trading and available for sale) were transferred to loans and receivables.

ii. Fees and commission

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

c. Financial assets and liabilities

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

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

i. Due from financial institutions and financing arrangements

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

ii. Investment securities

- **Financial instruments at fair value through profit or loss**

  Financial assets are classified in this category if they are held for trading, or if they are designated by management under the fair value option.

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

- **Available for sale**

  Available for sale (AFS) assets are non-derivative financial assets that are designated as available for sale and are not classified into the categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Income is determined using the effective profit share rate. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

iii. Financial liabilities

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

iv. Determining fair value

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

v. Derivatives and hedge accounting

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

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. BLME has held no derivative for trading purposes. When derivatives are designated as hedges, BLME classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (‘fair value hedges’); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (‘cash flow hedges’). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge or cash flow hedge provided certain criteria are met.

- **Hedge accounting**

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

Fair value hedge

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

The cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement, based on a recalculated effective profit rate over the residual period to maturity, as soon as the adjustment exists.

Cash flow hedge

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

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

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

- **Hedge effectiveness testing**

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

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

  Hedge ineffectiveness is recognised in the income statement in 'Other operating expenses'.

- **Sharia'a compliant derivatives that do not qualify for hedge accounting**

  All gains and losses from changes in the fair values of Sharia'a compliant derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in 'Other operating income'.

d. Collateral and netting

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

- **Collateral**

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

- **Netting**

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

e. Investment property

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

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

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

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

Changes in fair value are recorded in the income statement.

f. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

- Computer equipment, software and licences – 3 years
- Fixtures and fittings – 4 years
- Office equipment – 3 years
- Leasehold improvements – 4 years or over the life of the lease whichever is shorter

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

g. Other assets

Returned leased assets are stated at the lower of cost and net realisable value. Provision is made for returned leased assets based on their expected realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs for sale.

h. Intangible assets

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

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

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

i. Impairment of property and equipment and intangible assets

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

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

j. Operating leases

- **Lessor**

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

- **Lessee**

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

k. Finance Leases

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

l. Employee benefits

The Bank operates a defined contribution pension scheme for all staff. The cost of the scheme is equal to the contributions payable to the scheme for the accounting period and is recognised within Personnel expenses in the income statement. The Bank has no further obligation once the contributions have been paid.

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

m. Share based payments to employees

The Bank engages in equity settled share based incentive schemes in respect of services received for certain of its employees.

The cost of the share based payment arrangements with the employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight line basis over the vesting period, with a corresponding credit to the 'Share based payment reserve'. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

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

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

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

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

n. Provisions

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

o. Income tax expense

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

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

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

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

p. Cash and cash equivalents

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

q. Other receivables

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

4. Use of estimates and judgments

This disclosure supplements the commentary on financial risk management (see note 34).

a. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in note 34a(v). 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 estimates of cash flows considered recoverable are approved by the Counterparty Credit Risk Committee.

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

b. Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3c(iv). 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.

5. Amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets"

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

The following table shows carrying values and fair values of the reclassified assets:

	At 31 December 2007 Fair Value £	At 1 July 2008 Fair Value £	At 31 December 2008 Carrying Value £	At 31 December 2008 Fair Value £
US Dollar trading assets (Sukuk) reclassified to loans and receivables	12,150,190	11,861,841	16,319,458	13,050,487
US Dollar financial assets available for sale Sukuk reclassified as loans and receivables	21,994,958	39,925,758	55,046,318	43,473,042
Total financial assets reclassified to loans and receivables	**34,145,148**	**51,787,599**	**71,365,776**	**56,523,529**

USD/GBP exchange rates were 1.9901 at 1 July 2008 and 1.4578 at 31 December 2008.

The increase in fair value between the 1 July 2008 and 31 December 2008 is due to the change in exchange rates.

If the reclassification had not been made, excluding the impact of foreign exchange rates referred to above, the Bank's income statement for the six months to 31 December 2008 would have included unrealised fair value losses on the reclassified trading assets of £1,188,646. None of the trading assets were impaired.

After reclassification, the Bank made an unrealised fair value gain of £426,616 through the income statement.

For the six months to 31 December 2008 shareholders' equity would have included unrealised fair value losses on the reclassified financial assets available for sale of £3,547,284. None of the assets were impaired.

After reclassification, the reclassified financial assets contributed the following amounts to income before taxes for the six months to 31 December 2008.

	6 months to 31 December 2008 £
Trading Assets (Sukuk)	
Profit share	235,194
Provision for credit losses	–
Income before taxes on reclassified trading assets Sukuk	**235,194**
Available for Sale (Sukuk)	
Profit share	47,225
Provision for credit losses	–
Income before taxes on reclassified financial assets available for sale Sukuk	**47,225**

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

6. Income from financing and investing activities

Income from:	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Financial institution		
Wakala income	2,670,799	3,127,246
Murabaha income	2,077,916	483,125
Financing arrangements		
Murabaha income	17,653,600	5,964,652
Mudaraba income	264,629	106,439
Musharaka income	162,055	–
Istisna and Ijara income	1,416,517	1,421
Finance lease income	1,848,445	–
Sukuk	2,657,236	704,464
	28,751,197	**10,387,347**

7. Returns to financial institutions and customers

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Murabaha	12,021,604	1,934,236
Wakala	537,580	19,284
	12,559,184	**1,953,520**

8. Net fair value gains on investment securities

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Money market fund	477,908	684,892
Sukuk	11,898	(165,626)
	489,806	**519,266**

9. Other operating income

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Gain on foreign exchange transactions	492,257	92,312
Operating lease income	7,952,616	228,758
Revaluation of investment property	213,973	–
Rental income	295,734	–
Other	340,800	–
	9,295,380	**321,070**

10. Profit rate swaps

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

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

Notional contract amounts of Sharia'a compliant derivatives held for hedging purposes by product type:

	Group		Bank	
	For year ended 31 December 2008 Cash flow hedge USD	For year ended 31 December 2008 Cash flow hedge £	For year ended 31 December 2008 Fair value hedge USD	For year ended 31 December 2008 Fair value hedge £
Profit rate swaps	95,000,000	65,166,690	95,000,000	65,166,690
	95,000,000	**65,166,690**	**95,000,000**	**65,166,690**

As at 31 December 2007 BLME had not entered into any profit rate swaps.

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

Fair value hedges

BLME's fair value hedges consist of profit rate swaps that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates. For qualifying fair value hedges, all changes in the fair value of the Sharia'a compliant derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield over the remainder of the hedging period.

Fair value hedging applies to the Bank only; cash flow hedging applies to the Group.

Fair value of Sharia'a compliant derivatives designated as fair value hedges:

Bank	For year ended 31 December 2008 Fair value liabilities £
Profit rate swaps	5,139,664

Gains or losses arising from fair value hedges:

Bank	For year ended 31 December 2008 £
Gains / (losses):	
On hedging instruments through profit and loss	(236,580)
On the hedged items attributable to the hedged risk	(4,903,084)
Profit rate swap liability	**(5,139,664)**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in 'Other operating expense'.

There were no gains or losses in the period to 31 December 2007.

Cash flow hedges

BLME's cash flow hedges consist of profit rate swaps that are used to protect against exposures to variability in future cash flows on non-trading assets which are subject to movements in market rates or which are expected to be re-funded or re-invested in the future. The amounts and timing of future cash flows, representing both principal and profit share, are projected for all financial assets and on the basis of their contractual terms. The principal and profit cash flows over time form the basis for identifying gains and losses on the effective portions of Sharia'a compliant derivatives designated as cash flow hedges of forecast transactions. Gains and losses are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of Sharia'a compliant derivatives designated as cash flow hedges:

Group	For year ended 31 December 2008 Fair value liabilities £
Profit rate swaps	5,139,664

Group	For year ended 31 December 2008 £
Gains / (losses):	
On hedging instruments through profit and loss	(837,826)
On the hedging instruments through reserves	(4,301,838)
Profit rate swap liability	**(5,139,664)**

The gains and losses on ineffective portions of such Sharia'a compliant derivatives are recognised immediately in 'Other operating expenses'. During the year to 31 December 2008, a loss of £837,826 (2007: nil) was recognised due to hedge ineffectiveness.

The schedule of contractual principal balances on which the expected profit cash flows arise as at 31 December 2008 are as follows:

Group	Less than 3 months £	More than 3 months but less than 1 year £	5 years or less but more than 1 year £	For year ended 31 December 2008 £
Liabilities	21,336,458	4,993,895	–	26,330,353
	21,336,458	**4,993,895**	**–**	**26,330,353**

This table reflects the profit rate repricing profile of the underlying hedged items. BLME adopts a macro cash flow hedging strategy to match the existing rollover or forecast liabilities. Therefore BLME does not expect any maturity mismatch between the hedged liabilities and profit rate swap at maturity.

11. Personnel expenses

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Wages and salaries	6,596,864	3,884,196
Social security costs	889,798	447,112
Defined contribution pension scheme costs	495,927	232,565
Sharia'a Supervisory Board fees	63,376	47,341
Recruitment costs	304,817	166,666
Other staff costs	650,728	566,805
	9,001,510	**5,344,685**

	2008 Number	2007 Number
Number of employees at period end	48	34
Average number of employees during the period	40	19

12. Directors' emoluments

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Directors' emoluments	2,330,000	2,088,487
Bank contributions to pension plans	75,000	76,500
	2,405,000	**2,164,987**

The aggregate of emoluments of the highest paid director was £1,210,000 (2007: £1,178,097), and pension contributions of £30,000 (2007: £33,750) were made on his behalf.

13. Share based payments

During 2008, £1,645,607 was charged to the profit and loss in respect of share-based payment transactions settled in equity (2007: £1,034,750). This expense, which was computed from the fair values of the share based payments transaction when contracted, arose under employee share awards made in accordance with BLME's reward structures.

Calculation of fair values

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

Share options

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

	Number of shares
Outstanding at 1 January 2008	–
Granted in the year	1,230,769
Forfeited in the year	–
Outstanding at 31 December 2008	**1,230,769**

The remaining contractual life of options outstanding at the balance sheet date was 9.1 years. The exercise price was £0.065. None of these options were exercisable at the balance sheet date.

Deferred annual bonus scheme

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

Participating in the scheme entitles the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met.

	Number of shares
Outstanding at 1 January2008	–
Shares awarded and deferred	5,307,692
Shares forfeited	–
Shares awarded under matched award for 2008	1,769,231
Outstanding at 31 December 2008	**7,076,923**

Conditions were met in full for the 2008 Deferred Annual Bonus scheme matching award.

In February 2009, 18,315,385 shares were awarded under the Deferred Annual Bonus Scheme at a value of £0.065 on the basis of performance from the previous year.

Share purchase plan

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

14. Operating profit before tax

	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Operating profit before tax is stated after charging:		
Auditors remuneration		
Audit of financial statements: Year end	130,000	60,000
Audit of financial statements: Interim report	22,500	–
Tax services	204,955	161,705
Other services	58,630	409,250
	416,085	**630,955**

15. Impairment of financial assets

	For year ended 31 December 2008 £	For the period 7August 2006 to 31 December 2007 £
Specific provisions:		
At 1 January	–	–
Impairment charged / (credited) to the income statement	754,562	–
At 31 December	**754,562**	**–**
Collective provisions:		
At 1 January	–	–
Impairment charged / (credited) to the income statement	188,640	–
At 31 December	**188,640**	**–**
Specific provision	754,562	–
Collective provision	188,640	–
	943,202	**–**

No provision for impairment was made in 2007.

16. Taxation

Group	For year ended 31 December 2008 £	For the period 7 August 2006 to 31 December 2007 £
Current tax for the year	2,197,075	234,324
Prior year's current tax adjustment	(21,553)	–
Current tax	2,175,522	234,324
Deferred tax for the year	(101,359)	(73,172)
Tax charge in income statement	**2,074,163**	**161,152**
Reconciliation of effective tax rate		
Profit before tax	4,446,222	332,389
Income tax at UK Corporation Tax rate (2008: 28.5% / 2007: 30%)	1,267,173	99,717
Non deductible expenses	254,789	24,747
Tax exempt income	(25,799)	–
Depreciaton in excess of capital allowances on which deferred tax not recognised	–	6,126
Irrecoverable VAT on fixed assets	–	28,010
Other	–	2,552
Change in prior year deferred tax assets	161,514	–
Change in prior year deferred tax liabilities	417,991	–
Effect of change in tax rates	20,048	–
Under / (over) provided in prior periods	(21,553)	–
Tax charge in income statement	**2,074,163**	**161,152**

Recognised deferred tax assets and liabilities at 31 December 2008

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

Recognised deferred tax assets and liabilities at 31 December 2007

Group	Assets £	Liabilities £	Net £
Property, equipment and software	–	(118,141)	(118,141)
Tax loss carry forwards	187,305	–	187,305
Deferred bonus settled in shares	108,964	–	108,964
Net tax assets/(liabilities) at 31 December 2007	**296,269**	**(118,141)**	**178,128**

Recognised deferred tax assets and liabilities at 31 December 2008

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

Recognised deferred tax assets and liabilities at 31 December 2007

Bank	Assets £	Liabilities £	Net £
Property, equipment and software	–	(118,141)	(118,141)
Tax loss carry forwards	185,410	–	185,410
Deferred bonus settled in shares	108,964	–	108,964
Deferred tax on other expenses	–	–	–
Net tax assets/(liabilities) at 31 December 2007	**294,374**	**(118,141)**	**176,233**

Deferred tax has not been recognised on losses in a group entity consolidated under IAS 27 (SIC-12) which does not qualify as a subsidiary under UK law. There is an unrecognised deferred tax asset of £34,114 arising on losses of £121,835 in TP Funding Company LLC.

17. Profit attributable to equity shareholders of the Bank

	For the period For year ended 31 December 2008 £	7 August 2006 to 31 December 2007 £
Profits before taxation dealt with in the accounts of the Bank	5,833,524	338,705
Corporation tax	(2,488,407)	(163,048)
Profits after taxation dealt with in the accounts of the Bank	**3,345,117**	**175,657**
Reconciliation to Group profits after taxation:		
Cashflow hedging	(601,247)	–
Operating leases	(878,193)	(6,316)
Investment property	92,138	–
Group tax movement	414,244	1,896
Profits after taxation dealt with in the accounts of the Group	**2,372,059**	**171,237**

Cash flow hedging represents the additional loss in the Group results for the year ended 31 December 2008 arising from implementing cash flow hedge accounting for the Group compared with fair value hedge accounting in the Bank (note 10).

Operating leases represents the additional loss in the Group results for the year ended 31 December 2008 arising from the different income recognition for operating leases in the Group income statement, compared to income from participation agreements in the Bank's income statement.

As permitted by the Companies Act 1985 section 230, a separate profit and loss account of the parent has not been presented.

18. Due from financial institutions

Group and Bank	0-3 months or less	4-12 months	1-5 years	At 31 December 2008 Total £
Murabaha	233,232,802	84,802,622	–	318,035,424
Wakala	53,417,698	–	–	53,417,698
	286,650,500	**84,802,622**	**–**	**371,453,122**

Group and Bank	0-3 months or less	4-12 months	1-5 years	At 31 December 2007 Total £
Murabaha	129,724,224	–	5,091,879	134,816,103
Wakala	10,519,781	15,071,589	20,124,460	45,715,830
	140,244,005	**15,071,589**	**25,216,339**	**180,531,933**

19. Investment securities

Group and Bank	Unlisted £	At 31 December 2008 Total £
Designated as fair value through profit and loss		
Money market fund	1,731,531	1,731,531
Available for sale		
Equity	582,502	582,502
Investment in subsidiaries	50,075	50,075
	2,364,108	**2,364,108**

Equity investment consists of 2,500 category B shares in LME Holding Ltd (purchased December 2007), 70,423 shares in NanoSight Ltd (purchased October 2008), 12,821 shares in Pets Kitchen Ltd (purchased February 2008) and 47,619 shares in Hallmarq Veterinary Imaging Ltd (purchased December 2008). Management has taken the cost of the available for sale equity on approximation for current fair value.

Investment in subsidiaries consists of £50,075 invested in two subsidiary companies, BLME Umbrella Fund Management Sarl USD25,000 and BLME Umbrella Fund SICAV-SIF USD50,000 (see note 32). These subsidiaries have not been consolidated on the grounds that they are not material to the Group's financial statements.

Group and Bank	Listed £	Unlisted £	At 31 December 2007 Total £
Fair value through profit and loss			
Sukuk	12,150,190	–	12,150,190
Designated as fair value through profit and loss			
Money market fund	–	10,523,204	10,523,204
Available for sale			
Sukuk	21,994,958	–	21,994,958
Equity	–	163,315	163,315
	34,145,148	**10,686,519**	**44,831,667**

20. Investment property

The Group purchased a leasehold interest in a US commercial real estate property hereafter referred to as the "Medical Office Building" through the SPV 'TP Funding Company LLC' (see note 32). The leasehold was acquired for $11,988,070 on 22 August 2008. It was purchased with the intention of transferring it to a property fund (Mercury Fund) that was initially to be launched in 2008, but due to prevailing market conditions it has been decided to postpone the Mercury Fund launch. Mercury Fund set up costs have been taken directly to the income statement and will be recharged by BLME to the Mercury Fund upon launch.

The property is accounted for under IAS 40 "Investment property" and was initially recognised at cost and re-measured using the fair value model at 31 December 2008.

Group	At 31 December 2008 £	At 31 December 2008 USD
Opening balance	–	–
Additions at 22 August 2008	6,451,442	11,988,070
Net fair value gain	1,985,929	311,930
Closing balance	**8,437,371**	**12,300,000**

The Bank's investment property was valued at the year end by an independent external professionally qualified valuer, CB Richard Ellis. The valuation was based on current prices in an active market. It is management's decision to revalue the investment property to the adjusted external valuation.

The income statement includes rental income of £295,734 from the investment property and direct operating expenses of £207,557 including repairs and maintenance.

21. Financing arrangements

Group	Less than 1 year	1-5 years	Over 5 years	At 31 December 2008 Total £
Murabaha	121,215,339	65,645,556	–	186,860,895
Mudaraba	–	6,262,698	–	6,262,698
Musharaka	–	–	8,688,074	8,688,074
Istisna and Ijara	13,720,769	12,417,098	9,480,002	35,617,869
Sukuk	3,369,919	78,996,943	9,677,619	92,044,481
Provision for impairment	(943,202)	–	–	(943,202)
	137,362,825	**163,322,295**	**27,845,695**	**328,530,815**

Group	Less than 1 year	1-5 years	Over 5 years	At 31 December 2007 Total £
Murabaha	29,439,070	12,656,979	–	42,096,049
Mudaraba	–	–	–	–
Musharaka	–	–	–	–
Istisna and Ijara	–	9,987,924	–	9,987,924
Sukuk	–	–	–	–
Provision for impairment	–	–	–	–
	29,439,070	**22,644,903**	**–**	**52,083,973**

These tables represent contractual maturities.

Bank	Less than 1 year	1-5 years	Over 5 years	At 31 December 2008 Total £
Murabaha	129,981,017	65,645,558	–	195,626,575
Mudaraba	–	6,262,698	–	6,262,698
Musharaka	–	–	8,688,074	8,688,074
Istisna and Ijara	13,720,765	12,417,098	9,480,002	35,617,865
Participation agreement	–	56,649,143	34,853,946	91,503,089
Profit rate swaps	–	3,120,411	1,782,673	4,903,084
Sukuk	3,369,919	78,996,943	9,677,619	92,044,481
Provision for impairment	(943,202)	–	–	(943,202)
	146,128,499	**223,091,851**	**64,482,314**	**433,702,664**

Bank	Less than 1 year	1-5 years	Over 5 years	At 31 December 2007 Total £
Murabaha	29,439,070	12,656,979	–	42,096,049
Mudaraba	–	–	–	–
Musharaka	–	–	–	–
Istisna and Ijara	–	9,987,924	–	9,987,924
Participation agreement	1,927,079	7,301,542	2,770,626	11,999,247
Profit rate swaps	–	–	–	–
Sukuk	–	–	–	–
Provision for impairment	–	–	–	–
	31,366,149	**29,946,445**	**2,770,626**	**64,083,220**

These tables represent contractual maturities.

22. Finance leases

Group	At 31 December 2008 £	At 31 December 2007 £
Gross investment in finance leases receivables		
Within one year	18,660,681	–
One to five years	48,018,718	–
Over five years	6,371,508	–
	73,050,907	–
Unearned future income on finance leases	(10,360,627)	
Net investment in finance leases	**62,690,280**	**–**
The net investment in finance leases comprises:		
Within one year	14,572,960	–
One to five year	42,008,667	–
Over five years	6,108,653	–
	62,690,280	**–**

The Group had no finance leases in 2007.

Bank	At 31 December 2008 £	At 31 December 2007 £
Gross investment in finance leases receivables		
Within one year	9,852,268	–
One to five years	31,098,044	–
Over five years	6,371,508	–
	47,321,820	–
Unearned future income on finance leases	(7,065,549)	–
Net investment in finance leases	**40,256,271**	**–**

23. Property and equipment

Group and Bank	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	At 31 December 2008 Total £
Cost				
At 31 December 2007	212,430	24,461	878,357	1,115,248
Acquisitions	99,450	59,101	815,656	974,207
At 31 December 2008	**311,880**	**83,562**	**1,694,013**	**2,089,455**
Depreciation and impairment losses				
At 31 December 2007	41,277	4,889	106,037	152,203
Charge for the period	77,574	8,185	225,827	311,586
At 31 December 2008	**118,851**	**13,074**	**331,864**	**463,789**
Net Book Value				
At 31 December 2008	**193,029**	**70,488**	**1,362,149**	**1,625,666**
At 31 December 2007	**171,153**	**19,572**	**772,320**	**963,045**

24. Operating lease assets

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

Group	At 7 August 2006 £	Additions 2007 £	Depreciation 2007 £	Translation differences 2007 £	At 31 December 2007 £
Gross carrying amount	–	12,106,216	–	–	12,106,216
Less depreciation	–	–	(172,496)	–	(172,496)
At 31 December 2007	**–**	**12,106,216**	**(172,496)**	**–**	**11,933,720**

Rental receipts under operating leases

Future rentals are as follows:

	At 31 December 2008 £	At 31 December 2007 £
Less than one year	17,090,573	2,001,228
Between one and five years	61,070,432	7,580,457
More than five years	17,236,137	2,876,531
	95,397,142	**12,458,216**

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

The Bank had no operating leases in 2007.

Rental receipts under operating leases

Future rentals are as follows:

	At 31 December 2008 £	At 31 December 2007 £
Less than one year	2,721,704	–
Between one and five years	4,555,341	–
More than five years	–	–
	7,277,045	**–**

25. Intangible assets

Group and Bank	At 31 December 2008 £	At 31 December 2007 £
Cost		
Opening balance	1,043,235	–
Acquisitions	690,776	1,043,235
Closing balance	**1,734,011**	**1,043,235**
Amortisation and and impairment losses		
Opening balance	148,704	–
Charge for the period	382,459	148,704
Closing balance	**531,163**	**148,704**
Net Book Value	**1,202,848**	**894,531**

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

26. Other assets

Group	At 31 December 2008 £	At 31 December 2007 £
VAT recoverable	4,100,512	488,410
Accrued income	165,666	127,890
Collateral deposits*	775,633	243,423
Prepayments	1,357,061	327,553
Operating lease accrued income	190,007	59,212
Other receivables*	4,625,924	4,354,910
Returned leased assets**	357,195	–
	11,571,998	**5,601,398**

Bank	At 31 December 2008 £	At 31 December 2007 £
VAT recoverable	4,100,512	488,410
Accrued income	63,390	127,890
Collateral deposits*	775,633	243,423
Prepayments	1,285,446	327,553
Other receivables*	4,627,820	4,354,910
	10,852,801	**5,542,186**

* The Bank has pledged cash collateral of £775,633 (Sherborne House £243,423 and Manchester Square £532,210) as security against rental payments on its premises. Other receivables include £4,350,000 of funds placed with an Employee Benefit Trust – Appleby Trust (Jersey) Ltd to facilitate loans to employees investing in BLME shares. This has been included within 'other receivables' as a discounted interest free loan with an amortised cost of £4,044,879 and an outstanding linked prepayment of £305,121. Interest free loan discounted at 5.2%.

** Represents leased assets repossessed or returned by the customer.

The returned leased assets are carried at net realisable value (estimated selling price based on recent auctions). A loss of £297,461 has been recognised in the income statement in respect of items sold during the year. The related costs incurred to maintain the returned lease assets during the year were £38,625.

27. Due to financial institutions

Group and Bank	At 31 December 2008 £	At 31 December 2007 £
Reverse Murabaha	587,517,409	105,885,448
Wakala	6,859,652	–
Exchange of deposit	–	2,763,833
	594,377,061	**108,649,281**

28. Due to customers

Group and Bank	At 31 December 2008 £	At 31 December 2007 £
Wakala	1,200,000	5,601,432
Security deposit	3,500,000	
	4,700,000	**5,601,432**

29. Other liabilities

Group	At 31 December 2008 £	At 31 December 2007 £
Trade payables	732,427	228,715
Deferred income	1,540,280	216,633
Social security and income tax	164,801	113,508
Accruals	5,208,339	3,025,681
Other creditors	1,177,399	249,007
	8,823,246	**3,833,544**

Bank	At 31 December 2008 £	At 31 December 2007 £
Trade payables	215,819	228,715
Deferred income	1,540,280	216,633
Social security and income tax	164,801	113,508
Accruals	5,180,890	3,025,681
Other creditors	794,453	249,007
	7,896,243	**3,833,544**

30. Commitment under operating leases

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

	At 31 December 2008 £	At 31 December 2007 £
Sherborne House		
Future minimum rentals are as follows:		
Less than one year	275,879	81,141
Between one and five years	1,103,518	1,298,256
More than five years	919,598	1,379,397
	2,298,995	**2,758,794**

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

	At 31 December 2008 £	At 31 December 2007 £
Manchester Square		
Future minimum rentals are as follows:		
Less than one year	339,709	–
Between one and five years	1,811,780	–
More than five years	6,907,411	–
	9,058,900	**–**

During the period £277,320 (2007: £186,876) was recognised as an expense in the income statement in respect of operating leases.

31. Share capital and share premium

Group and Bank

	At 31 December 2008 £
Authorised	
6,000,000,000 ordinary shares of £0.01 each	60,000,000

	No. of Shares	Share capital £	Share premium £
Allotted, called up and fully paid			
Share issue at 7 August 2006	200,000,000	2,000,000	–
Share issue at 20 February 2007	3,460,000,000	34,600,000	138,400,000
Share issue at 16 November 2007	2,250,000	22,500	123,750
Share issue at 19 December 2007	66,923,000	669,230	3,680,770
At 31 December 2007	**3,729,173,000**	**37,291,730**	**142,204,520**
Allotted, called up and fully paid			
At 31 December 2007	3,729,173,000	37,291,730	142,204,520
Share issue at 8 February 2008	8,361,538	83,615	459,885
Share issue at 19 February 2008	1,153,846,154	11,538,462	63,461,538
At 31 December 2008	**4,891,380,692**	**48,913,807**	**206,125,943**

On 19 February 2008 the Bank issued a total of 1,153,846,154 new ordinary shares with a nominal value of £0.01 at a price of £0.065 under a Private Placement scheme raising proceeds of £75,000,000. On 8 February the Bank issued a total of 8,361,538 new ordinary shares with a nominal value of £0.01 under employee incentive schemes for a deemed value of £0.065 per share.

32. Investment in subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity USD
BLME Umbrella Fund Management Sarl	Luxembourg	100	25,000
BLME Umbrella Fund SICAV-SI	Luxembourg	100	50,000

There are five entities that do not qualify as subsidiaries under UK law but which are consolidated under IAS 27 (SIC-12) as the substance of the relationship is that the entities are controlled by the Bank. These entities are deemed to be controlled by the Bank as the relationships give rise to benefits that are in substance no different from those that would arise were the entities subsidiaries of the Bank.

The five entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases
- SC-BL LP – Finance leases
- DMJI LLC – Finance leases
- TP Funding Company LLC – Investment property

Lease assets owned by the SPVs are reported as Group operating lease assets (2008: £61,114,281/2007: £11,933,720)

Finance leases owned by the SPVs total £22,673,552 (2007: £nil).

33. Related parties

During the reporting period the Bank entered into transactions on arms length bases with the related counterparties as detailed below.

	For the year ended 31 December 2008 £	For the period 7 August to 31December 2007 £
Boubyan Bank		
Wakala borrowing	66,631,702	4,575,351
Commodity Murabaha	22,000,000	12,000,000
Wakala placement	48,883,453	185,470,819
Reverse Murabaha	23,795,912	–
Foreign exchange transactions	10,969,308	100,857
Placed under Exchange of deposit	16,942,000	30,652,651
Received under Exchange of deposit	26,267,349	30,020,494
Money market fund investment	–	16,048,743
Money market fund sale	13,575,767	6,210,431
Off balance sheet		
Restricted investment asset management	437,998,921	–
SGM-FX		
Foreign exchange transactions	315,627	3,300,000
	667,380,039	**288,379,346**

The amounts outstanding with Boubyan Bank as at 31 December 2008 were as follows:

	At 31 December 2008 £	At 31 December 2007 £
Included within:		
Cash and balances with banks		
Nostros	379,002	11,637
Due from financial Institutions		
Wakala placement	23,125,089	28,146,225
Murabaha	4,775,182	–
Due to financial institutions		
Exchange of deposit	–	2,763,833
Reverse Murabaha	5,158,244	–

The maximum outstanding with Boubyan Bank during the period ending 31 December 2008 was:

On balance sheet £51,092,195 (2007: £174,675,479)
Off balance sheet £174,555,791 (2007: £nil)

There were no outstanding amounts with SGM-FX as at 31 December 2008.

Boubyan Bank held 14.97% and Boubyan Capital held 0.50% of the Bank's shares at 31 December 2008.

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

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

	At 31 December 2008 £	At 31 December 2007 £
Key management emoluments including social security costs	2,628,240	2,288,005
Bank contributions to pension plans	75,000	76,500
	2,703,240	**2,364,505**

34. Financial risk management

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

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

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

Risk management framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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.

a. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty is not able to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements. The Bank has a rigorous quality checking process in place covering all its customers and counterparties whereby it assigns an in-house rating and maximum tenor. External rating agency ratings are used where available. Ratings are subject to regular review and constrain the amount of credit that can be made available to the risk counterparty.

i. Management of credit risk

The Bank manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, countries or sectors and continually assessing the creditworthiness of counterparties. It also ensures that credit capacities are properly diversified across the Bank's businesses to ensure an appropriate allocation of risk capital and to avoid undue concentrations of risk by customer, country, sector and rating.

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

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

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

ii. Exposure

The tables below shows the components of the Group and Bank balance sheets that are exposed to credit risk:

Group	**At 31 December 2008 £**	**At 31 December 2007 £**
Cash and balances with banks	5,799,089	697,786
Due from financial institutions		
Murabaha	318,035,424	134,816,103
Wakala	53,417,698	45,715,830
Investment securities	2,314,033	44,831,667
Financing arrangements	328,530,815	52,083,973
Finance lease receivables	62,690,280	–
Total credit exposure	**770,787,339**	**278,145,359**

As at 31 December 2008 the Group has one off balance sheet letter of guarantee for £150,000. Unconsolidated subsidiaries have been excluded.

Bank	**At 31 December 2008 £**	**At 31 December 2007 £**
Cash and balances with banks	4,268,297	697,786
Due from financial institutions		
Murabaha	318,035,424	134,816,103
Wakala	53,417,698	45,715,830
Investment securities	2,314,033	44,831,667
Financing arrangements	433,702,664	64,083,220
Finance lease receivables	40,256,271	–
Total credit exposure	**851,994,387**	**290,144,606**

On 3 December 2008 the Bank issued an off balance sheet letter of guarantee for £150,000. Unconsolidated subsidiaries have been excluded.

iii. Exposure by Country

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

Group	At 31 December 2008 £	At 31 December 2007 £
GCC countries		
Kuwait	114,741,174	91,000,590
United Arab Emirates	81,996,902	44,334,267
Bahrain	81,952,052	30,186,795
Qatar	67,342,362	54,358,806
Saudi Arabia	28,814,697	–
EEA countries		
United Kingdom	196,176,854	39,289,696
Switzerland	82,467,352	–
Germany	33,693,447	–
France	24,460,577	4,420,256
Other countries		
USA	23,192,240	–
Turkey	17,399,235	12,649,127
Djibouti	8,690,223	–
Bangladesh	6,979,519	–
Ukraine	2,880,705	–
Algeria	–	1,905,822
Total credit exposure	**770,787,339**	**278,145,359**

Bank	At 31 December 2008 £	At 31 December 2007 £
GCC countries		
Kuwait	114,741,174	91,000,590
United Arab Emirates	81,996,902	44,334,267
Bahrain	81,952,052	30,186,795
Qatar	67,342,362	54,358,806
Saudi Arabia	28,814,697	–
EEA countries		
United Kingdom	196,176,854	39,289,696
Switzerland	82,467,352	–
Germany	33,693,447	–
France	24,460,577	4,420,256
Other countries		
USA	104,399,288	11,999,247
Turkey	17,399,235	12,649,127
Djibouti	8,690,223	–
Bangladesh	6,979,519	–
Ukraine	2,880,705	–
Algeria	–	1,905,822
Total credit exposure	**851,994,387**	**290,144,606**

iv. Exposure by economic sector

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

Group	At 31 December 2008 £	At 31 December 2007 £
Financial services		
GCC financial institutions	249,320,122	199,893,169
UK financial institutions	45,454,460	14,270,882
European & other financial institutions	144,214,466	6,997,701
Mining & quarrying	23,202,476	9,988,394
Manufacturing	60,582,320	26,950,930
Real estate	135,552,437	14,944,026
Agriculture	2,880,705	–
Transportation & storage	70,234,241	–
Government	16,926,959	–
Healthcare	372,874	–
Others	22,046,279	5,100,257
Total credit exposure	**770,787,339**	**278,145,359**

Bank	At 31 December 2008 £	At 31 December 2007 £
Financial services		
GCC financial institutions	249,320,122	199,893,170
UK financial institutions	50,357,545	14,270,882
European & other financial institutions	144,214,466	6,997,701
Mining & quarrying	49,757,167	21,987,640
Manufacturing	67,624,582	26,950,930
Real estate	143,771,687	14,944,026
Agriculture	2,880,705	–
Transportation & storage	92,891,672	–
Government	16,926,959	–
Healthcare	12,103,877	–
Others	22,145,605	5,100,257
Total credit exposure	**851,994,387**	**290,144,606**

v. Credit risk quality

BLME's credit quality and direct investments are managed by the Counterparty Credit Risk Committee and the Investment Committee respectively, under the oversight of the Executive Committee. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions ("ECAI") as well as BLME internal ratings. The latter are mapped to the ratings of the ECAI. The table below shows the breakdown of credit quality as at 31 December 2008. Of the total portfolio 49% was directly rated by a least one of the ECAI, with 51% mapped using internal ratings.

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

Group	**At 31 December 2008 Investment Grade £**	**At 31 December 2008 Sub-Investment Grade £**	**At 31 December 2008 BLME Internal Rating £**	**At 31 December 2008 Total £**
Cash and balances with banks	5,799,089	–	–	5,799,089
Due from financial institutions	282,496,494	–	88,956,628	371,453,122
Financing arrangements	78,147,072	10,450,825	239,932,918	328,530,815
Investment securities	–	–	2,314,033	2,314,033
Finance lease receivables	–	–	62,690,280	62,690,280
Total credit exposure	**366,442,655**	**10,450,825**	**393,893,859**	**770,787,339**

Group	**At 31 December 2007 Investment Grade £**	**At 31 December 2007 Sub-Investment Grade £**	**At 31 December 2007 BLME Internal Rating £**	**At 31 December 2007 Total £**
Cash and balances with banks	697,786	–	–	697,786
Due from financial institutions	162,235,072	–	18,296,861	180,531,933
Financing arrangements	5,099,777	7,557,202	39,426,994	52,083,973
Investment securities	29,409,882	–	15,421,785	44,831,667
Finance lease receivables	–	–	–	–
Total credit exposure	**197,442,517**	**7,557,202**	**73,145,640**	**278,145,359**

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	At 31 December 2008 £	At 31 December 2007 £	At 31 December 2008 £	At 31 December 2007 £
Neither past due nor impaired	316,937,893	52,083,973	62,209,112	–
Past due but not impaired	916,583	–	334,904	–
Gross exposure associated with impairment provision	11,430,901	–	334,904	–
Less: allowance for impairment	(754,562)	–	(188,640)	–
Total	**328,530,815**	**52,083,973**	**62,690,280**	**–**

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

Cash balances, due from financial institutions and investment securities are neither past due or impaired as at 31 December 2008.

Bank	At 31 December 2008 Investment Grade £	At 31 December 2008 Sub-Investment Grade £	At 31 December 2008 BLME Internal Rating £	At 31 December 2008 Total £
Cash and balances with banks	4,268,297	–	–	4,268,297
Due from financial institutions	282,496,494	–	88,956,628	371,453,122
Financing arrangements	138,933,286	27,908,409	266,860,969	433,702,664
Investment securities	–	–	2,314,033	2,314,033
Finance lease receivables	–	–	40,256,271	40,256,271
Total credit exposure	**425,698,077**	**27,908,409**	**398,387,901**	**851,994,387**

Bank	At 31 December 2007 Investment Grade £	At 31 December 2007 Sub-Investment Grade £	At 31 December 2007 BLME Internal Rating £	At 31 December 2007 Total £
Cash and balances with banks	697,786	–	–	697,786
Due from financial institutions	162,235,072	–	18,296,861	180,531,933
Financing arrangements	5,099,776	17,280,310	41,703,134	64,083,220
Investment securities	29,409,882	–	15,421,785	44,831,667
Finance lease receivables	–	–	–	–
Total credit exposure	**197,442,516**	**17,280,310**	**75,421,780**	**290,144,606**

Analysis of past due amounts and impairments

Bank	Financing arrangements		Finance Leases	
	At 31 December 2008 £	At 31 December 2007 £	At 31 December 2008 £	At 31 December 2007 £
Neither past due nor impaired	422,298,382	64,083,220	40,256,271	–
Past due but not impaired	916,583	–	–	–
Gross exposure associated with impairment provision	11,430,901	–	–	–
Less: allowance for impairment	(943,202)	–	–	–
Total	**433,702,664**	**64,083,220**	**40,256,271**	**–**

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

Cash balances, due from financial institutions, investment securities and finance lease receivables are neither past due or impaired as at 31 December 2008.

- **Allowance for impairment**

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

  The Bank writes off a balance (and any related allowances for impairment) when the Credit Risk Department determines that the balance is uncollectable. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For the period ending 31 December 2008 BLME, whilst maintaining an overall robust asset book, considered it prudent to take an impairment charge of £943,202 in respect of assets in the transportation sector which is currently evidencing stress following a fall off in industrial demand.

vi. Collateral

Within its lending activities, which spans working capital finance provision to term real estate lending, BLME ensures that, where appropriate, at the inception of a transaction it has sufficient collateral coverage in place to assist with the avoidance of stress should the customer concerned fail to honour its obligations when due. BLME monitors the market value of its collateral on an ongoing basis which, dependent upon the collateral type, can vary from monthly to at least once a year. As at 31 December 2008, collateral represented 49% of BLME assets.

Group	At 31 December 2008 Exposure £	At 31 December 2008 Collateral £	At 31 December 2007 Exposure £	At 31 December 2007 Collateral £
Cash and balances with banks	5,799,089	–	697,786	–
Due from financial institutions	371,453,122	–	180,531,933	–
Investment securities	2,314,033	–	44,831,667	–
Financing arrangements	328,530,815	300,619,030	52,083,973	29,439,070
Finance lease receivables	62,690,280	75,473,703	–	–
Total credit exposure	**770,787,339**	**376,092,733**	**278,145,359**	**29,439,070**

Analysis of collateral

	£	£
Plant and equipment	103,277,286	–
Property	135,157,129	10,045,389
Raw materials/finished stock	52,563,084	19,393,681
Various Sukuk collateral	85,095,234	–
Total credit exposure	**376,092,733**	**29,439,070**

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

Bank	At 31 December 2008 Exposure £	At 31 December 2008 Collateral £	At 31 December 2007 Exposure £	At 31 December 2007 Collateral £
Cash and balances with banks	4,268,297	–	697,786	–
Due from financial institutions	371,453,122	–	180,531,933	–
Investment securities	2,314,033	–	44,831,667	–
Financing arrangements	433,702,664	400,381,856	64,083,220	41,372,790
Finance lease receivables	40,256,271	47,568,522	–	–
Total credit exposure	**851,994,387**	**447,950,378**	**290,144,606**	**41,372,790**

Analysis of collateral

	£	£
Plant and equipment	175,134,930	11,933,720
Property	135,157,129	10,045,389
Raw materials/finished stock	52,563,085	13O6PXO6PXO$cWYZYWPX

vii. Fair value of financial assets and liabilities

Group	Note	At 31 December 2008 Carrying value £	At 31 December 2008 Fair value £	At 31 December 2007 Carrying value £	At 31 December 2007 Fair value £
Due from financial institutions	*i*	371,453,122	371,453,122	180,531,933	180,531,933
Investment securities	*ii*	2,314,033	2,329,032	44,831,667	44,831,667
Financing arrangements	*iii*	328,530,815	316,996,480	52,083,973	51,864,773
Finance lease receivables	*iv*	62,690,280	65,909,544	–	–
Due to financial institutions	*iv*	594,377,061	596,656,643	108,649,281	109,054,114
Profit rate swaps	*v*	5,139,664	5,139,664	–	–
Due to customers	*iv*	4,700,000	4,700,406	5,601,432	5,601,432

Group	Note	At 31 December 2008 Carrying value £	At 31 December 2008 Fair value £	At 31 December 2007 Carrying value £	At 31 December 2007 Fair value £
Due from financial institutions	*i*	371,453,122	371,453,122	180,531,933	180,531,933
Investment securities	*ii*	2,314,033	2,329,032	44,831,667	44,831,667
Financing arrangements	*iii*	433,702,664	422,560,055	64,083,220	63,864,020
Finance lease receivables	*iv*	40,256,271	42,505,208	–	–
Due to financial institutions	*iv*	594,377,061	596,656,643	108,649,281	109,054,114
Profit rate swaps	*v*	5,139,664	5,139,664	–	–
Due to customers	*iv*	4,700,000	4,700,406	5,601,432	5,601,432

Notes

i. These assets represent short term liquidity with an average residual life of 7 weeks and a maximum individual residual maturity of 10 months. The assets are placed with banks with an average credit rating of A-. On this basis, carrying value reflects fair value.

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

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

iv. Fair value represents present replacement value based on current profit rates with reference to residual maturity from balance sheet date. Fair value is greater 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.

viii. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2008.

Group	At 31 December 2008 Fair value through profit and loss £	At 31 December 2008 Designated at fair value through profit and loss initial recognition £	At 31 December 2008 Available for sale £	At 31 December 2008 Other receivables £
Cash and balances with banks	–	–	–	5,799,089
Due from financial institutions	–	–	–	371,453,122
Investment securities				
Sukuk	–	–	–	–
Money market fund	–	1,731,531	–	–
Equity	–	–	582,502	–
Financing arrangements	–	–	–	328,530,815
Finance lease receivables	–	–	–	62,690,280
Total assets	**–**	**1,731,531**	**582,502**	**768,473,306**

	Financial liabilities measured at amortised cost £	Financial liabilities measured at fair value £
Liabilities		
Due to financial institutions	594,377,061	–
Due to customers	4,700,000	–
Profit rate swaps	–	5,139,664
Total liabilities	**599,077,061**	**5,139,664**

Group	At 31 December 2007 Fair value through profit and loss £	At 31 December 2007 Designated at fair value through profit and loss initial recognition £	At 31 December 2007 Available for sale £	At 31 December 2007 Other receivables £
Cash and balances with banks	–	–	–	697,786
Due from financial institutions	–	–	–	180,531,933
Investment securities				
Sukuk	12,150,190	–	21,994,958	–
Money market fund	–	10,523,204	–	–
Equity	–	–	163,315	–
Financing arrangements	–	–	–	52,083,973
Finance lease receivables	–	–	–	–
Total assets	**12,150,190**	**10,523,204**	**22,158,273**	**233,313,692**

	Financial liabilities measured at amortised cost £	Financial liabilities measured at fair value £
Liabilities		
Due to financial institutions	108,649,281	–
Due to customers	5,601,432	–
Total liabilities	**114,250,713**	**–**

Bank	At 31 December 2008 Fair value through profit and loss £	At 31 December 2008 Designated at fair value through profit and loss initial recognition £	At 31 December 2008 Available for sale £	At 31 December 2008 Other receivables £
Cash and balances with banks	–	–	–	4,268,297
Due from financial institutions	–	–	–	371,453,122
Investment securities				
Money market fund	–	1,731,531	–	–
Equity	–	–	582,502	–
Financing arrangements	–	–	–	433,702,664
Finance lease receivables	–	–	–	40,256,271
Total assets	**–**	**1,731,531**	**582,502**	**849,680,354**

	Financial liabilities measured at amortised cost £	Financial liabilities measured at fair value £
Liabilities		
Due to financial institutions	594,377,061	–
Due to customers	4,700,000	–
Profit rate swaps	–	5,139,664
Total liabilities	**599,077,061**	**5,139,664**

Bank	At 31 December 2007 Fair value through profit and loss £	At 31 December 2007 Designated at fair value through profit and loss initial recognition £	At 31 December 2007 Available for sale £	At 31 December 2007 Other receivables £
Cash and balances with banks	–	–	–	697,786
Due from financial institutions	–	–	–	180,531,933
Investment securities				
Sukuk	12,150,190	–	21,994,958	–
Money market fund	–	10,523,204	–	–
Equity	–	–	163,315	–
Financing arrangements	–	–	–	64,083,220
Finance lease receivables	–	–	–	–
Total assets	**12,150,190**	**10,523,204**	**22,158,273**	**245,312,939**

	Financial liabilities measured at amortised cost £	Financial liabilities measured at fair value £
Liabilities		
Due to financial institutions	108,649,281	–
Due to customers	5,601,432	–
Total liabilities	**114,250,713**	**–**

b. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. It is managed by ensuring that the Bank always has sufficient liquidity to meet its liabilities when due.

Markets Department is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis under the guidance of ALCO.

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and prudential guidelines. These include a series of early warning triggers and management data on liability stickiness, diversification and reserve liquidity. As at 31 December 2008, the Bank had acquired £599,077,061 of term deposits and held £93,776,012 of secondary market assets.

Residual contractual maturities of financial liabilities

	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	At 31 December 2008 Total £
Due to financial institutions	143,323,026	275,968,092	179,062,507	–	–	598,353,625
Due to customers	1,201,611	–	–	3,500,000	–	4,701,611
Profit rate swaps	–	–	–	2,954,408	2,185,256	5,139,664
	144,524,637	**275,968,092**	**179,062,507**	**6,454,408**	**2,185,256**	**608,194,900**

	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	At 31 December 2007 Total £
Due to financial institutions	4,424,128	28,288,285	78,245,730	–	–	110,958,143
Due to customers	5,614,960	–	–	–	–	5,614,960
	10,039,088	**28,288,285**	**78,245,730**	**–**	**–**	**116,573,103**

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

c. Market risks

Market risk is the risk that changes in market prices will affect the Bank's income. It covers profit rate risk and foreign exchange risk. ALCO is responsible for reviewing all classes of market price risk and positions, and sanctioning dealing limits.

i. Profit rate risk

This risk arises from the effects of changes in profit rates on the re-pricing of assets and liabilities, and covers both fixed and variable profit rates. The Bank manages such risks through the use of time based limits that measure the profit rate sensitivity to changes in profit rates. During the past 12 months BLME has developed profit rate swap relationships with a number of counterparties and uses these transactions to hedge fixed rate profit rate risk.

As at 31 December 2008, BLME's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £62,306. This would result in a £6,230,600 loss from a 100 basis point parallel, downward shift in profit rates and a £6,230,600 profit from a 100 basis point parallel upward shift in profit rates.

The impact on reserves of a change in market rates on profit rate swaps is determined solely in the Group accounts by the application of cash flow hedge accounting. As at 31 December 2008, Group reserves had a profit rate sensitivity related to profit rate swaps of £28,955, as measured by the discounted value of 1 basis point move in market rates.

ii. Credit spread risk

Following the 13 October 2008 revisions to IAS 39, and in common with market practice, BLME transferred its Sukuk assets which were previously treated as 'Fair Value though Profit and Loss' and 'Available for Sale' for accounting and internal risk management purposes to an IAS 'Loans and Receivables' designation. These assets are mainly higher rated bank obligations across a range of GCC countries.

This decision was founded on the illiquidity of these Sukuk and the fundamental economic intention to hold these assets for the long term. For this reason, the risk associated with these assets is now deemed to be credit default risk. This is therefore included in the Credit Risk section (note 34a).

iii. Foreign exchange risk

Foreign exchange risk is the risk that the value in a non-Sterling asset or liability position will fluctuate due to changes in currency rates. The Bank does not take significant foreign exchange positions and the majority of risk relates to earnings on US Dollar assets and liabilities. A 5% strengthening of the foreign currency positions against Sterling would result in an FX revaluation gain of £52,591. The Board has established position and stop loss limits to ensure that positions and revaluation results are subject to independent daily monitoring and reporting to senior management.

The foreign exchange result for the period to 31 December 2008 was a profit of £492,257 (2007:£92,312).

d. Operational risk

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

The Bank's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board and documented within the Bank's Operational Risk Policy under the guidance of ALCO. During the year ended 31 December 2008 the Bank has undertaken and proven its Business Continuity Plan, implemented an Operational Risk database and taken further steps to improve the robustness of its normal operating environment. During the year one operational risk event resulted in a financial loss of £14,562.

e. Capital management

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

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

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

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
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
Website: www.blme.com

Auditors:

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

Website: www.kpmg.com

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BANK OF LONDON AND THE MIDDLE EAST

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