BLME

BANK OF LONDON AND THE MIDDLE EAST

Report and Accounts

31 December 2007

Registered number 05897786

Contents

Chairman's statement

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

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

I am pleased to report to our shareholders on Bank of London and The Middle East plc's ("BLME") results for the seventeen months to 31 December 2007.

BLME was incorporated in the United Kingdom on 7 August 2006 and received Financial Services Authority ("FSA") approval on 5 July 2007 slightly ahead of the targeted date to operate as a bank in the City of London, offering wholesale Sharia'a compliant products. This authorisation meant that BLME became chronologically the third Islamic bank in the UK. Shortly after, it became the first such bank to receive permission to passport its operations to the European Economic Area.

In the eleven month period from incorporation to authorisation Management completed all necessary preparatory tasks associated with the establishment of a new bank. This included the initial Private Placement, which raised additional share capital to bring the paid up capital base to £175 million in the first quarter of 2007.

I am pleased to report that BLME achieved a profit before tax of £0.3 million on revenues of £9.3 million. I am encouraged to report that the Markets area has quickly progressed beyond purely investing the Bank's capital into a more diverse business, including participation in several primary and secondary Sukuk, and Syndicated Murabaha deals. In Corporate banking an experienced team covering all of the major financing areas has been recruited and has already concluded a range of transactions.

To support these activities, the Board has overseen the implementation of a full governance and committee structure covering Risk, Audit, Remuneration and Nominations.

In view of these positive developments I am delighted to confirm that BLME has recently concluded a second Private Placement, in which an additional £75 million of capital has been raised. This has increased the Bank's capital base to over £250 million, and provides the Bank with additional resources. As London continues its emergence as the pre-eminent international centre for Islamic Finance in Europe, BLME is well positioned to participate in this growing market sector. Subject to favourable market conditions, it remains the Board's intention to proceed with a London Stock Exchange listing on the Alternative Investment Market ("AIM") in the near future.

Now that many of the major staff and infrastructure investments have been made I am confident that BLME is well placed to expand and deepen its business in international markets. I am pleased that Management has brought forward the planned development of Asset Management and Private Banking to early 2008.

I particularly wish to express my appreciation of the skills, professionalism and hard work of the management and staff, who have already accomplished much in the past seventeen months. Their continuing contribution is essential to delivering success to BLME in its endeavours to become London's bank of choice for Islamic Finance. I would also like to thank our shareholders, the Board of Directors and the Sharia'a Supervisory Board for their support and continuing guidance.

Yacob Al-Muzaini
Chairman
19 February 2008

Chief Executive Officer's statement

Business overview

Following its incorporation in August 2006, BLME's first eleven months were focused on the foundation tasks required to launch a Sharia'a compliant investment bank in London. At inception Boubyan Bank, Kuwait, in addition to providing the requisite seed capital of £2 million, acted as sponsor in the pre-authorisation period, which saw the appointment of the Chief Executive Officer in August 2006. In the third quarter of 2006 a research led assessment of market opportunities and the formulation of a regulatory business plan were completed, drawing on the experience of a project team provided by Boubyan Bank. This resulted in a fully subscribed Private Placement that increased BLME's share capital to £175 million. In parallel with the receipt of the capital proceeds in mid February 2007 we undertook the submission of an Internal Capital Adequacy Assessment Process ("ICAAP") to the Financial Services Authority ("FSA").

The remainder of the pre-authorisation period was dedicated to recruiting key staff, selecting and implementing IT systems and operating infrastructure, and ensuring that BLME's capital was effectively invested. During this period we established the necessary management committees and policy bodies to govern Credit, Investment, Assets and Liabilities, Market and Operational risks and IT, as well as setting up an Executive Committee to oversee BLME's operational performance and business development. Within this process we recruited the Legal and Compliance professionals necessary to provide strong and effective working relationships with the Bank's Sharia'a Supervisory Board and the FSA. Additionally we accomplished the implementation of the market leading Islamic IT system and relocated to our permanent headquarters in the City of London within budget.

In the second phase, covering the six months from FSA authorisation to 31 December 2007, the business priority was to deliver the core parts of our product offering, namely, Markets and Corporate Banking.

For Markets this involved using our financial institutional relationships in the EU and the Gulf region to establish a platform of banking facilities and counterparty relationships, including marketing efforts to secure diverse and stable term deposits to fund planned asset growth. We are pleased to report that we have so far attracted a healthy level of customer deposits and consistently maintained levels of liquidity well in excess of our regulatory ratios. In recent months our Markets team has participated in a number of primary capital market transactions and commenced its participation in the growing Sukuk market. It also received approval from the London Metals Exchange in December 2007 to become an Associate Broker Member.

For Corporate banking, where we offer a full range of structuring and financing solutions spanning Trade Finance, Leasing, Property and Project Finance areas, we have been able to recruit a team of experienced specialists with a proven level of Islamic Finance experience. Using their market knowledge and customer contacts, all areas have already participated in a number of primary and secondary financing transactions ahead of the schedule we set ourselves in our business plan. I am particularly encouraged by the establishment of an increasingly vibrant deal pipeline.

Market environment

The demand for Sharia'a based finance in London has continued to grow throughout 2007, with further Islamic financial institutions currently applying for UK banking licences.

Although the liquidity and credit crunch that took root in August 2007 had a cooling effect on the Sukuk issuance pipeline in common with capital market issuance, the demand for Islamic asset and liability products and for new investment opportunities continues to show healthy growth. This extends to private individuals as well as companies, and is reflected by the increasing number of clients requiring innovative and competitive Islamic banking services.

In this context, we have seen Her Majesty's Government and the FSA actively involved in taxation, issuance and regulatory initiatives to encourage the development of more Islamic wholesale and retail products, and the establishment of a level playing field for Islamic financial institutions and investors.

Chief Executive Officer's statement

Business model and results

In the short period of our business operation we are pleased to report an operating profit before tax of £332,389, slightly ahead of our business plan forecasts. Total operating income amounted to £9,274,163 against operating expenses of £8,941,774. Operating income relates to the period since 20 February 2007 when the capital proceeds were received.

The operating profit before tax is driven by accelerating revenues from our Corporate banking activities as well as increased and diversified returns from Markets. As expected, the seventeen months of operating expenses are influenced by the start-up costs associated with establishing a new bank, notably legal and professional services, the premises and IT costs needed to provide a dependable operating infrastructure, and recruitment and personnel costs.

It is gratifying to see that the afore-mentioned accomplishments in Markets have provided the bedrock to enable all four Corporate banking areas to quickly establish a market presence and to conclude a number of primary and secondary financing deals. The experience and contacts of our Corporate banking professionals have enabled the Bank to establish a healthy number of customers and business partners, and an increasing deal pipeline. This is evidenced by the £297.7 million balance sheet being some 8% ahead of the year-end projection shown in the initial Private Placement Memorandum. This deal flow has enabled the Bank quickly to diversify away from Market assets to the extent that 22.3% of total assets as at 31 December 2007 were attributable to corporate financings dispersed across a range of geographies and sectors.

Risk assessment

Now that BLME has been operating as a bank since July 2007 a substantial number of the strategic risks detailed in the first Private Placement Memorandum have either been eliminated or reduced. Many of the intrinsic risks associated with a start-up company, in particular BLME's ability to attract experienced professional staff; the achievement of early business traction and the failure to contain costs have not arisen.

Within our balance sheet, we are encouraged by the diversification and credit quality of our asset portfolio in the early stages of our operation. Through our Credit Committee we have implemented a deal screening process that looks at all aspects of proposed transactions. To avoid concentration risk, this screening process is overlaid by credit risk matrices which govern maximum credit appetite by business, sector, geography, rating and transaction type.

Similarly, our funding and liquidity positions continue to benefit from our customer relationships, and by tight asset and liability management disciplines and internal ratios under the guidance of our Asset and Liability Committee.

Our people

A major task over the past seventeen months has been the recruitment of staff to match the different stages of BLME's development. Given the competitive nature of staff recruitment in London, a particular challenge has been to attract the right staff with the experience and profile required to establish BLME as a successful and market leading Islamic bank.

I am encouraged to report that we have managed to meet our headcount targets and timeframes in all areas of the Bank, especially in attracting key individuals with extensive Islamic Finance and product experience. Throughout this process it has become evident that, due to our multi-product business model and appreciating brand recognition, the process of attracting and retaining talent has improved.

Under the guidance of the Remuneration Committee, Management has implemented a series of employee incentive schemes aligned with shareholder interests. These provide essential stimuli to optimise individual performance and retain talent.

Chief Executive Officer's statement

Operational effectiveness

Along with rolling out the business model and attracting business, we have made the necessary investments in our operating and control infrastructure. Foremost has been the implementation of a leading front to back Islamic Finance IT system and the June 2007 relocation to permanent premises in the City of London under a ten year lease. In order to ensure operational effectiveness and to reduce operational risk we have implemented a fully tested disaster recovery capability and migrated to the secure SWIFT payment system.

Following consultation with our Audit Committee a co-sourced internal audit function and programme has been put in place to assist Management in instilling an effective control culture throughout the Bank.

We are confident that our IT Committee will continue to ensure that our operating platform remains scalable and sufficiently robust to meet business demands.

Business development and outlook for the future

In the UK and EU region we are confident that the demand for Islamic Finance and particularly Sharia'a based products will continue to grow, prompted by increased trade and capital flows emanating from the Gulf region, and the latent demand for assets that can provide improved yields and diversification to Islamic investors. Furthermore, BLME's adherence to Sharia'a principles has left it and its targeted customer base unaffected by many of the problems being faced elsewhere in the credit spectrum.

For our core businesses of Markets and Corporate banking, where the capacities to handle increased business are already in place, our principal priority is to develop further our customer relationships and service the increasing pipeline of corporate financing deals. In this regard, the additional £75 million of capital raised in February 2008 will provide BLME with a greater capacity to underwrite, warehouse, syndicate and distribute a higher volume of business. This will strengthen our market presence and competitive position. Our Markets business will complement this growth in its asset and liability activities, and by expanding its customer products and through increased participation in Islamic primary and secondary markets.

Future expense and headcount growth will be targeted at new businesses and strategic business developments. The principal new initiatives for 2008 and beyond are the phased development of complementary Asset Management and Private banking businesses, where we have already undertaken market research and business case assessment. Both of these businesses are key components of our original business plan. Asset Management will increasingly provide valuable balance sheet management and liquidity benefits to the business.

Having fulfilled and, in several cases, exceeded the working assumptions underpinning our initial business plan in the first year of our operation, we look forward to promoting and deepening our product offering to our customers, and making BLME the UK's leading provider of wholesale Islamic financial services.

Humphrey Percy
Chief Executive Officer
19 February 2008

Report of the Sharia'a Supervisory Board

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

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

The management of BLME is responsible for ensuring that BLME 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 7 August 2006 to 31 December 2007 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.

And it is the Sharia'a Supervisory Board's opinion that:

1. The operations, agreements and transactions entered into and conducted by BLME during the period 7 August 2006 to 31 December 2007 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 period 7 August 2006 to 31 December 2007 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.

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

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
19 February 2008

Directors' report

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

The Directors have pleasure in presenting their first report and audited financial statements for the 17 month period ended 31 December 2007.

Principal activities

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

Financial results

The financial statements for the reporting period ended 31 December 2007 are shown on pages 11-43. The profit for the period after taxation amounts to £171,237.

Financial review

In the six months following FSA authorisation the business priority was to deliver the core parts of our product offering, namely, Markets and Corporate banking. Markets has attracted a healthy level of customer deposits and consistently maintained liquidity levels over and above regulatory ratios. The Corporate banking team have participated in a number of primary and secondary financing transactions.

Although the liquidity and credit crunch reduced the Sukuk issuance pipeline in common with conventional capital market issuance, the demand for Islamic asset and liability products and for new investment opportunities continues to show healthy growth.

Dividends

The Directors do not recommend the payment of a dividend.

Directors and Directors' interests

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

Name	Date of Appointment	Date of Resignation
Mr Yacob Yousef Al-Muzaini (4) Chairman of the Board Chairman of the Nominations Committee	07 August 06	-
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah (2,3,4) Vice Chairman of the Board	22 October 07	-
Mr Humphrey Richard Percy (5)	21 September 06	-
Mr Richard Radway Williams (5)	28 November 06	-
Mr Nigel Brodie Denison (5)	28 November 06	-
Mr Waleed Khalid Al-Omar (1,2)	07 August 06	22 October 07
Mr Fuad Saleh Al-Shehab (1,2,3,4)	07 August 06	-
Mr Neil Jonathan Holden (1,2,3) Chairman of the Risk Committee Chairman of the Remuneration Committee	01 November 06	-
Mr Frank Willem Vermeulen (1,2,4) Chairman of the Audit Committee	01 January 07	-
Mr Masood Akbar (1,3)	22 October 07	-

Key:

1. Member of the Board Risk Committee **2**. Member of the Board Audit Committee **3**. Member of the Board Remuneration Committee **4**. Member of the Board Nominations Committee **5**. Member of the Executive Committee

Directors' report

The Directors who held office at 31 December 2007 had the following beneficial interests in the ordinary shares of BLME.

Name	Interest at the end of the period - Ordinary Shares	Interest at the end of the period - Ordinary 'A' Shares	Interest at the start of period - Ordinary 'A' Shares
Mr Yacob Yousef Al-Muzaini	20,000,000	-	-
Mr Humphrey Richard Percy	13,942,306	-	-
Mr Richard Radway Williams	5,846,152	-	-
Mr Nigel Brodie Denison	6,846,152	-	-
Mr Fuad Saleh Al-Shehab	4,000,001	-	1
Mr Neil Jonathan Holden	750,000	-	-
Mr Frank Willem Vermeulen	200,000	-	-

At the Annual General Meeting on 22 October 2007 the 'A' Shares and 'B' shares were converted into 'Ordinary Shares'.

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.

Events since balance sheet date

In February 2008 BLME issued 1,153,846,154 ordinary shares with a nominal value of £0.01 at a price of £0.065 via a Private Placement, raising proceeds of £75 million.

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.

Directors' report

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

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
19 February 2008

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors report and financial statements, in accordance with applicable law 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 financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of BLME; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to the 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 BLME and 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 BLME 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 BLME's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report to the members of Bank of London and The Middle East plc

We have audited the Group and Bank financial statements (the "financial statements") of the Bank of London and The Middle East plc for the period ended 31 December 2007 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 9.

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 the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 affairs as at 31 December 2007 and of the Group's and Bank's profit for the period 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

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square, London EC4Y 8BB.
19 February 2008

Consolidated income statement

For the period 7 August 2006 to 31 December 2007

	Note	For the period 7 Aug 2006 to 31 Dec 2007 £
Income		
Income from financing and investing activities	5	10,387,347
Returns to financial institutions and customers	6	(1,953,520)
Net fair value gains on investment securities	7	519,266
Other operating Income	8	321,070
Total operating income		**9,274,163**
Expenses		
Personnel expenses	9, 10	5,344,685
Depreciation and amortisation	17,18,19	473,403
Other operating expenses		3,123,686
Total operating expenses		**8,941,774**
Operating profit before tax	11	**332,389**
Tax	12	(161,152)
Profit for the period		**171,237**

The notes on pages 18 to 43 are an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2007

	Note	31 December 2007 £
Assets		
Cash and balances with banks		697,786
Due from financial institutions	14	180,531,933
Investment securities	15	44,831,667
Financing arrangements	16	52,083,973
Operating lease assets	18	11,933,720
Property and equipment	17	963,045
Intangible assets	19	894,531
Deferred tax assets	12	178,128
Other assets	20	5,601,398
Total assets		**297,716,181**
Liabilities		
Due to financial institutions	21	108,649,281
Due to customers	22	5,601,432
Current tax liability	12	234,324
Other liabilities	23	3,833,544
Total liabilities		**118,318,581**
Equity		
Share capital	25	37,291,730
Share premium	25	142,204,520
Fair value reserve		(269,887)
Retained earnings		171,237
Total equity attributable to equity holders of the Bank		**179,397,600**
Total liabilities and equity		**297,716,181**

The notes on pages 18 to 43 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 19 February 2008 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

Bank balance sheet

As at 31 December 2007

	Note	31 December 2007 £
Assets		
Cash and balances with banks		697,786
Due from financial institutions	14	180,531,933
Investment securities	15	44,831,667
Financing arrangements	16	64,083,220
Property and equipment	17	963,045
Intangible assets	19	894,531
Deferred tax assets	12	176,233
Other assets	20	5,542,186
Total assets		**297,720,601**
Liabilities		
Due to financial institutions	21	108,649,281
Due to customers	22	5,601,432
Current tax liability	12	234,324
Other liabilities	23	3,833,544
Total liabilities		**118,318,581**
Equity		
Share capital	25	37,291,730
Share premium	25	142,204,520
Fair value reserve		(269,887)
Retained earnings		175,657
Total equity attributable to equity holders of the Bank		**179,402,020**
Total liabilities and equity		**297,720,601**

The notes on pages 18 to 43 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 19 February 2008 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

Consolidated statement of cash flows

For the period 7 August 2006 to 31 December 2007

	Note	For the period 7 Aug 2006 to 31 Dec 2007 £
Cash flows from operating activities		
Operating profit before tax		332,389
Adjusted for:		
Depreciation and amortisation	17,18,19	473,403
Income from financing and investing activities		(10,387,347)
Returns to financial institutions and customers		1,953,520
		(7,628,035)
Net increase in operating assets and liabilities:		
Due from financial institutions		(180,531,933)
Investment securities		(44,831,667)
Mark to Market ("MTM") losses adjusted in equity		(269,887)
Current tax adjustment on Available for Sale ("AFS") MTM losses		(104,956)
Financing arrangements		(52,083,973)
Operating lease assets		(12,106,216)
Other assets		(5,774,295)
Due to financial institutions		108,649,281
Due to customers		5,601,432
Other liabilities		3,833,544
		(185,246,705)
Income from financing and investing activities received		8,932,127
Returns to financial institutions and customers paid		(325,403)
Net cash outflow from operating activities		(176,639,981)
Cash flows from investing activities		
Purchase of property and equipment	17	(1,115,248)
Purchase of intangible assets	19	(1,043,235)
Net cash outflow from investing activities		(2,158,483)
Cash flows from financing activities		
Net proceeds from issue of share capital		179,496,250
Net change in cash and cash equivalents		697,786
Cash and cash equivalents at 7 August 2006		-
Cash and cash equivalents at 31 December 2007		**697,786**

The notes on pages 18 to 43 form an integral part of these financial statements

Bank statement of cash flows

For the period 7 August 2006 to 31 December 2007

	Note	7 Aug 2006 to 31 Dec 2007 £
Cash flows from operating activities		
Operating profit before tax		338,705
Adjusted for:		
Depreciation and amortisation	17,19	300,907
Income from financing and investing activities		(10,449,926)
Returns to financial institutions and customers		1,953,520
		(7,856,794)
Net increase in operating assets and liabilities:		
Due from financial institutions		(180,531,933)
Investment securities		(44,831,667)
MTM losses adjusted in equity		(269,887)
Current tax adjustment on AFS MTM losses		(104,956)
Financing arrangements		(64,083,220)
Other assets		(5,715,083)
Due to financial institutions		108,649,281
Due to customers		5,601,432
Other liabilities		3,833,544
		(185,309,283)
Income from financing and investing activities received		8,994,705
Returns to financial institutions and customers paid		(325,403)
Net cash outflow from operating activities		(176,639,981)
Cash flows from investing activities		
Purchase of property and equipment	17	(1,115,248)
Purchase of intangible assets	19	(1,043,235)
Net cash outflow from investing activities		(2,158,483)
Cash flows from financing activities		
Net proceeds from issue of share capital		179,496,250
Net change in cash and cash equivalents		697,786
Cash and cash equivalents at 7 August 2006		-
Cash and cash equivalents at 31 December 2007		**697,786**

The notes on pages 18 to 43 form an integral part of these financial statements

Consolidated statement of changes in equity

For the period 7 August 2006 to 31 December 2007

	Share capital	Share premium account	Fair value reserve*	Retained earnings	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)
Current 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**

***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 current tax separately disclosed.

The notes on pages 18 to 43 form an integral part of these financial statements

Bank statement of changes in equity

For the period 7 August 2006 to 31 December 2007

	Share capital	Share premium account	Fair value 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)
Current 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**

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 current tax separately disclosed.

The notes on pages 18 to 43 form an integral part of these financial statements.

1. Reporting entity

Bank of London and The Middle East plc (the "Bank" or "BLME") is a company domiciled in the UK. The address of the Bank's registered office is 165 Queen Victoria Street, London, EC4V 4DD. BLME is a wholly Sharia'a compliant wholesale bank involved in investment and corporate banking. The consolidated financial statements of BLME (the "Group") are presented as at and for the 17 months period ended 31 December 2007.

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 are today the mainstay of the Islamic inter-bank short term liquidity market.

In these transactions, the commodity, usually a London Metal Exchange base metal is sold on a deferred basis. 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.

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 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.

Participation Agreement

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

2. Basis of preparation

a. Statement of compliance

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

In preparing these financial statements the Group and the Bank has complied with IFRS 7 Financial Instruments.

The financial statements were approved by the Board of Directors on 19 February 2008.

b. Basis of consolidation

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 Group controls the SPV (see note 26).

c. 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 comprising investment securities. Financial instruments are recognised on a trade date basis.

d. Functional and presentation currency

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

e. 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 28.

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.

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.

BLME investment securities includes both 'fair value through profit and loss' and 'available for sale' Sukuk portfolios. 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.

ii. Fees and commission

Fees and commission are deferred and recognised over the life of the financial instrument to which they relate as an adjustment to the effective rate of the profit share on the asset.

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 rate of profit share 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 cannot be transferred into or out of this category after inception. 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 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 rate of profit share. 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 rate of profit share 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. All inputs are market observable.

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. Exchange of Deposit transactions follow this treatment.

e. 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, fittings and 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.

f. 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.

g. 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 higher 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.

h. Leases

- **Lessor**

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within lease assets on the Bank's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over the estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

- **Lessee**

The leases entered into by the Bank are operating leases. 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.

i. 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.

j. Share based payments to employees

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

These schemes are categorised as cash-settled share-based schemes because at present there is no external market in which to dispose of the shares.

The fair value of the amount payable to employees in respect of these schemes is recognised as an expense and the liability is recalculated at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in the income statement.

k. 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.

l. 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.

m. Cash and cash equivalents

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

n. 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 28).

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 28 a (v). The specific counterparty component of the total allowance for impairment applies to claims evaluated individually for impairment 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 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

5. Income from financing and investing activities

Income from:		For the period 7 Aug 2006 to 31 Dec 2007 £
Financial institutions		
	Wakala income	3,127,246
	Murabaha income	483,125
Financing arrangements		
	Murabaha income	5,964,652
	Mudaraba income	106,439
	Istisna income	1,421
Investment securities		
	Sukuk income – fair value through profit and loss	165,471
	Sukuk income – available for sale	538,993
		10,387,347

6. Returns to financial institutions and customers

	For the period 7 Aug 2006 to 31 Dec 2007 £
Murabaha	1,934,236
Wakala	19,284
	1,953,520

7. Net fair value gains on investment securities

	For the period 7 Aug 2006 to 31 Dec 2007 £
Money market fund	684,892
Sukuk	(165,626)
	519,266

8. Other operating income

	For the period 7 Aug 2006 to 31 Dec 2007 £
Gain on foreign exchange transactions	92,312
Operating lease income	228,758
	321,070

9. Personnel expenses

	For the period 7 Aug 2006 to 31 Dec 2007 £
Wages and salaries	3,884,196
Social security costs	447,112
Defined contribution pension scheme costs	232,565
Sharia'a Supervisory Board fees	47,341
Recruitment costs	166,666
Other staff costs	566,805
	5,344,685

	Number
Number of employees at period end	34
Average number of employees during the period	19

As part of the Bank's incentive schemes £689,750 of the accrued 2007 bonus was settled in shares in February 2008 and £345,000 of the accrued bonus will be settled in shares at a later date as specified under the Deferred Annual Bonus Plan.

10. Directors' emoluments

	For the period 7 Aug 2006 to 31 Dec 2007 £
Directors' emoluments	2,088,487
Bank contributions to pension plans	76,500
	2,164,987

The aggregate of emoluments of the highest paid director was £1,178,097, and pension contributions of £33,750 were made on his behalf.

11. Operating profit before tax

	For the period 7 Aug 2006 to 31 Dec 2007 £
Operating profit before tax is stated after charging	
Auditors remuneration	
Audit of financial statements pursuant to legislation	60,000
Tax services	161,705
Other services	409,250
	630,955

12. Taxation

	For the period 7 Aug 2006 to 31 Dec 2007 £
Current tax expense	
Current year	234,324
Deferred tax credit	(73,172)
Total income tax expense	**161,152**
Reconciliation of effective tax rate	
Profit before tax	332,389
Income tax at UK Corporation Tax rate (30%)	99,717
Non deductible expenses	24,747
Depreciation in excess of capital allowances on which deferred tax not recognised	6,126
Irrecoverable VAT on fixed assets	28,010
Other	2,552
Tax charge in income statement	**161,152**

Group

Recognised deferred tax assets and liabilities

	Assets £	Liabilities £	Net £
Property and 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)	**296,269**	**(118,141)**	**178,128**

Bank

Recognised deferred tax assets and liabilities

	Assets £	Liabilities £	Net £
Property and equipment and software	-	(118,141)	(118,141)
Tax loss carry forwards	185,410	-	185,410
Deferred bonus settled in shares	108,964	-	108,964
Net tax assets/(liabilities)	**294,374**	**(118,141)**	**176,233**

Management believe that the Group and Bank will generate sufficient future profits to utilise the tax loss carried forward.

13. Profit attributable to equity shareholders of the Bank

	For the period 7 Aug 2006 to 31 Dec 2007 £
Profits after taxation dealt with in the accounts of the Bank	**175,657**

14. Due from financial institutions

Group and Bank	Three months or less but not repayable on demand £	One year or less but over three months £	Between one year and five years £	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**

15. Investment securities

Group and Bank	Listed £	Unlisted £	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**

Equity investment consists of 2,500 category B shares in LME Holding Ltd purchased in December 2007. Management considers the purchase cost and carrying value to reflect market value.

16. Financing arrangements

Group	Less than one year £	Between one year and five years £	More than five years £	31 December 2007 £
Murabaha placements	29,439,070	12,656,979	-	42,096,049
Istisna	-	9,987,924	-	9,987,924
	29,439,070	**22,644,903**	**-**	**52,083,973**

Bank	Less than one year £	Between one year and five years £	More than five years £	31 December 2007 £
Murabaha placements	29,439,070	12,656,979	-	42,096,049
Istisna	-	9,987,924	-	9,987,924
Participation agreement	1,927,079	7,301,542	2,770,626	11,999,247
	31,366,149	**29,946,445**	**2,770,626**	**64,083,220**

17. Property and equipment

Group and Bank	Computer equipment £	Office equipment £	Fixtures and fittings £	Total £
Cost				
At 7 August 2006	-	-	-	-
Acquisitions	212,430	24,461	878,357	1,115,248
At 31 December 2007	**212,430**	**24,461**	**878,357**	**1,115,248**
Depreciation and impairment losses				
At 7 August 2006	-	-	-	-
Charge for the period	41,277	4,889	106,037	152,203
At 31 December 2007	**41,277**	**4,889**	**106,037**	**152,203**
Net book value at 31 December 2007	**171,153**	**19,572**	**772,320**	**963,045**

18. Operating lease assets

Group Cost	Operating Lease Assets £
At 7 August 2006	-
Acquisitions	12,106,216
At 31 December 2007	**12,106,216**
Depreciation and impairment	
At 7 August 2006	-
Depreciation charge for the period	172,496
At 31 December 2007	**172,496**
Net book value at 31 December 2007	**11,933,720**

Rental receipts under operating leases **Future rentals are as follows:**	**31 December 2007 £**
Less than one year	2,001,228
Between one and five years	7,580,457
More than five years	2,876,531
	12,458,216

19. Intangible assets

Group and Bank	Computer licence and software £
Cost	
At 7 August 2006	-
Acquisitions	1,043,235
At 31 December 2007	**1,043,235**
Amortisation and impairment losses	
At 7 August 2006	-
Amortisation charge for the period	148,704
At 31 December 2007	**148,704**
Net book value at 31 December 2007	**894,531**

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

20. Other assets

Group	31 December 2007 £
VAT recoverable debtor	488,410
Accrued income receivable	127,890
Collateral deposits*	243,423
Prepayments	327,553
Operating lease receivables	59,212
Other receivables*	4,354,910
	5,601,398

Bank	31 December 2007 £
VAT recoverable debtor	488,410
Accrued income receivable	127,890
Collateral deposits*	243,423
Prepayments	327,553
Other receivables*	4,354,910
	5,542,186

* The Bank has pledged cash collateral of £243,423 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 interest free loans to employees investing in BLME shares. This has been included within 'other receivables' as a discounted interest free loan of £3,829,305 and a linked pre-payment of £520,695 in accordance with IAS 39 AG64.

21. Due to financial institutions

Group and Bank	31 December 2007 £
Reverse Murabaha	105,885,448
Exchange of deposit	2,763,833
	108,649,281

22. Due to customers

Group and Bank	31 December 2007 £
Wakala	**5,601,432**

23. Other liabilities

Group and Bank	31 December 2007 £
Trade payables	228,715
Deferred income	216,633
Social security and income tax	113,508
Accruals	3,025,681
Other creditors	249,007
	3,833,544

24. Commitment under operating leases

There is a commitment for the Group and Bank at the period-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.

Future minimum rentals are as follows:	31 December 2007 £
Less than one year	81,141
Between one and five years	1,298,256
More than five years	1,379,397
	2,758,794

During the period £186,876 was recognised as an expense in the income statement in respect of operating leases.

25. Share capital and share premium

Group and Bank	31 December 2007 £
Authorised	
6,000,000,000 ordinary shares of £0.01 each	60,000,000

	Number 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**

On 7 August 2006 and 20 February 2007 the Bank issued a total of 3,660,000,000 new ordinary shares with a nominal value of £0.01 at a price of £0.01 (200,000,000 shares) and at a price of £0.05 (3,460,000,000 shares) under two Private Placement schemes raising £175,000,000. In November and December 2007 the Bank issued a total of 69,173,000 new ordinary shares with a nominal value of £0.01 under employee incentive schemes for consideration of £0.065 per share.

In February 2008 BLME issued 1,153,846,154 ordinary shares with a nominal value of £0.01 at a price of £0.065 via a Private Placement raising proceeds of £75 million.

26. Other entities

There are two 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 two entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA)
- BLX13 Inc (USA)

Lease assets owned by the SPVs are reported as Group operating lease assets (£11,933,720).

27. Related parties

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

		For the period 7 Aug 2006 to 31 Dec 2007 £
Boubyan Bank		
	Wakala borrowing	4,575,351
	Commodity Murabaha	12,000,000
	Wakala placement	185,470,819
	Foreign exchange transactions	100,857
	Placed under Exchange of deposit	30,652,651
	Received under Exchange of deposit	30,020,494
	Money market fund investment	16,048,743
	Money market fund sale	6,210,431
SGM-FX	Foreign exchange transactions	3,300,000
		288,379,346

In addition, SGM-FX provided temporary office space to BLME between August 2006 and July 2007 at no charge.

The amounts outstanding with Boubyan Bank as at 31 December 2007 were as follows:

		31 December 2007 £
Included within:		
Cash and balances with banks		
	Nostros	11,637
Due from financial Institutions		
	Wakala placement	28,146,225
Due to financial institutions		
	Exchange of deposit	(2,763,833)

The maximum outstanding with Boubyan Bank during the period was £174,675,479. This occurred pre FSA authorisation.

There were no outstanding amounts with SGM-FX as at 31 December 2007.

Boubyan Bank held 20% of the Banks' shares and two Boubyan Bank executives held non-executive positions in the Bank as at 31 December 2007.

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:

	31 December 2007 £
Key management emoluments including social security costs	2,288,005
Bank contributions to pension plans	76,500
	2,364,505

28. Financial risk management

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

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

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 Bank's 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 over and above any external rating. These ratings, which are subject to regular review, constrain the amount of credit that can be made available to the risk counter party.

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 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	**31 December 2007 £**
Cash and balances with banks	697,786
Due from financial institutions	
Murabaha	134,816,103
Wakala	45,715,830
Investment securities	44,668,352
Financing arrangements	52,083,973
Total credit exposure	**277,982,044**

Bank	**31 December 2007 £**
Cash and balances with banks	697,786
Due from financial institutions	
Murabaha	134,816,103
Wakala	45,715,830
Investment securities	44,668,352
Financing arrangements	64,083,220
Total credit exposure	**289,981,291**

iii. Exposure by geography

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

Group	31 December 2007 £
GCC countries	
Kuwait	90,837,275
Qatar	54,358,806
UAE	44,334,267
Bahrain	30,186,795
EU countries	
UK	39,289,696
France	4,420,256
Other countries	
Turkey	12,649,127
Algeria	1,905,822
Total credit exposure	**277,982,044**

Bank	31 December 2007 £
GCC countries	
Kuwait	90,837,276
Qatar	54,358,806
UAE	44,334,267
Bahrain	30,186,795
EU countries	
UK	39,289,696
France	4,420,256
Other countries	
Turkey	12,649,127
USA	11,999,246
Algeria	1,905,822
Total credit exposure	**289,981,291**

iv. Exposure by economic sector

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

Group		31 December 2007 £
Financial services		
	GCC financial institutions	199,729,854
	UK financial institutions	14,270,882
	European & other financial institutions	6,997,701
Mining & quarrying		9,988,394
Manufacturing		26,950,930
Real estate		14,944,026
Others		5,100,257
Total credit exposure		**277,982,044**

As at 31 December 2007 the Group has not issued any off balance sheet guarantees or financing commitments.

Bank		31 December 2007 £
Financial services		
	GCC financial institutions	199,729,855
	UK financial institutions	14,270,882
	European & other financial institutions	6,997,701
Mining & quarrying		21,987,640
Manufacturing		26,950,930
Real estate		14,944,026
Others		5,100,257
Total credit exposure		**289,981,291**

As at 31 December 2007 the Bank has not issued any off balance sheet guarantees or financing commitments.

v. Credit risk quality

BLME's credit quality is managed by the CCRC and direct investment by the Investment Committee and Executive Committee. Credit quality is assessed using techniques that includes 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 2007. Of the total portfolio 76% was directly rated by a least one of the ECAI, with 24% mapped using internal ratings.

Group	**31 December 2007 Investment Grade £**	**31 December 2007 Non-Investment Grade £**
Cash and balances with banks	697,786	-
Due from financial institutions	167,858,001	12,673,932
Financing arrangements	40,106,515	11,977,458
Investment securities	34,308,519	10,359,833
Total credit exposure	**242,970,821**	**35,011,223**

Bank	**31 December 2007 Investment Grade £**	**31 December 2007 Non-Investment Grade £**
Cash and balances with banks	697,786	-
Due from financial institutions	167,858,001	12,673,932
Financing arrangements	40,106,515	23,976,705
Investment securities	34,308,519	10,359,833
Total credit exposure	**242,970,821**	**47,010,470**

- **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 uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For the period ending 31 December 2007 no past due financing arrangements were evident and no credit risk write-offs or impairment charges were incurred.

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 fair 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 2007, 14% of BLME assets benefitted from the provision of customer collateral.

Group	**31 December 2007 Exposure £**	**31 December 2007 Collateral £**
Cash and balances with banks	697,786	-
Due from financial institutions	180,531,933	-
Investment securities	44,668,352	-
Financing arrangements	52,083,973	29,439,070
	277,982,044	**29,439,070**

Analysis of collateral	**£**
Property	10,045,389
Raw materials/ finished stock	19,393,681
	29,439,070

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

Bank	**31 December 2007 Exposure £**	**31 December 2007 Collateral £**
Cash and balances with banks	697,786	-
Due from financial institutions	180,531,933	-
Investment securities	44,668,352	-
Financing arrangements	64,083,220	41,372,790
	289,981,291	**41,372,790**

Analysis of collateral	**£**
Plant and equipment	11,933,720
Property	10,045,389
Raw materials/ finished stock	19,393,681
	41,372,790

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

vii. Fair value of financial assets and liabilities

Group	**Note**	**31 December 2007 Carrying value £**	**31 December 2007 Fair value £**
Due from financial institutions	i	180,531,933	180,531,933
Investment securities	ii	44,831,667	44,831,667
Financing arrangements	iii	52,083,973	51,864,773
Due to financial institutions	iv	108,649,281	109,054,114
Due to customers	ii	5,601,432	5,601,432

Bank	**Note**	**31 December 2007 Carrying value £**	**31 December 2007 Fair value £**
Due from financial institutions	i	180,531,933	180,531,933
Investment securities	ii	44,831,667	44,831,667
Financing arrangements	iii	64,083,220	63,864,020
Due to financial institutions	iv	108,649,281	109,054,114
Due to customers	ii	5,601,432	5,601,432

Notes

i. These assets represent short term liquidity with an average residual life of 3 weeks and a maximum individual residual maturity of 3.5 months. The assets are placed with banks with an average credit rating of A. On this basis, carrying value reflects fair value.

ii. Management believes carrying value reflects fair value

iii. These assets include collateralised, asset based and project related financings where there has been a fair value deterioration of £219,200 in asset values, excluding collateral.

iv. Fair value liability is greater than carrying value due to liabilities with fixed profit share agreements.

viii. Financial assets and liabilities

The following table details the carrying value by category of financial asset and liability as at 31 December 2007.

Group		**Fair value through profit and loss £**	**Designated at fair value through profit and loss upon initial recognition £**	**Available for sale £**	**Other receivables £**
Assets					
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
Total assets		**12,150,190**	**10,523,204**	**22,158,273**	**233,313,692**

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

Bank	Fair value through profit and loss £	Designated at fair value through profit and loss upon initial recognition £	Available for sale £	Other receivables £
Assets				
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
Total assets	**12,150,190**	**10,523,204**	**22,158,273**	**245,312,939**

Liabilities	Financial liabilities measured at amortised cost £
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 are responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This function maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis under the guidance of ALCO.

Over and above its regulatory liquidity, ALCO establishes its own liquidity performance measures, including liability stickiness and diversification, and additional marketable assets. As at 31 December 2007, the Bank had acquired £108,649,281 of term customer deposits and held £44,668,352 of secondary market assets.

Residual contractual maturities of financial liabilities

	Less than 1 month £	1-3 months £	3 months to 1 year £	Total £
Due to financial institutions	4,410,313	28,288,285	75,950,683	108,649,281
Due to customers	5,601,432	-	-	5,601,432
	10,011,745	**28,288,285**	**75,950,683**	**114,250,713**

The table 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, credit spread 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 on 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.

As at 31 December 2007, BLME's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, as measured by the discounted value of a one basis point change in market rates, was £5,198 or a loss of £519,800 on the basis of a 100 basis point parallel adverse shift in profit rates. A mark-to-market revaluation of this risk class produced a profit of £119,270.

ii. Credit spread risk

This derives from moves in credit spreads from the Bank's liquid Sukuk assets which are treated as fair value though profit and loss for accounting and internal risk management purposes. The Bank is developing a market making presence in this strategically important and expanding market. The Bank's holdings to date have been in higher rated bank issues, which are governed by rating based credit sensitivity limits, in addition to individual credit approvals. These limits seek to restrict the Bank's exposure to concentration risk, as well as to adverse movements in credit spreads. Positions are revalued on a daily basis on a bid/offer spread basis using observable prices from market makers.

In the period to 31 December 2007, the net mark to market loss from these activities was £165,626. The core stress test, based on a 100% widening of credit spreads, for the positions held as at 31 December 2007 produced a potential loss of £203,414.

In the investment book, where the available for sale accounting treatment requires the unrealised revaluation result to be shown as an adjustment to equity, the portfolio showed an unrealised loss of £374,843. The core stress test, assuming a 100% widening of credit spreads, produced a potential loss of £340,112.

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 US Dollar against Sterling would result in Fx revaluation loss of £16,438. 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 2007 was a profit of £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 of Directors and documented within the Bank's Operational Risk Policy under the guidance of ALCO. In the 6 months since Authorisation the Bank has undertaken and proven its Business Continuity Plan at its disaster recovery site and upgraded to an Uninterrupted Power Supply to improve the robustness of its normal operating environment.

e. Capital management

The Bank'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, restricted to a maximum amount.

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

Tier 1 capital	**31 December 2007 £**
Ordinary share capital	37,291,730
Share premium	142,204,520
Retained reserves	175,657
Fair value reserve	(269,887)
Intangible assets	(894,531)
	178,507,489
Tier 2 capital	
Collective allowances for impairment	-
Total regulatory capital	**178,507,489**

The level of total regulatory capital is monitored against the Individual Capital Guidance. The Bank has complied with all capital requirements throughout the period.

Individual Capital Guidance	**37,573,000**

Individual capital guidance comprises of Pillar 1 capital using the Standardised Approach and Pillar 2 as required by the FSA.

The Bank has adopted the provisions of the EU Capital Requirements Directives to calculate its minimum capital requirement as at 31 December 2007.

BLME
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