BLME

BANK OF LONDON AND THE MIDDLE EAST

Interim Report

For the six months ended 30 June 2011

Registered number 05897786

CONTENTS

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 development and financial performance of the Bank of London and The Middle East plc (BLME) in the six months to 30 June 2011. In this period BLME achieved total operating income of £21.6 million, a 12% increase over the same period in 2010. This resulted in a net operating profit before tax of £2.0 million compared to £3.6 million for the first six months of 2010. The 2010 figure included £1.4 million of recoveries from impaired assets.

The tumultuous political and economic upheavals seen in the first half of 2011 have rightly prompted a vigilant and conservative stance to liquidity preservation and credit risk management. In these critical areas it is encouraging to note the further diversification and stability of the balance sheet, and the evolving maturity and market recognition of BLME's customer financing, investment and liquidity management businesses. In the area of Wealth Management, I take note of the new specialist fund investments that have been structured over recent months and look forward to BLME being able to expand the reach of such products to all of its key clients and business partner regions.

For the remainder of 2011, the likely uncertainty within global financial markets will require BLME to maintain its cautious risk management approach. At the same time, there is the need to accelerate the growth of the Bank's customer financing and fee based income from the solid platform that has been established over the past four years. It will be essential to develop stronger ties and market penetration in the GCC so that BLME can fulfil its stated aim of providing financial and investment solutions to this core region.

I would like to thank both our shareholders for their continued support and our staff whose continued commitment and professionalism are so important for the prosperity and development of the Bank.

Yacob Al-Muzaini

Chairman

5 September 2011

CHIEF EXECUTIVE OFFICER'S STATEMENT

The first half of 2011 was a period of continued business development and steady financial performance against a background of heightened political and economic uncertainty. This resulted in a BLME Group profit before tax of £2,015,578 from total operating income of £21,620,933. Excluding the effect of recoveries on impaired assets during the first half of 2010, the operating profit was 8% lower for the current period. Total operating income and balance sheet footings, however, increased by 12% and 8% respectively. The notable factors behind the first half of 2011 results were:-

- Increased income from customer financing businesses, notably in Private Banking and Lease Finance.
- Reduced income from Markets financing, investment and liquidity activities. This was caused by low market rates and the cost of securing increased levels of longer dated funding.
- The continued top decile performance of the BLME US Dollar Income Fund buoyed by the relative resilience of Sukuk credit markets.
- The continued growth of the online Premier Deposit Accounts.
- The ongoing reduction of concentration risks to a level where the BLME Balance Sheet is nearing a more optimal level of diversification.
- Slower than planned fee income growth from sales of fund management products.
- Operating expenses, excluding operating lease depreciation, increased by less than 1% over the comparable 2010 reporting period.

The dominant factor behind the financial performance has continued to be the low rates environment and the high cost of maintaining conservative levels of liquidity. In this regard BLME has maintained a strong funding and liquidity position and consistently maintained ratios in excess of regulatory and internal prudential requirements.

It is pleasing to report increased profits and levels of repeat customer business across the Corporate and Private Banking businesses. This momentum has assisted the initial progress made by the nascent Islamic Capital Markets team in structuring and syndicating products for borrowers and investors.

Notwithstanding the importance of increasing this momentum, the key business thrust has been the focused investment in Private Banking and particularly Asset Management which together form the Wealth Management division. Asset Management's product offering has recently been expanded with the launch of a new High Income Fund and an innovative Light Industrial Buildings Fund. Having built a proven infrastructure to support its fund initiatives, the principal challenge will be to expand and deepen distribution capabilities and marketing channels in the GCC.

In summary, the first half performance demonstrates the diversity of the BLME business, its continuing role of pioneering the development of Islamic Finance in Europe and the strength of its balance sheet, its capital resources and BLME's risk management practices. Looking forward, these core strengths provide encouragement for BLME to accelerate the growth of its Balance Sheet businesses and to make meaningful progress in developing its newer fee based Wealth Management and Capital Markets products.

Humphrey Percy

Chief Executive Officer

5 September 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011 (unaudited)

	Note	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Income				
Income from financing and investing activities		11,801,626	11,181,111	23,716,697
Returns to financial institutions and customers		(4,324,635)	(3,725,171)	(7,393,355)
Net margin		7,476,991	7,455,940	16,323,342
Fee and commission income		238,177	637,125	1,066,741
Fee and commission expense		(32,178)	(38,373)	(92,048)
Net fee income		205,999	598,752	974,693
Net fair value gains on investment securities		886,537	1,092,864	1,665,384
Net fair value gain on investment property	*9*	61,873	65,531	–
Other operating income	*4*	12,989,533	10,032,988	21,475,178
Total operating income		**21,620,933**	**19,246,075**	**40,438,597**
Expenses				
Personnel expenses	*5*	(5,450,800)	(4,832,602)	(11,373,644)
Depreciation and amortisation		(10,383,704)	(8,089,091)	(17,168,169)
Other operating expenses		(3,731,016)	(4,100,274)	(7,870,338)
Change in third party interest in consolidated funds		(28,056)	(28,043)	(58,499)
Total operating expenses		**(19,593,576)**	**(17,050,010)**	**(36,470,650)**
Operating profit before impairment charges		**2,027,357**	**2,196,065**	**3,967,947**
Net impairment (charge)/credit on financial assets	*6*	(11,779)	1,441,282	1,047,977
Net operating profit before tax		**2,015,578**	**3,637,347**	**5,015,924**
Tax expense	*7*	(1,246,925)	(1,121,894)	(1,498,247)
Profit for the period		**768,653**	**2,515,453**	**3,517,677**

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 (unaudited)

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Income			
Profit for the period	768,653	2,515,453	3,517,677
Other comprehensive income/(expense)			
Foreign currency translation differences for foreign operations	91,183	(203,231)	(111,962)
Foreign currency translation differences for cash flow hedging reserve	182,170	(218,026)	(121,751)
Changes in fair value of cash flow hedges taken to equity	(299,932)	(2,524,509)	(2,398,684)
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	20,437	(109,794)	33,429
Change in fair value of available for sale financial assets taken to equity	22,744	47,619	60,568
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	315,659	119,506	291,301
Income tax on other comprehensive income	(78,508)	(46,795)	1,350,949
Other comprehensive income/(expense) for the period net of income tax	**253,753**	**(2,935,230)**	**(896,150)**
Total comprehensive profit/(loss) for the period	**1,022,406**	**(419,777)**	**2,621,527**

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011 (unaudited)

	Note	30 June 2011 £	30 June 2010 £	31 December 2010 £
Assets				
Cash and balances with banks		60,227,114	31,947,786	37,228,323
Due from financial institutions		47,260,331	67,086,505	94,169,310
Investment securities	*8*	47,489,441	27,198,550	26,774,748
Financing arrangements	*10*	311,444,297	324,912,318	323,998,989
Finance lease receivables	*11*	126,943,860	103,235,874	118,299,503
Operating lease assets	*12*	94,320,887	80,698,480	89,187,818
Investment property	*9*	7,038,744	7,549,943	7,232,573
Property and equipment		551,729	927,981	776,094
Intangible assets		316,706	535,534	419,263
Other assets		8,082,811	8,884,239	9,659,996
Current tax asset		500,000	–	500,000
Deferred tax assets	*7*	2,362,426	3,047,396	3,687,131
Total assets		**706,538,346**	**656,024,606**	**711,933,748**
Liabilities				
Due to financial institutions		411,438,541	383,846,892	424,132,046
Due to customers		29,995,828	14,665,005	24,253,449
Profit rate swaps		6,791,345	7,025,505	6,553,819
Third party interests in consolidated funds		1,108,490	884,512	1,081,346
Other liabilities		7,926,242	6,347,579	8,921,109
Total liabilities		**457,260,446**	**412,769,493**	**464,941,769**
Equity				
Share capital		48,933,422	48,928,422	48,933,422
Share premium		206,226,328	206,206,328	206,226,328
Fair value reserve		16,109	(394,220)	(238,645)
Cash flow hedging reserve		(3,809,600)	(5,509,652)	(3,717,416)
Share based payment reserve		4,307,629	2,373,552	3,044,114
Foreign currency translation reserve		15,313	(167,139)	(75,870)
Retained earnings		(6,411,301)	(8,182,178)	(7,179,954)
Total equity attributable to equity holders of the Bank		**249,277,900**	**243,255,113**	**246,991,979**
Total liabilities and equity		**706,538,346**	**656,024,606**	**711,933,748**

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

These financial statements were approved by the Board of Directors on 5 September 2011 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011 (unaudited)

	6 months to 30 June 2011 £	6 months to 30 June 2010* £	Year to 31 December 2010 £
Cash flows from operating activities			
Operating profit before tax	2,015,578	3,637,347	5,015,924
Adjusted for:			
Exchange differences	2,627,642	81,328	(2,653,587)
Fair value gain on investment property	(61,873)	(65,531)	–
Fair value gain on investment securities	(402,692)	(722,119)	(1,199,159)
Provision for impairment	1,277,893	–	1,937,296
Depreciation and amortisation	10,383,704	8,089,091	17,168,169
Share based payment awards	1,263,515	182,389	877,951
Accretion of instruments held under financing arrangements	(587,038)	(654,969)	(2,004,089)
Mark to market movement in profit rate swaps	31,683	109,794	186,287
Amortisation of fair value reserve	315,659	119,506	291,301
	16,864,071	**10,776,836**	**19,620,093**
Net decrease/(increase) in operating assets:			
Due from financial institutions	46,758,187	65,616,052	38,926,444
Financing arrangements	12,934,257	(18,807,882)	(16,038,063)
Recovery of impaired assets	(1,266,114)	(1,441,282)	(2,985,273)
Finance lease receivables	(8,627,802)	(1,831,037)	(16,819,986)
Operating lease assets	(15,155,711)	(11,609,904)	(28,693,272)
Other assets	1,577,625	1,970,961	1,202,992
	36,220,442	**33,896,908**	**(24,407,158)**
Net decrease in operating liabilities:			
Due to financial institutions	(12,671,757)	(110,971,516)	(69,348,664)
Due to customers	5,741,127	6,595,234	16,207,142
Third party interest in consolidated funds	27,582	93,567	289,419
Other liabilities	(961,217)	(3,218,215)	(1,018,274)
	(7,864,265)	**(107,500,930)**	**(53,870,377)**
Corporation tax paid	–	–	–
Net cash inflow/(outflow) from operating activities	**45,220,248**	**(62,827,186)**	**(58,657,442)**
Purchase of property and equipment	(12,079)	(6,534)	(90,506)
Purchase of intangible assets	(44,309)	(58,109)	(118,417)
Net purchase of investment securities	(21,195,127)	(3,167,333)	(1,254,208)
Net cash outflow from investing activities	**(21,251,515)**	**(3,231,976)**	**(1,463,131)**

(Continued on next page)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

	6 months to 30 June 2011 £	6 months to 30 June 2010* £	Year to 31 December 2010 £
Net change in cash and cash equivalents	**23,968,733**	**(66,059,162)**	**(60,120,573)**
Cash and cash equivalents at the beginning of the period	37,228,323	96,272,364	96,272,364
Exchange differences in respect of cash and cash equivalents	(969,942)	1,734,584	1,076,532
Cash and cash equivalents at the end of the period	**60,227,114**	**31,947,786**	**37,228,323**

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

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

For the six months ended 30 June 2011 (unaudited)

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 31 December 2010	48,933,422	206,226,328	(238,645)	(3,717,416)	3,044,114	(7,179,954)	(75,870)	246,991,979
Profit for the period	–	–	–	–	–	768,653	–	768,653
Other comprehensive income/(expense)								
Foreign currency translation	–	–	–	182,170	–	–	91,183	273,353
Changes in fair value of cash flow hedges	–	–	–	(299,932)	–	–	–	(299,932)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	–	–	–	20,437	–	–	–	20,437
Recognition of tax asset on cash flow hedge reserve	–	–	–	5,141	–	–	–	5,141
Change in fair value of available for sale financial assets taken to equity	–	–	22,744	–	–	–	–	22,744
Tax on change in fair value of available for sale financial assets taken to equity	–	–	–	–	–	–	–	–
Transfer to income statement in respect of amortisation of reclassified financial assets	–	–	315,659	–	–	–	–	315,659
Tax on amortisation of reclassified financial assets	–	–	(83,649)	–	–	–	–	(83,649)
Total other comprehensive income	–	–	254,754	(92,184)	–	–	91,183	253,753
Total comprehensive income for the period	–	–	254,754	(92,184)	–	768,653	91,183	1,022,406
Contributions by and distributions to owners								
Shares issued	–	–	–	–	–	–	–	–
Share based payment awards	–	–	–	–	1,263,515	–	–	1,263,515
Total transactions with owners	–	–	–	–	1,263,515	–	–	1,263,515
Balance at 30 June 2011	**48,933,422**	**206,226,328**	**16,109**	**(3,809,600)**	**4,307,629**	**(6,411,301)**	**15,313**	**249,277,900**

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 profit on available for sale securities is shown gross of associated tax. £315,659 of the change in the fair value reserve (gross of tax) transferred to income statement relates to the financial assets reclassified to loans and receivables within financing arrangements in accordance with the amendments to IAS 39.

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

Share based payment reserve includes the amortised portion of the fair value of equity instruments granted to employees.

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

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

For the six months ended 30 June 2011 (unaudited)

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 31 December 2009	48,928,422	206,206,328	(514,550)	(2,657,323)	2,191,163	(10,697,631)	36,092	243,492,501
Profit for the period	–	–	–	–	–	2,515,453	–	2,515,453
Other comprehensive income/(expense)								
Foreign currency translation	–	–	–	(218,026)	–	–	(203,231)	(421,257)
Changes in fair value of cash flow hedges	–	–	–	(2,524,509)	–	–	–	(2,524,509)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	–	–	–	(109,794)	–	–	–	(109,794)
Change in fair value of available for sale financial assets taken to equity	–	–	47,619	–	–	–	–	47,619
Tax on change in fair value of available for sale financial assets taken to equity	–	–	(13,333)	–	–	–	–	(13,333)
Transfer to income statement in respect of amortisation of reclassified financial assets	–	–	119,506	–	–	–	–	119,506
Tax on amortisation of reclassified financial assets	–	–	(33,462)	–	–	–	–	(33,462)
Total other comprehensive expense	–	–	120,330	(2,852,329)	–	–	(203,231)	(2,935,230)
Total comprehensive expense for the period	–	–	120,330	(2,852,329)	–	2,515,453	(203,231)	(419,777)
Contributions by and distributions to owners								
Shares issued	–	–	–	–	–	–	–	–
Share based payment awards	–	–	–	–	182,389	–	–	182,389
Total transactions with owners	–	–	–	–	182,389	–	–	182,389
Balance at 30 June 2010	**48,928,422**	**206,206,328**	**(394,220)**	**(5,509,652)**	**2,373,552**	**(8,182,178)**	**(167,139)**	**243,255,113**

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

For the six months ended 30 June 2011 (unaudited)

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 30 June 2010	48,928,422	206,206,328	(394,220)	(5,509,652)	2,373,552	(8,182,178)	(167,139)	243,255,113
Profit for the period	–	–	–	–	–	1,002,224	–	1,002,224
Other comprehensive income								
Foreign currency translation	–	–	–	96,275	–	–	91,269	187,544
Changes in fair value of cash flow hedges	–	–	–	125,825	–	–	–	125,825
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	–	–	–	143,223	–	–	–	143,223
Recognition of tax asset on cash flow hedge reserve	–	–	–	1,426,913	–	–	–	1,426,913
Change in fair value of available for sale financial assets taken to equity	–	–	12,949	–	–	–	–	12,949
Tax on change in fair value of available for sale financial assets taken to equity	–	–	13,333	–	–	–	–	13,333
Other movements	–	–	5,600	–	–	–	–	5,600
Transfer to income statement in respect of amortisation of reclassified financial assets	–	–	171,795	–	–	–	–	171,795
Tax on amortisation of reclassified financial assets	–	–	(48,102)	–	–	–	–	(48,102)
Total other comprehensive income	–	–	155,575	1,792,236	–	–	91,269	2,039,080
Total comprehensive income for the period	–	–	155,575	1,792,236	–	1,002,224	91,269	3,041,304
Contributions by and distributions to owners								
Shares issued	5,000	20,000	–	–	–	–	–	25,000
Share based payment awards	–	–	–	–	670,562	–	–	670,562
Total transactions with owners	5,000	20,000	–	–	670,562	–	–	695,562
Balance at 31 December 2010	**48,933,422**	**206,226,328**	**(238,645)**	**(3,717,416)**	**3,044,114**	**(7,179,954)**	**(75,870)**	**246,991,979**

The notes on pages 11 to 23 are an integral part of the condensed consolidated financial statements.

1. Reporting entity

Bank of London and The Middle East plc ("BLME" or the "Bank") is a company domiciled in the United Kingdom. The address of the Bank's registered office is Sherborne House, 119 Cannon Street, London, EC4N 5AT. BLME is a wholly Sharia'a compliant wholesale bank involved in investment, corporate banking, private client banking and asset management. The condensed consolidated financial statements of the Group for the six months ended 30 June 2011 comprise the Bank and its subsidiaries (together referenced to as "the Group").

2. Accounting policies and basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the E.U. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Under IAS 34 the Group has to disclose accounting policies applicable to new items appearing in the interim financial statements. There were no such new items during the current period and the Group is adopting the same accounting policies as applied in the preparation of the Group's published financial statements for the year ended 31 December 2010.

Presentation of comparative figures

The comparative figures for the financial year ended 31 December 2010 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was i) unqualified, ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and iii) did not contain a statement under section 498 of the Companies Act 2006.

3. Use of estimates and judgements

a. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in the Annual Report and Accounts 31 December 2010, refer to note 33a(v) therein. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the present value of estimated cash flows considered recoverable is approved by the Counterparty Credit Risk Committee.

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

b. Determining fair values

The Group's accounting policy on fair value measurements is in accordance with IFRS 7 Financial Statement: Disclosures and is discussed in Note 33 of the Annual Report and Accounts 31 December 2010.

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

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

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

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

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

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

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

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

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

4. Other operating income

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Gain on foreign exchange transactions	163,332	4,589	–
Operating lease income	12,189,258	9,539,456	20,289,306
Gain on leased asset sales	128,390	–	88,890
Rental income from investment property	372,238	425,128	843,174
Other	136,315	63,815	253,808
	12,989,533	**10,032,988**	**21,475,178**

5. Personnel expenses

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Wages and salaries	4,331,821	3,896,636	9,526,530
Social security costs	496,791	297,504	691,672
Defined contribution pension scheme costs	367,091	299,120	620,608
Sharia'a Supervisory Board fees	36,712	56,178	78,239
Recruitment costs	48,798	112,909	245,506
Other staff costs	169,587	170,255	211,089
	5,450,800	**4,832,602**	**11,373,644**

	30 June 2011 Number	30 June 2010 Number	31 December 2010 Number
Number of employees at period end	67	58	68
Average for the period - management	7	7	7
Average for the period - non-management	61	53	56

6. Impairment of financial assets

For the six months ended 30 June 2011

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2011	6,735,503	1,468,014	8,203,517
Exchange translation and other movements	(59,759)	(51,985)	(111,744)
Profit and loss account:			
Gross impairment charge for the period	1,277,893	–	1,277,893
Amounts recovered during the period	(954,665)	(311,449)	(1,266,114)
Net impairment charge/(credit) for the period	**323,228**	**(311,449)**	**11,779**
Amounts written off during the period	–	(303,024)	(303,024)
Balance as at 30 June 2011	**6,998,972**	**801,556**	**7,800,528**

(Continued on next page)

For the six months ended 30 June 2011

	Individual £	Collective £	Total £
Being impairments against:			
Financing arrangements	6,998,972	–	6,998,972
Finance lease receivables	–	801,556	801,556
	6,998,972	**801,556**	**7,800,528**

For the six months ended 30 June 2010

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2010	15,887,264	1,841,110	17,728,374
Exchange translation and other movements	933,515	151,058	1,084,573
Profit and loss account:			
Gross impairment charge for the period	–	–	–
Amounts recovered during the period	(1,441,282)	–	(1,441,282)
Net impairment credit for the period	**(1,441,282)**	**–**	**(1,441,282)**
Amounts written off during the period	(4,583,161)	(271,652)	(4,854,813)
Balance as at 30 June 2010	**10,796,336**	**1,720,516**	**12,516,852**
Being impairments against:			
Financing arrangements	10,796,336	–	10,796,336
Finance lease receivables	–	1,720,516	1,720,516
	10,796,336	**1,720,516**	**12,516,852**

For the year ended 31 December 2010

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2010	15,887,264	1,841,110	17,728,374
Exchange translation and other movements	556,397	84,354	640,751
Profit and loss account:			
Gross impairment charge for the year	1,937,296	–	1,937,296
Amounts recovered during the year	(2,985,273)	–	(2,985,273)
Net impairment credit for the year	**(1,047,977)**	**–**	**(1,047,977)**
Amounts written off during the year	(8,660,181)	(457,450)	(9,117,631)
Balance as at 31 December 2010	**6,735,503**	**1,468,014**	**8,203,517**
Being impairments against:			
Financing arrangements	6,222,326	–	6,222,326
Finance lease receivables	513,177	1,468,014	1,981,191
	6,735,503	**1,468,014**	**8,203,517**

As at 30 June 2011, six facilities (5 individual and 1 collective) comprising amounts due to the Group of £18.4 million (30 June 2010: £28.7 million and 31 December 2010: £20.8 million) were determined to be impaired.

As at 30 June 2011, the individual provisions include a £3.3 million ($5.25 million) provision against the transportation sector (30 June 2010: £2.7 million / $4 million and 31 December 2010: £2.6 million / $4 million), a £0.8 million ($1.3 million) provision against the telecommunications sector (30 June 2010: £nil / $nil and 31 December 2010: £1.9 million / $3 million), a £2.3 million (€2.6 million) provision against a European manufacturing business (30 June 2010: £2.1 million / €2.6 million and 31 December 2010: £2.2 million / €2.6 million), a £0.3 million provision against a UK wholesale distribution business (30 June 2010 and 31 December 2010 £nil) and a £0.3 million ($0.4 million) provision against a UK scrap metals business (30 June 2010 and 31 December 2010 £nil / $nil).

The collective provision of £0.8 million ($1.3 million) is against a US finance lease portfolio in the transportation sector (30 June 2010: £1.7 million / $ 2.6 million and 31 December 2010: £1.5 million / $2.3 million).

7. Taxation

	6 months to 30 June 2011 £	6 months to 30 June 2010* £	Year to 31 December 2010 £
UK Corporation tax			
– on current period profit	40,142	–	860,474
– adjustments in respect of prior years	–	–	(381,655)
	40,142	–	478,819
Overseas tax for the period	728	–	–
Deferred tax for the period	1,206,055	1,121,894	1,019,428
Tax charge in income statement	**1,246,925**	**1,121,894**	**1,498,247**

The charge for tax on the profit during the period was based on the average UK corporation tax rate of 26.5% (2010: 28%). The tax charge for the period is higher than the standard rate of corporation tax as explained below.

Reconciliation of effective tax rate			
Profit before tax	2,015,578	3,637,347	5,015,924
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	534,128	1,018,457	1,404,459
Expenses not deductible for tax purposes	45,533	25,942	54,733
Tax exempt income	(46,118)	(59,362)	(61,608)
Share based payment transactions	433,750	–	204,955
Change in temporary differences	–	136,857	199,743
Effect of change in tax rates	115,110	–	77,620
Prior year adjustment to current tax	–	–	(381,655)
Prior year adjustment to deferred tax	164,522	–	–
Tax charge in income statement	**1,246,925**	**1,121,894**	**1,498,247**

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

The Budget announcement on 23 March 2011 to reduce the main UK Corporation Tax rate from 28% to 26% with effect from 1st April 2011 was substantially enacted on 29 March 2011. Accordingly the deferred tax assets and liabilities recognised below have been calculated using a corporation tax rate of 26% (30 June 2010: 28% and 31 December 2010: 27%).

It was also announced in the Budget on 23 March 2011 that the main UK Corporation Tax rate would be reduced further from 26% to 23% over the following three tax years. These proposed changes had not been enacted into UK law at the balance sheet date. It has not been possible to quantify with certainty what the effect of all three rate changes would be.

Tax recognised in other comprehensive income

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Cash flow hedging reserve	5,141	–	1,426,913
Fair value reserve	(83,649)	(46,795)	(75,964)
	(78,508)	**(46,795)**	**1,350,949**

Deferred Tax

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

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 £130,099 (30 June 2010: £108,091 and 31 December 2010: £126,592) arising on losses of £500,380 (30 June 2010: £400,339 and 31 December 2010: £468,858) in TP Funding Company LLC.

Recognised deferred tax assets and liabilities at 30 June 2011

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

Recognised deferred tax assets and liabilities at 30 June 2010

	Assets £	Liabilities £	Net £
Property, equipment and software	–	(933,664)	(933,664)
Tax losses carried forward	3,267,636	–	3,267,636
Cash flow hedges	–	(57,497)	(57,497)
Share based payment transactions	770,921	–	770,921
Other expenses	–	–	–
Net tax assets/(liabilities) at 30 June 2010	**4,038,557**	**(991,161)**	**3,047,396**

(Continued on next page)

Recognised deferred tax assets and liabilities at 31 December 2010

	Assets £	Liabilities £	Net £
Property, equipment and software	–	(1,620,128)	(1,620,128)
Tax losses carried forward	3,812,984	–	3,812,984
Cash flow hedges	414,117	–	414,117
Share based payment transactions	965,385	–	965,385
Other expenses	114,773	–	114,773
Net tax assets/(liabilities) at 31 December 2010	**5,307,259**	**(1,620,128)**	**3,687,131**

8. Investment securities

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

	Listed £	Unlisted £	At 30 June 2010 Total £
Fair value through profit and loss			
Sukuk	24,159,315	–	24,159,315
Designated as fair value through profit and loss			
Sharia'a compliant fund	–-	1,657,613	1,657,613
Available for sale			
Equity	–	1,381,622	1,381,622
	24,159,315	**3,039,235**	**27,198,550**

	Listed £	Unlisted £	At 31 December 2010 Total £
Fair value through profit and loss			
Sukuk	23,451,780	–	23,451,780

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	Listed £	Unlisted £	At 31 December 2010 Total £
Designated as fair value through profit and loss			
Sharia'a compliant fund	–	1,741,828	1,741,828
Available for sale			
Equity	–	1,581,140	1,581,140
	23,451,780	**3,322,968**	**26,774,748**

9. Investment property

The Group purchased a leasehold interest in a US commercial real estate property in Bettendorf, Iowa through the Special Purpose Vehicle ("SPV") 'TP Funding Company LLC' (see note 13) on 22 August 2008. The property was purchased with the intention of transferring it to a property fund (Mercury Fund) that was initially to be launched in 2008, but due to prevailing market conditions launch has been postponed.

The property is accounted for under IAS 40 "Investment property" and is re-measured at each period end using a fair value model.

	At 30 June 2011 £	At 30 June 2011 $	At 30 June 2010 £	At 30 June 2010 $	At 31 December 2010 £	At 31 December 2010 $
Opening balance	7,232,573	11,200,000	6,915,715	11,200,000	6,915,715	11,200,000
Net exchange differences	(255,702)	–	568,697	–	316,858	–
Net fair value gain	61,873	100,000	65,531	100,000	–	–
Closing balance	**7,038,744**	**11,300,000**	**7,549,943**	**11,300,000**	**7,232,573**	**11,200,000**

The Group's investment property was valued at the end of June 2011 by an independent external professionally qualified valuation agent, CB Richard Ellis. The valuation was based on current prices in an active market.

The income statement includes rental income from the investment property of £372,238 (6 months to 30 June 2010: £425,128 and year to 31 December 2010: £843,174) in the line "Other operating income" and direct operating expenses of £205,078 (6 months to 30 June 2010: £201,078 and year to 31 December 2010: £478,525) including repairs and maintenance in the line "Other operating expenses".

10. Financing arrangements

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

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	Less than 1 year	1-5 years	Over 5 years	At 30 June 2010 Total
	£	£	£	£
Murabaha	84,867,386	104,603,021	20,922	189,491,329
Mudaraba	–	4,028,441	–	4,028,441
Musharaka	–	–	5,176,987	5,176,987
Istisna and Ijara	–	12,164,315	11,534,817	23,699,132
Sukuk	–	113,312,765	–	113,312,765
	84,867,386	**234,108,542**	**16,732,726**	**335,708,654**
Provision for impairment				(10,796,336)
				324,912,318

	Less than 1 year	1-5 years	Over 5 years	At 31 December 2010 Total
	£	£	£	£
Murabaha	109,540,596	112,234,096	20,922	221,795,614
Mudaraba	645,915	3,244,892	–	3,890,807
Musharaka	–	–	4,910,661	4,910,661
Istisna and Ijara	2,575,084	–	10,918,650	13,493,734
Sukuk	14,735,476	71,395,023	–	86,130,499
	127,497,071	**186,874,011**	**15,850,233**	**330,221,315**
Provision for impairment				(6,222,326)
				323,998,989

These tables represent contractual maturities.

11. Finance leases

	At 30 June 2011 £	At 30 June 2010 £	At 31 December 2010 £
Gross investment in finance leases receivables			
Within one year	45,362,853	39,288,756	45,434,893
One to five years	93,762,119	75,400,550	86,866,873
Over five years	3,834,374	4,338,112	2,530,214
	142,959,346	119,027,418	134,831,980
Unearned future income on finance leases	(15,213,930)	(14,071,028)	(14,551,286)
Provision for impairment	(801,556)	(1,720,516)	(1,981,191)
Net investment in finance leases	**126,943,860**	**103,235,874**	**118,299,503**
The net investment in finance leases comprises:			
Within one year	40,468,499	33,436,126	39,481,916
One to five years	83,224,181	66,237,848	76,713,111
Over five years	3,251,180	3,561,900	2,104,476
	126,943,860	**103,235,874**	**118,299,503**

These tables represent contractual maturities.

12. Operating lease assets

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

	At 31 December 2009 £	Additions 2010 £	Disposals 2010 £	Depreciation 2010 £	Translation differences 2010 £	At 30 June 2010 £
Gross carrying amount	94,405,161	6,603,661	–	–	6,378,345	107,387,167
Less depreciation	(17,743,858)	–	–	(7,514,787)	(1,430,042)	(26,688,687)
	76,661,303	**6,603,661**	**–**	**(7,514,787)**	**4,948,303**	**80,698,480**

	At 31 December 2009 £	Additions 2010 £	Disposals 2010 £	Depreciation 2010 £	Translation differences 2010 £	At 31 December 2010 £
Gross carrying amount	94,405,161	26,178,558	(732,647)	–	3,561,819	123,412,891
Less depreciation	(17,743,858)	–	409,960	(16,181,345)	(709,830)	(34,225,073)
	76,661,303	**26,178,558**	**(322,687)**	**(16,181,345)**	**2,851,989**	**89,187,818**

Rental receipts under operating leases

Future rentals are as follows:	At 30 June 2011 £	At 30 June 2010 £	At 31 December 2010 £
Less than one year	29,804,587	20,492,828	28,517,210
Between one and five years	80,352,607	66,057,472	74,636,185
More than five years	–	3,484,320	422,000
	110,157,194	**90,034,620**	**103,575,395**

13. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity capital
BLME Umbrella Fund Management Sarl	Luxembourg	100	$25,000
BLME (UK) GP Limited	England & Wales	100	£100

In addition, BLME holds 1 Class M share, 47,883.888 Class B shares and 1,234.491 Class G shares in the BLME US$ Income Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF. BLME also holds 10,000,000 Class A shares in the BLME US $ High Yield Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF.

BLME's interest is 97% of the shares issued; therefore the BLME Sharia'a Umbrella Fund SICAV SIF is deemed to be controlled by the Bank and is consolidated into the Group's results. The Group recognised an expense of £28,056 in the income statement line "Change in third party interest in consolidated funds" relating to the minority interest of third party investors in the fund. The minority interest of 3% has been reported in the Group's balance sheet liabilities line "third party interest in consolidated funds".

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

The six entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases and Finance leases
- DMJ 1 LLC (USA) – Finance leases
- DMJ 2 LLC (USA) – Operating leases
- TP Funding Company LLC (USA) – Investment property
- Medical Property Investments LLC (USA) – Investment property

Leased assets owned by the SPVs are reported as Group operating lease assets amounting to £50,938,534 (30 June 2010: £63,822,953 and 31 December 2010: £56,253,817).

Finance leases owned by the SPVs amount to £23,720,123 (30 June 2010: £38,257,094 and 31 December 2010: £29,844,790).

14. Related parties

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

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Boubyan Bank			
Commodity Murabaha	–	6,000,000	6,000,000
Wakala placement	–	–	5,000,000
Reverse Murabaha	–	6,802,952	6,802,952
Foreign exchange transactions	–	11,103	37,513
SGM-FX			
Foreign exchange transactions	1,612,008	11,150,373	35,852,679

The amounts outstanding with Boubyan Bank as at 30 June 2011 were as follows:

	At 30 June 2011 £	30 June 2010 £	At 31 December 2010 £
Included within:			
Cash and balances with banks			
Nostros	119,500	103,860	116,549
Due from financial institutions			
Wakala placement	5,000,000	–	5,000,000

The maximum outstanding with Boubyan Bank during the period ending 30 June 2011 was:

On balance sheet £5,000,000 (30 June 2010 and 31 December 2010: £12,809,304)

Off balance sheet £8,900,000 (30 June 2010 and 31 December 2010: £nil)

On 22nd September 2010 the Bank entered into a 5 year marketing and advisory services agreement with Boubyan Bank. The Bank will be paying KWD 450,000, which was equivalent to £1,021,335 at the balance sheet date, annually in arrears for the services with the first payment due on 30th September 2011. In return Boubyan Bank has committed to a comprehensive range of marketing and advisory initiatives. The cost of these services is being recognised in the income statement over the period of the agreement and is included in the line "Other operating expenses".

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

As at 30 June 2011, Boubyan Bank held 19.80% of the Bank's shares. A non executive director who joined the Board on 25 September 2009 is also the Chairman of Boubyan Bank.

The maximum outstanding with SGM-FX during the period ending 30 June 2011 was £7,869,181 (30 June 2010: £2,857,131 and 31 December 2010 £17,810,221).

As at 30 June 2011 the Bank had the following outstanding foreign currency forward contracts with SGM-FX: £4,433,352 of sell GBP / buy USD (30 June 2010: £1,297,859 and 31 December 2010: £6,105,004), £432,211 of buy GBP / sell USD (30 June 2010 and 31 December 2010 £nil) and £3,812 of buy USD / sell ZAR (30 June 2010 £nil and 31 December 2010 £624,212). The fair value of these contracts as at 30 June 2011 was £106,410 (30 June 2010: £38,415 and 31 December 2010: £12,289).

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

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

	6 months to 30 June 2011 £	6 months to 30 June 2010 £	Year to 31 December 2010 £
Key management emoluments	488,981	402,013	2,490,883
Bank contributions to pension plans	46,500	37,500	75,000
	535,481	**439,513**	**2,565,883**

As at 30 June 2011, one Executive Director had a balance of £50,000 in a BLME Premier Deposit Account (30 June 2010 and 31 December 2010: £50,000). This balance arose from the ordinary course of business and was on the same terms as for comparable transactions with third-party counterparties.

15. Interim report and statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This interim report was approved by the Board of Directors on 5 September 2011. The statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies for England and Wales in accordance with section 446 of the Companies Act 2006. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

By order of the Board:

Richard Williams

Finance Director

5 September 2011

INDEPENDENT REVIEW REPORT TO BANK OF LONDON AND THE MIDDLE EAST PLC

Introduction

We have been engaged by the Bank of London and The Middle East plc ("the Bank") to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2011 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes set on pages 11 to 23. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Bank in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Bank those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

Paul Furneaux
for and on behalf of KPMG Audit Plc
Chartered Accountants
London

5 September 2011

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NOTES

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