BLME

BANK OF LONDON AND THE MIDDLE EAST

Interim Report

For the six months ended 30 June 2009

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 would like to report to our shareholders on the continued development of Bank of London and The Middle East plc (BLME) in the six months to 30 June 2009, and its continuing position as the leading Sharia'a compliant bank in Europe. Operating profit before tax and impairment charges grew to £3,232,425 from £1,734,888 in the comparable period in 2008. In reporting a pre-tax loss after impairment charges of £9,810,945, BLME has prudently increased its credit provisions in respect of four obligors. Whilst this downturn in profitability is disappointing yet understandable in the severe economic conditions, I am heartened by the considered approach to risk that complements the continuing expansion and momentum in the Bank's core businesses.

Furthermore, I would like to refer to the tangible progress in BLME Wealth Management, including the early transactions, fund launch and relationships in the Bank's Private Banking and Asset Management businesses. These operational businesses now provide BLME's UK and international clients with the full range of Wealth Management services that were set out in the 2006 Private Placement Memorandum.

Your Board believes that Management's focus on capital preservation and liquidity management is appropriate in these unprecedented times, and that the core operating profitability and expanded product offering augur well for a return to overall profitability.

I would like to thank our shareholders for their continued support and our staff whose commitment and contribution is essential for the ongoing success of the Bank.

Yacob Al-Muzaini

Chairman

18 September 2009

CHIEF EXECUTIVE OFFICER'S STATEMENT

The first half of 2009 has seen the continued expansion and diversification of our business, notably the first suite of transactions from BLME's new Wealth Management operation of Private Banking and Asset Management. Operating profit before tax and impairment charges grew to £3,232,425 from £1,734,888 in the comparable period in 2008. The core divisions of Corporate Banking and Markets have increasingly focused on quality names and relationships, with a view to achieving an appropriate balance between conservative business growth, healthy liquidity and prudent risk management in the face of challenging market conditions.

In the six month period to 30 June 2009, the BLME Group reported an overall loss of £9,810,945 before tax, from total operating income of £17,575,745. This compares with pre-tax profit of £1,734,888 from total operating income of £10,479,688 for the first half of 2008. Despite the substantial investment in our Wealth Management businesses, total operating expenses, excluding professional fees associated with Corporate Banking credits, have remained within budget.

The first half loss is principally attributable to increased credit impairment charges on three obligors, where the credit deterioration is correlated to the downturn in global trade and commodity markets. Non-performing loans at half year 2009 amounted to 2.43% of total assets. In addition, lower market rates and a conservative approach to liquidity management throughout the economic crisis have resulted in lower earnings on the Group's Sterling denominated capital and also within its money market operations. Notwithstanding these circumstances, it is pleasing to report that the Group's corporate and investment based businesses delivered increased revenue, albeit at a slower rate of growth than in 2008.

In the face of the unprecedented market turmoil, BLME took steps to strengthen its liability platform and to divest itself of a number of credit risks that were deemed to be vulnerable. At an early stage in the economic downturn capital conservation and liquidity preservation were prioritised which, we believe, will provide a solid foundation to increase future profitability. Good progress has been made on a number of fundamental fronts, importantly the Group's number of depositors has doubled, interbank liquidity lines have trebled and netting counterparties have quadrupled since 30 June 2008.

The Group's Balance Sheet grew in line with budgeted levels and in keeping with BLME's aim of diversifying into off-balance sheet Wealth Management businesses. Balance Sheet footings at 30 June 2009 amounted to £782.9 million compared to £604.6 million at the same date in 2008. Within this period the Group doubled its Corporate Banking portfolio, where it continued to offer leasing, trade finance and property financing solutions. One of the highlights was our vibrant UK leasing business which was successful in introducing a range of high street names to complement the Group's more established US leasing business. Trade Finance continued to develop innovative Sharia'a products that compete with the conventional market offerings. The Property team has played an increasingly prominent role within the Bank, assisting Private Banking and Asset Management in property financing, fund structuring and advisory services.

I am proud to announce that in March 2009 BLME launched the first Sharia'a compliant US Dollar Income Fund in Europe. Since its launch this fund has consistently exceeded its targeted benchmark return. Also within the Asset Management division, BLME is in the final stages of completing a bespoke UK Property Fund on behalf of a GCC client.

As outlined in my last statement, Private Banking has opened accounts for its first clients and I am pleased to report that a pipeline of transactions involving a number of financing, liability and fund led proposals for High Net Worth Individuals has been identified for consideration.

In the broader environment BLME continues to play a prominent role with the UK Government and Regulatory authorities in addressing a number of taxation, capital adequacy and liquidity issues that will support and promote UK Islamic Banks in achieving greater product and regulatory competitiveness with conventional banks.

Looking forward, BLME remains the leading European wholly Sharia'a compliant bank with a strong balance sheet, healthy capital resources and an unrivalled product capability. Using its experienced staff and professional management, it leverages these resources to provide its UK and international clients with the full range of services set out in the 2006 Private Placement Memorandum. Without compromising our strong liquidity and credit disciplines I am confident that our strong balance sheet position, together with our new Wealth Management and Corporate Advisory divisions, will increase the quality and quantity of revenues going forward.

Humphrey Percy

Chief Executive Officer

18 September 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009 (unaudited)

	Note	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Income				
Income from financing and investing activities		14,097,250	10,746,851	28,751,197
Returns to financial institutions and customers		(6,599,546)	(3,845,012)	(12,559,184)
Net margin		7,497,704	6,901,839	16,192,013
Fee and commission income		1,301,548	1,375,284	7,484,382
Fee and commission expense		(1,080,767)	(404,906)	(5,359,489)
Net fee income		220,781	970,378	2,124,893
Net fair value gains on investment securities		1,076,565	238,341	489,806
Other operating income	*4*	8,780,695	2,369,130	9,295,380
Total operating income		**17,575,745**	**10,479,688**	**28,102,092**
Expenses				
Personnel expenses	*5*	(3,511,486)	(4,488,942)	(9,001,510)
Depreciation and amortisation		(6,441,820)	(2,253,668)	(7,071,316)
Other operating expenses		(4,390,014)	(2,002,190)	(6,639,842)
Total operating expenses		**(14,343,320)**	**(8,744,800)**	**(22,712,668)**
Operating profit before impairment charges		**3,232,425**	**1,734,888**	**5,389,424**
Provision for impairment	*6*	(13,043,370)	–	(943,202)
Net operating(loss)/profit before tax		**(9,810,945)**	**1,734,888**	**4,446,222**
Tax	*7*	2,176,578	(610,920)	(2,074,163)
(Loss)/profit for the period		**(7,634,367)**	**1,123,968**	**2,372,059**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 (unaudited)

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Income			
(Loss)/profit for the period	(7,634,367)	1,123,968	2,372,059
Other comprehensive income/(expense)			
Foreign currency translation differences for foreign operations	214,598	–	(167,747)
Foreign currency translation differences for cash flow hedging reserve	488,388	–	–
Changes in a fair value of cash flow hedges taken to equity	2,136,929	–	(5,100,570)
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	(924,666)	–	798,732
Change in fair value of available for sale financial assets taken to equity	(5,000)	(1,046,568)	(1,565,690)
Change in fair value of available for sale financial assets transferred to income statement	440,379	–	290,144
Income tax on other comprehensive income	(123,306)	298,272	363,531
Other comprehensive income/(expense) for the period net of income tax	2,227,322	(748,296)	(5,381,600)
Total comprehensive (loss)/income for the period	**(5,407,045)**	**375,672**	**(3,009,541)**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009 (unaudited)

	Note	30 June 2009 £	30 June 2008 £	31 December 2008 £
Assets				
Cash and balances with banks		22,099,338	1,577,964	5,799,089
Due from financial institutions		299,780,989	346,129,297	371,453,122
Investment securities	*8*	2,314,610	64,164,811	2,364,108
Financing arrangements	*10*	296,122,759	126,696,606	328,530,815
Finance lease receivables	*11*	73,936,343	11,597,625	62,690,280
Operating lease assets	*13*	65,378,590	44,979,959	73,320,957
Profit rate swaps		264,739	–	–
Investment property	*9*	7,297,051	–	8,437,371
Property and equipment	*12*	1,417,693	904,545	1,625,666
Intangible assets	*14*	1,018,005	885,953	1,202,848
Other assets		12,444,332	7,612,749	11,571,998
Deferred tax assets		844,788	34,104	279,487
Total assets		**782,919,237**	**604,583,613**	**867,275,741**
Liabilities				
Due to financial institutions		517,300,223	343,318,849	594,377,061
Due to customers		5,008,162	553,516	4,700,000
Profit rate swaps		2,926,150	–	5,139,664
Other liabilities		10,248,948	5,225,852	8,823,246
Current tax liability		345,573	168,624	1,833,544
Total liabilities		**535,829,056**	**349,266,841**	**614,873,515**
Equity				
Share capital		48,928,422	48,913,807	48,913,807
Share premium		206,206,328	206,125,943	206,125,943
Fair value reserve		(869,829)	(1,018,183)	(1,181,902)
Cash flow hedging reserve		(2,601,187)	–	(4,301,838)
Share based payment reserve		470,667	–	470,667
Foreign currency translation reserve		46,851	–	(167,747)
Retained earnings		(5,091,071)	1,295,205	2,543,296
Total equity attributable to equity holders of the Bank		247,090,181	255,316,772	252,402,226
Total liabilities and equity		**782,919,237**	**604,583,613**	**867,275,741**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

These financial statements were approved by the Board of Directors on 18 September 2009 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 2009 (unaudited)

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Cash flows from operating activities			
Operating (loss)/profit before tax	(9,810,945)	1,734,888	4,446,222
Adjusted for:			
Translation exchange differences	214,598	–	(167,747)
Exchange rate loss/(gain) on investment property	957,894	–	(1,771,956)
Fair value loss/(gain) on investment property	182,426	–	(213,973)
Provision for impairment	13,043,370	–	943,202
Depreciation and amortisation	6,441,820	2,253,668	7,071,316
Share awards	70,000	–	1,645,607
Amortisation of fair value reserve	440,379	–	251,672
Mark to market losses adjusted in equity	(5,000)	(1,046,568)	(1,527,218)
Income from financing and investing activities	(14,097,250)	(10,746,851)	(28,751,197)
Returns to financial institutions and customers	6,599,546	3,845,012	12,559,184
	4,036,838	(3,959,851)	(5,514,888)
Net decrease/(increase) in operating assets:			
Due from financial institutions	71,672,133	(165,597,364)	(190,921,189)
Financing arrangements	21,065,337	(86,210,258)	(247,546,734)
Finance lease receivables	(11,246,063)	–	(63,047,475)
Operating lease assets	2,038,088	(34,961,245)	(67,756,453)
Other assets	(890,251)	(3,278,381)	(8,360,327)
	82,639,244	(290,047,248)	(577,632,178)
Net (decrease)/increase in operating liabilities:			
Due to financial institutions	(77,076,838)	234,669,568	485,727,780
Due to customers	308,162	(5,047,916)	(901,432)
Profit rate swaps	(2,213,514)	–	5,139,664
Other liabilities	7,330,645	1,935,808	4,353,843
	(71,651,545)	231,557,460	494,319,855
Income from financing and investing activities	13,850,430	9,058,789	25,471,617
Returns to financial institutions and customers paid	(12,479,491)	(852,906)	(6,474,089)
Corporation tax paid	–	(275,000)	(275,000)
Net cash inflow/(outflow) from operating activities	**16,395,476**	**(54,518,756)**	**(70,104,683)**
Cash flows from investing activities			
Purchase of property and equipment	(47,984)	(94,479)	(974,207)
Purchase of intangible assets	(96,741)	(173,443)	(690,776)
Purchase of investment property	–	–	(6,451,442)
Sale/(purchase) of investment securities	49,498	(19,333,144)	8,322,411
Net cash (outflow)/inflow from investing activities	**(95,227)**	**(19,601,066)**	**205,986**

(Continued on next page)

For six month period ended 30 June 2009 (unaudited)

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Cash flows from financing activities			
Net proceeds from issue of share capital	–	75,000,000	75,000,000
Net change in cash and cash equivalents	**16,300,249**	**880,178**	**5,101,303**
Cash and cash equivalents at the beginning of the period	5,799,089	697,786	697,786
Cash and cash equivalents at the end of the period	**22,099,338**	**1,577,964**	**5,799,089**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 (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 2008	48,913,807	206,125,943	(1,181,902)	(4,301,838)	470,667	2,543,296	(167,747)	252,402,226
Loss for the period	–	–	–	–	–	(7,634,367)	–	(7,634,367)
Other comprehensive income/(expense)								
Foreign currency translation	–	–	–	488,388	–	–	214,598	702,986
Changes in fair value of cash flow hedges	–	–	–	2,136,929	–	–	–	2,136,929
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	–	–	–	(924,666)	–	–	–	(924,666)
Change in fair value of available for sale financial assets taken to equity	–	–	(5,000)	–	–	–	–	(5,000)
Change in fair value of available for sale financial assets transferred to income statement, net of tax	–	–	317,073	–	–	–	–	317,073
Total other comprehensive income	–	–	312,073	1,700,651	–	–	214,598	2,227,322
Total comprehensive income/(loss) for the period	–	–	312,073	1,700,651	–	(7,634,367)	214,598	(5,407,045)
Contributions by and distributions to owners								
Shares issued	14,615	80,385	–	–	–	–	–	95,000
Total transactions with owners	14,615	80,385	–	–	–	–	–	95,000
Balance at 30 June 2009	**48,928,422**	**206,206,328**	**(869,829)**	**(2,601,187)**	**470,667**	**(5,091,071)**	**46,851**	**247,090,181**

Fair value reserve
The fair value reserve includes the cumulative net change in fair value of available for sale investments until the investment is either derecognised or becomes impaired. The mark to market loss on available for sale securities is shown net of associated tax. £317,073 of change in fair value reserve transferred to income statement relates to the financial assets reclassified to financing arrangements in accordance with the amendments to IAS 39.

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

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

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

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

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For the six months ended 30 June 2009 (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 2007	37,291,730	142,204,520	(269,887)	–	–	171,237	–	179,397,600
Profit for the period	–	–	–	–	–	1,123,968	–	1,123,968
Other comprehensive income/(expense)								
Change in fair value of available for sale financial assets, net of tax	–	–	(748,296)	–	–	–	–	(748,296)
Total other comprehensive (expense)/income	–	–	(748,296)	–	–	–	–	(748,296)
Total comprehensive income for the period	–	–	(748,296)	–	–	1,123,968	–	375,672
Contributions by and distributions to owners								
Shares issued	11,622,077	63,921,423	–	–	–	–	–	75,543,500
Total transactions with owners	11,622,077	63,921,423	–	–	–	–	–	75,543,500
Balance at 30 June 2008	**48,913,807**	**206,125,943**	**(1,018,183)**	**–**	**–**	**1,295,205**	**–**	**255,316,772**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

For the six months ended 30 June 2009 (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 2008	48,913,807	206,125,943	(1,018,183)	–	–	1,295,205	–	255,316,772
Profit for the period	–	–	–	–	–	1,248,091	–	1,248,091
Other comprehensive income/(expense)								
Foreign currency translation	–	–	–	–	–	–	(167,747)	(167,747)
Changes in fair value of cash flow hedges	–	–	–	(5,100,570)	–	–	–	(5,100,570)
Changes in fair value of cash flow hedges transferred to income statement	–	–	–	798,732	–	–	–	798,732
Change in fair value of available for sale financial assets, net of tax	–	–	(453,863)	–	–	–	–	(453,863)
Change in fair value of available for sale financial assets transferred to income statement	–	–	290,144	–	–	–	–	290,144
Total other comprehensive (expense)/income	–	–	(163,719)	(4,301,838)	–	–	(167,747)	(4,633,304)
Total comprehensive (loss)/income for the period	–	–	(163,719)	(4,301,838)	–	1,248,091	(167,747)	(3,385,213)
Contributions by and distributions to owners								
Shares issued	–	–	–	–	–	–	–	–
Share based payment award	–	–	–	–	470,667	–	–	470,667
Total transactions with owners	–	–	–	–	470,667	–	–	470,667
Balance at 31 December 2008	**48,913,807**	**206,125,943**	**(1,181,902)**	**(4,301,838)**	**470,667**	**2,543,296**	**(167,747)**	**252,402,226**

The notes on pages 12 to 21 are an integral part of the condensed consolidated financial statements.

1. Reporting entity

Bank of London and The Middle East plc is a company domiciled in the United Kingdom. The address of the Bank's registered office is Sherborne House, 119 Cannon Street, London, EC4N 5AT. BLME is a wholly Sharia'a compliant wholesale bank involved in investment, corporate banking, private client banking and asset management. The condensed consolidated financial statements of BLME (the "Group") are presented as at and for the six months ended 30 June 2009.

2. Accounting policies and basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2009 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 Bank's annual financial statements as at 31 December 2008. Under IAS 34 the Bank has to disclose accounting policies applicable to new items appearing in the interim financial statements. Other than the following, the Bank is adopting the same accounting policies as applied in the preparation of the Bank's published financial statements for the year ended 31 December 2008.

On 1 January 2009, BLME adopted the revised IAS 1 "Presentation of financial Statements" (IAS 1). The revised standard aims to improve users ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in BLME's condensed consolidated financial statements. It does, however, result in certain presentation changes in BLME's financial statements, including:

– the presentation of all items of income and expenditure in two financial statements, the "Condensed consolidated income statement" and the "Condensed consolidated statement of comprehensive income"; and

– the presentation of the "Condensed consolidated statement of changes in equity" as a financial statement, which replaces the "Equity" note to the financial statements.

a. Presentation of comparative figures

The comparative figures for the financial year ended 31 December 2008 are not the Bank's statutory accounts for that financial year. Those accounts have been reported on by the Bank'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 237 of the Companies Act 1985.

Certain of the prior period comparatives have been reclassified to conform with the current period's presentation. The reclassification is not significant to these condensed consolidated financial statements.

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 a basis described in the Annual Report and Accounts 31 December 2008, refer to note 34a(v) therein. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are approved by the Counterparty Credit Risk Committee.

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

b. Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the Annual Report and Accounts 31 December 2008, refer to accounting policy note 3c(iv) therein. 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.

4. Other operating income

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Gain/(loss) on foreign exchange transactions	23,873	(81,612)	492,257
Operating lease income	7,497,800	2,450,742	7,952,616
Revaluation of investment property	(201,032)	–	213,973
Gain on asset sale	77,791	–	–
Operating lease income on investment property	596,386	–	295,734
Other	785,877	–	340,800
	8,780,695	**2,369,130**	**9,295,380**

5. Personnel expenses

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Wages and salaries	2,312,212	3,442,340	6,596,864
Social security costs	312,695	441,827	889,798
Defined contribution pension scheme costs	330,645	192,161	495,927
Sharia'a Supervisory Board fees	40,419	30,331	63,376
Recruitment costs	178,320	123,482	304,817
Other staff costs	337,195	258,801	650,728
	3,511,486	**4,488,942**	**9,001,510**

	30 June 2009 Number	30 June 2008 Number	31 December 2008 Number
Number of employees at period end	58	38	48
Average number of employees during the period	51	36	40

6. Impairment of financial assets

Provisions for impairment:	6 months to 30 June 2009	6 months to 30 June 2008	Year to 31 December 2008
Impairment charge during period	**£**	**£**	**£**
Specific provision	12,778,675	–	754,562
Collective provision	264,695	–	188,640
	13,043,370	**–**	**943,202**
Movement in Provision:			
Specific provision:			
At beginning of period	754,562	–	–
Impairment charge to the income statement	12,778,675	–	754,562
At end of period	**13,533,237**	**–**	**754,562**
Collective provisions:			
At beginning of period	188,640	–	–
Impairment charge to the income statement	264,695	–	188,640
Net exchange differences	(45,914)	–	–
At end of period	**407,421**	**–**	**188,640**
Total provisions	**13,940,658**	**–**	**943,202**

A provision of USD 2.76m (£1.68m) was taken in the six month period to 30 June 2009 bringing the total provision to USD 4m (£2.43m) against financing provided to the transportation sector and a new provision of EUR 6.60m (£5.62m) was taken against financing provided to a European manufacturing business that was sold out of European court protection in July 2009 to new owners.

A new provision of USD 9m (£5.47m) was taken against a Sukuk issued by a Saudi based company where there is uncertainty regarding the ongoing servicing of the Sukuk and whether the full amount will be recovered.

7. Taxation

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Current tax for the period	–	466,896	2,197,075
Adjustments to prior period tax			
– tax losses of 2009 carry back against 2008 profits	(1,400,000)	–	–
– Prior year's current tax adjustment	(211,277)	–	(21,553)
Current tax	(1,611,277)	466,896	2,175,522
Deferred tax for the period	(565,301)	144,024	(101,359)
Tax (credit)/charge in income statement	**(2,176,578)**	**610,920**	**2,074,163**

7. Taxation

	6 months to 30 June 2009 £	6 months to 30 June 2008 £	Year to 31 December 2008 £
Reconciliation of effective tax rate			
(Loss)/profit before tax	(9,810,945)	1,734,888	4,446,222
Income tax at UK Corporation Tax rate (2009: 28%/2008: 28.5%)	(2,747,065)	494,443	1,267,173
Non deductible expenses	32,716	28,617	254,789
Tax exempt (income)/loss	39,816	–	(25,799)
Depreciaton in excess of capital allowances on which deferred tax not recognised	–	5,163	–
Irrecoverable VAT on fixed assets	–	8,078	–
Other	–	74,619	–
Change in prior year deferred tax assets	–	–	161,514
Change in prior year deferred tax liabilities	707,336	–	417,991
Effect of change in tax rates	–	–	20,048
Over provision in prior periods	(209,381)	–	(21,553)
Tax (credit)/charge in income statement	**(2,176,578)**	**610,920**	**2,074,163**

Recognised deferred tax assets and liabilities at 30 June 2009

	Assets £	Liabilities £	Net £
Property, equipment and software	–	(1,463,393)	(1,463,393)
Tax loss carry forwards	1,607,581	–	1,607,581
Cash flow hedges	–	(22,793)	(22,793)
Deferred bonus settled in shares	698,713	–	698,713
Other expenses	24,680	–	24,680
Net tax assets/(liabilities) at 30 June 2009	**2,330,974**	**(1,486,186)**	**844,788**

Recognised deferred tax assets and liabilities at 30 June 2008

	Assets £	Liabilities £	Net £
Property, equipment and software	–	(74,860)	(74,860)
Deferred bonus settled in shares	108,964	–	108,964
Net tax assets/(liabilities) at 30 June 2008	**108,964**	**(74,860)**	**34,104**

Recognised deferred tax assets and liabilities at 31 December 2008

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

8. Investment securities

	Unlisted £	At 30 June 2009 Total £
Designated as fair value through profit and loss		
Money market fund	1,737,109	1,737,109
Available for sale		
Equity	577,501	577,501
	2,314,610	**2,314,610**

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

	Listed £	Unlisted £	At 30 June 2008 Total £
Fair value through profit and loss			
Sukuk	11,861,841	–	11,861,841
Designated as fair value through profit and loss			
Money market fund	–	12,193,897	12,193,897
Available for sale			
Sukuk	39,925,758	–	39,925,758
Equity	–	183,315	183,315
	51,787,599	**12,377,212**	**64,164,811**

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

As at 31 December 2008 the investment in subsidiaries consisted of £50,075 equivalent invested in two subsidiary companies, BLME Umbrella Fund Management Sarl (USD 25,000) and BLME Umbrella Fund SICAV-SIF (USD 50,000) (see note 15). These subsidiaries were not consolidated as at 31 December 2008 on the grounds that they were not material to the Group's financial statements but have been consolidated in the Group's financial statements as at 30 June 2009.

9. Investment property

The Group purchased a leasehold interest in a US commercial real estate property hereafter referred to as the "Medical Office Building" through the SPV, 'TP Funding Company LLC' (see note 15) on 22 August 2008. It was purchased with the intention of transferring it to a property fund (Mercury Fund) that was initially to be launched in 2008, but due to prevailing market conditions it has been decided to postpone the Mercury Fund launch.

The property is accounted for under IAS 40 "Investment property" and was initially recognised at cost and re-measured using the fair value model as at 30 June 2009 and at 31 December 2008

	At 30 June 2009 £	At 30 June 2009 USD	At 31 December 2008 £	At 31 December 2008 USD
Opening balance	8,437,371	12,300,000	–	–
Additions	–	–	6,451,442	11,988,070
Net fair value (loss)/gain	(1,140,320)	(300,000)	1,985,929	311,930
Closing balance	**7,297,051**	**12,000,000**	**8,437,371**	**12,300,000**

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

The income statement includes operating lease income of £596,386 (31 December 2008: £295,734) from the investment property and direct operating expenses of £340,914 (31 December 2008: £207,557) including repairs and maintenance.

10. Financing arrangements

	Less than 1 year	1-5 years	Over 5 years	At 30 June 2009 Total £
Murabaha	42,126,276	109,388,357	–	151,514,633
Mudaraba	–	4,911,169	–	4,911,169
Musharaka	–	–	9,057,314	9,057,314
Istisna and Ijara	12,162,080	9,759,739	9,806,383	31,728,202
Sukuk	14,451,243	93,602,442	4,390,993	112,444,678
	68,739,599	**217,661,707**	**23,254,690**	**309,655,996**
Provision for impairment				**(13,533,237)**
				296,122,759

	Less than 1 year	1-5 years	Over 5 years	At 30 June 2008 Total £
Murabaha	60,547,996	31,757,656	–	92,305,652
Mudaraba	–	5,088,613	–	5,088,613
Musharaka	–	–	3,911,647	3,911,647
Istisna and Ijara	1,457,151	23,933,543	–	25,390,694
	62,005,147	**60,779,812**	**3,911,647**	**126,696,606**

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10. Financing arrangements

	Less than 1 year	1-5 years	Over 5 years	At 31 December 2008 Total £
Murabaha	121,215,339	65,645,556	–	186,860,895
Mudaraba	–	6,262,698	–	6,262,698
Musharaka	–	–	8,688,074	8,688,074
Istisna and Ijara	13,532,129	12,417,098	9,480,002	35,429,229
Sukuk	3,369,919	78,996,943	9,677,619	92,044,481
	138,117,387	**163,322,295**	**27,845,695**	**329,285,377**
Provision for impairment				**(754,562)**
				328,530,815

These tables represent contractual maturities.

11. Finance leases

	At 30 June 2009 £	At 30 June 2008 £	At 31 December 2008 £
Gross investment in finance leases receivables			
Within one year	22,468,596	4,698,164	18,660,681
One to five years	57,750,182	8,777,963	48,018,718
Over five years	4,495,673	–	6,371,508
	84,714,451	13,476,127	73,050,907
Unearned future income on finance leases	(10,370,687)	(1,878,502)	(10,171,987)
Provision for impairment	(407,421)	–	(188,640)
Net investment in finance leases	**73,936,343**	**11,597,625**	**62,690,280**
The net investment in finance leases comprises:			
Within one year	18,957,643	3,769,532	14,572,960
One to five years	50,648,114	7,828,093	42,008,667
Over five years	4,330,586	–	6,108,653
	73,936,343	**11,597,625**	**62,690,280**

12. Property and equipment

	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	At 30 June 2009 Total £
Cost				
At 1 January 2009	311,880	83,562	1,694,013	2,089,455
Additions	21,462	16,194	10,328	47,984
At 30 June 2009	**333,342**	**99,756**	**1,704,341**	**2,137,439**
Depreciation and impairment losses				
At 1 January 2009	118,851	13,074	331,864	463,789
Charge for the period	53,741	15,227	186,989	255,957
At 30 June 2009	**172,592**	**28,301**	**518,853**	**719,746**
Net Book Value				
At 30 June 2009	**160,750**	**71,455**	**1,185,488**	**1,417,693**
At 31 December 2008	**193,029**	**70,488**	**1,362,149**	**1,625,666**
At 30 June 2008	**151,268**	**15,500**	**737,777**	**904,545**

13. Operating lease assets

	At 31 December 2008 £	Additions 2009 £	Depreciation 2009 £	Translation differences 2009 £	At 30 June 2009 £
Gross carrying amount	81,127,472	4,763,353	–	(8,491,142)	77,399,683
Less depreciation	(7,806,515)	–	(5,396,679)	1,182,101	(12,021,093)
At 30 June 2009	**73,320,957**	**4,763,353**	**(5,396,679)**	**(7,309,041)**	**65,378,590**

	At 31 December 2007 £	Additions 2008 £	Depreciation 2008 £	Translation differences 2008 £	At 30 June 2008 £
Gross carrying amount	12,106,216	34,961,245	–	–	47,067,461
Less depreciation	(172,496)	–	(1,915,006)	–	(2,087,502)
At 30 June 2008	**11,933,720**	**34,961,245**	**(1,915,006)**	**–**	**44,979,959**

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

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13. Operating lease assets (continued)

Rental receipts under operating leases

Future rentals are as follows:

	At 30 June 2009 £	At 30 June 2008 £	At 31 December 2008 £
Less than one year	14,247,481	8,201,423	17,090,573
Between one and five years	50,749,467	27,265,736	61,070,432
More than five years	13,212,742	6,630,733	17,236,137
	78,209,690	**42,097,892**	**95,397,142**

14. Intangible assets

	At 30 June 2009 £	At 30 June 2008 £	At 31 December 2008 £
Cost			
Opening balance	1,734,011	1,043,352	1,043,235
Acquisitions	96,741	173,443	690,776
Closing balance	**1,830,752**	**1,216,678**	**1,734,011**
Amortisation and impairment losses			
Opening balance	531,163	148,704	148,704
Charge for the period	281,584	182,021	382,459
Closing balance	**812,747**	**330,725**	**531,163**
Net Book Value at period end	**1,018,005**	**885,953**	**1,202,848**

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

15. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity capital USD
BLME Umbrella Fund Management Sarl	Luxembourg	100	25,000
BLME Umbrella Fund	Luxembourg	100	50,050,000

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 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 six entities, all incorporated in the USA, are as follows:

- Kalakane Transatlantic Investors II, Inc. – Operating leases
- BLX13 Inc. – Operating leases
- SC-BL LP – Finance leases

15. Subsidiaries and other entities

- DMJ I LLC – Finance leases
- DMJ II LLC – Finance leases
- TP Funding Company LLC – Investment property

Lease assets owned by the SPVs are reported as Group operating lease assets (2009: £55,325,503/30 June 2008: £44,979,959/31 December 2008: £61,114,281).

Finance leases owned by the SPVs total (2009: £18,880,732/30 June 2008: £9,093,474/31 December 2008: £22,673,552).

16. Related parties

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

SGM_FX	**At 30 June 2009 £**	**At 30 June 2008 £**	**At 31 December 2008 £**
Foreign exchange transaction	109,517	–	315,627
	109,517	**–**	**315,627**

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

There were no outstanding amounts with SGM-FX as at 30 June 2009.

Boubyan Bank held 14.97% and Boubyan Capital held 0.50% of the Bank's shares at 30 June 2009 and are no longer a related party.

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

	At 30 June 2009 £	**At 30 June 2008 £**	**At 31 December 2008 £**
Key management emoluments including social security costs	575,280	651,420	2,628,240
Bank contributions to pension plans	37,500	37,500	75,000
	612,780	**688,920**	**2,703,240**

As at 30 June 2009 the Bank had a liability to one director as follows:

- A Wakala acceptance from Mr Humphrey Percy £525,000

17. Interim report and statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. This interim report was approved by the Board of Directors on 18 September 2009. The statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies House in England and Wales in accordance with section 242 of the Companies Act 1985. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

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 to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with IFRSs as adopted by the EU. As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial 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 half-yearly financial 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 half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

Paul Furneaux
for and behalf of KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
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18 September 2009

BANK INFORMATION

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NOTES

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