

**Interim Condensed Consolidated Financial Statements
Six Month Period Ended 30 June 2006**



The legal name of BMB Investment Bank is Bahrain Middle East Bank (B.S.C.)

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS
AND BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK (B.S.C.)**

We have reviewed the accompanying condensed consolidated balance sheet of Bahrain Middle East Bank (B.S.C.) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2006 and the related condensed statements of income, changes in equity and cash flows for the six months then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, 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 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.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Without qualifying our report, we draw attention to Note 12 to the condensed consolidated interim financial statements. The Bank is the defendant in a lawsuit alleging non-compliance of a legal procedural requirement with regard to the Bank's holding of the Extra Ordinary General Meeting on 11 May 2005. The court has in its judgment dated 30 April 2006 nullified the resolutions adopted by the Extra Ordinary General Meeting which covered the reorganisation and capital raising of the Bank's issued and paid up capital. The Bank and the plaintiff have separately filed appeals subsequent to the court judgment. The ultimate outcome of this matter and its impact on the financial statements cannot presently be determined.

The logo for PricewaterhouseCoopers, written in a blue, cursive script.

Manama, Kingdom of Bahrain
5 August, 2006

BMB INVESTMENT BANK (B.S.C.)
Interim Condensed Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET
 AT 30 JUNE 2006
 (Expressed in thousands of United States Dollars)

	Reviewed 30 June <u>2006</u>	Audited 31 December <u>2005</u>
<u>ASSETS</u>		
Cash and deposits with banks	9,251	13,263
Trading equities and funds	8,337	7,234
Other equities and funds (Note 3)	91,074	87,804
Government Bonds	4,388	-
Other bonds	9,819	9,809
Loans and advances	3,429	7,715
Instalment sale receivable	20,311	21,869
Fixed assets	10,942	11,136
Other assets	<u>6,792</u>	<u>9,581</u>
TOTAL ASSETS	<u>164,343</u>	<u>168,411</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Customer deposits	53,620	54,158
Securities sold under repurchase agreements	3,700	3,700
Medium term loan (Note 4)	43,700	53,200
Revolving loan facility (Note 5)	13,600	13,600
Other liabilities	6,082	6,505
Subordinated loans (Note 6)	<u>10,000</u>	<u>10,000</u>
TOTAL LIABILITIES	<u>130,702</u>	<u>141,163</u>
<u>Shareholders' equity</u>		
Share capital (Notes 10 and 11)	52,338	52,338
Fair value reserve	(15,642)	(18,731)
Fixed asset revaluation reserve	5,056	5,056
Other reserves	(8,111)	(11,415)
Treasury shares	<u>-</u>	<u>-</u>
TOTAL SHAREHOLDERS' EQUITY	<u>33,641</u>	<u>27,248</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>164,343</u>	<u>168,411</u>

These financial statements were approved by the Board of Directors on 05 August 2006 and signed on its behalf by:

 Wilson S. Benjamin
 Chairman

 Sheikh Abdulla A. K. Al Sabah
 Vice Chairman

 Albert I. Kittaneh
 Chief Executive

The notes on pages 6 to 9 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK (B.S.C.)
Interim Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (Reviewed)
(Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest income	539	514	1,009	1,006
Interest expense	<u>(1,908)</u>	<u>(2,313)</u>	<u>(3,687)</u>	<u>(4,419)</u>
NET INTEREST (EXPENSE)	<u>(1,369)</u>	<u>(1,799)</u>	<u>(2,678)</u>	<u>(3,413)</u>
Income from investments	930	8,408	6,050	19,334
Foreign exchange translation income/(loss)	3,024	(2,520)	3,798	(3,983)
Other income (Note 8)	<u>796</u>	<u>164</u>	<u>1,318</u>	<u>292</u>
TOTAL INCOME FROM OPERATIONS	<u>3,381</u>	<u>4,253</u>	<u>8,488</u>	<u>12,230</u>
Impairment provisions released	-	711	135	714
General and administrative expenses	<u>(2,096)</u>	(1,922)	(4,127)	(3,710)
Donations	-	<u>(1)</u>	-	<u>(1)</u>
TOTAL OPERATING EXPENSES	<u>(2,096)</u>	<u>(1,212)</u>	<u>(3,992)</u>	<u>(2,997)</u>
NET INCOME BEFORE TAXATION	<u>1,285</u>	3,041	4,496	9,233
Taxation	<u>37</u>	-	<u>(641)</u>	-
NET INCOME/ (LOSS) FOR THE PERIOD	<u>1,322</u>	<u>3,041</u>	<u>3,855</u>	<u>9,233</u>
EARNINGS PER SHARE				
Basic	US\$ 0.01	US\$ 0.01	US\$ 0.02	US\$ 0.03
Diluted	US\$ 0.01	US\$ 0.01	US\$ 0.02	US\$ 0.03

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BMB INVESTMENT BANK (B.S.C.)
Interim Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (Reviewed)
(Expressed in thousands of United States Dollars)

	Share capital	Fixed asset revaluation reserve	Fair value reserve	Retained earnings	Legal reserve	General reserve	Other reserves Total other reserves	Treasury shares	Total
<u>30 June 2005</u>									
At 1 January 2005	90,809	5,056	(12,973)	(104,639)	10,960	9,361	(84,318)	(26,351)	(27,777)
Exchange translation adjustment	-	-	(2,773)	667	-	-	667	-	(2,106)
Net fair value (loss) on available- for- sale investments	-	-	3,265	-	-	-	-	-	3,265
Fair value reserve transferred to income statement	-	-	(6,717)	-	-	-	-	-	(6,717)
Net profit for the period	-	-	-	9,233	-	-	9,233	-	9,233
At 30 June 2005	<u>90,809</u>	<u>5,056</u>	<u>(19,198)</u>	<u>(94,739)</u>	<u>10,960</u>	<u>9,361</u>	<u>(74,418)</u>	<u>(26,351)</u>	<u>(24,102)</u>
<u>30 June 2006</u>									
At 1 January 2006	52,338	5,056	(18,731)	(33,290)	11,737	10,138	(11,415)	-	27,248
Exchange translation adjustment	-	-	(169)	(551)	-	-	(551)	-	(720)
Net fair value gain on available- for- sale investments	-	-	4,885	-	-	-	-	-	4,885
Fair value reserve transferred to income statement	-	-	(1,627)	-	-	-	-	-	(1,627)
Net profit for the period	-	-	-	3,855	-	-	3,855	-	3,855
At 30 June 2006	<u>52,338</u>	<u>5,056</u>	<u>(15,642)</u>	<u>(29,986)</u>	<u>11,737</u>	<u>10,138</u>	<u>(8,111)</u>	<u>-</u>	<u>33,641</u>

The notes on pages 6 to 9 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK (B.S.C.)
Interim Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (Reviewed)
(Expressed in thousands of United States Dollars)

	<u>30 June</u> <u>2006</u>	<u>30 June</u> <u>2005</u>
NET INCOME FOR THE PERIOD	3,855	9,233
Net cash provided by operating activities	50	11,140
Net cash provided by investing activities	1,530	475
Net cash (used in)/provided by financing activities	(9,512)	685
Effect of exchange rates on cash and cash equivalents	<u>65</u>	<u>(89)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(4,012)</u>	<u>21,444</u>
Cash and cash equivalents at the beginning of the period	<u>13,263</u>	<u>3,196</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>9,251</u>	<u>24,640</u>

The notes on pages 6 to 9 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK (B.S.C.)

Notes to the interim condensed consolidated financial statements at 30 June 2006

1 INCORPORATION AND PRINCIPAL ACTIVITY

Bahrain Middle East Bank (B.S.C.) (the “Bank”) was formed in the Kingdom of Bahrain as an exempt joint stock company, pursuant to the notarisation of its Articles and Memorandum of Association on 21 March 1982. Formalities in respect of the registration of the Bank were completed on 5 July 1982, the Bank’s date of incorporation. Effective 10 April 2000, the Bank launched a new brand identity and is known as BMB Investment Bank. The legal name of the Bank continues to be Bahrain Middle East Bank (B.S.C.) which has its registered office at BMB Centre, Diplomatic Area, Manama, Kingdom of Bahrain.

On 30 August 2005, the Bank formally amended its Memorandum and Articles of Association to comply with provisions of the Bahrain Commercial Companies Law of 2001 of the Kingdom of Bahrain and the Implementing Regulations issued by Ministerial Resolution No. 6 for 2002. As part of that process, the Bank converted from an Exempt Company to a Bahrain Shareholding Company and the legal duration of the Bank was amended from a twenty-five year period to an indefinite period.

The Group comprises the Bank and its subsidiaries.

The principal activities of the Group are the provision of investment banking, private banking and treasury services.

2 PREPARATION OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as promulgated by the International Accounting Standards Board. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2004. The Bank has adopted International Accounting Standards (IAS) 39 “Financial Instruments Recognition and Measurement” which was revised and effective 1 January 2005. The adoption of revised IAS 39 has no impact on the retained earnings at 1 January 2005.

3 OTHER EQUITIES AND FUNDS

Other equities and funds comprise:

	<u>Reviewed</u> <u>30 June 2006</u> US\$000	<u>Audited</u> <u>31 December 2005</u> US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	81,478	78,622
Unquoted equity investments - at fair value	6,039	5,968
Unquoted equity investments - at cost	<u>3,557</u>	<u>3,214</u>
Total other equities and funds	<u>91,074</u>	<u>87,804</u>

The fair values in respect of unquoted equity investments carried at an amount of US\$ 3,557,000 could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 30 June 2006, the Bank had undrawn investment commitments to private equity funds of US\$ 32,572,000 (31 December 2005: US \$ 23,000,000). Under the terms of the agreements with these equity fund managers, the Group is irrevocably committed to invest funds upon notice from investment managers, except for certain excused investments. Excused investments include those prohibited by local law, and in certain cases, investments contrary to Shari’ah principles where the Bank is a co-investor with its clients who apply Shari’ah principles to their investment activity. Under contractual agreements with certain fund managers, failure to honour a non-excused investment drawdown request from a fund manager can result in the forfeiture of existing investments with that fund manager.

As disclosed in note 5, certain of the Bank’s private equity investments are pledged against the revolving loan facility.

BMB INVESTMENT BANK (B.S.C.)

Notes to the interim condensed consolidated financial statements at 30 June 2006

4 MEDIUM TERM LOAN

On 14 December 2004, the Bank and the lenders signed an agreement to refinance the US\$ 75,000,000 medium term facility dated 21 December 1999. In August 2005, the Agent on this loan confirmed that the refinancing became effective as of 28 July 2005 following the satisfactory fulfilment of all conditions precedent.

The refinancing bears interest at a rate of Libor plus 150 basis points. After the conversion on 30 August 2005 of US\$ 16,800,000 of the medium term loan under the Bank's capital restoration plan (note 10) in July 2005, the loan balance was reduced to US\$ 53,200,000 with principal repayments of US\$ 9,500,000 (June 2006), US\$ 15,200,000 (June 2007) and US\$ 28,500,000 (June 2008). The instalment of US \$9,500,000 due in June 2006 has been paid.

5 REVOLVING LOAN FACILITY

	Reviewed <u>30 June 2006</u> US\$000	Audited <u>31 December 2005</u> US\$000
Revolving loan facility	<u>13,600</u>	<u>13,600</u>

On 30 December 2003, the Bank signed a US\$ 20,000,000 three-year revolving facility secured by certain of the Bank's private equity investments (note 3). This facility is designed to provide liquidity to the Bank and bears interest at floating US\$ Libor.

6 SUBORDINATED LOANS

Under the terms of the refinancing of its US\$ 75,000,000 medium term facility (note 4), the Bank was required to arrange the extension of the maturity on the US\$ 10,000,000 subordinated loan until December 2008. The Bank secured the extension of maturity in July 2005.

Further, the US\$ 20,000,000 subordinated debt facility was converted in full pursuant to the exercise of the Al Fawares underwriting commitment (note 10). The Bank obtained a replacement security to secure the instalment sale receivable.

7 SEGMENTAL RESULTS

(for the six months period ended 30 June 2006 - Reviewed)

	Trading activity		Investing activity		Other activity		Banking Total banking		Manufacturing		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<u>OPERATIONAL INCOME</u>												
Segmental income/(loss)	<u>5,385</u>	<u>(468)</u>	<u>2,341</u>	<u>13,288</u>	<u>1,462</u>	<u>1,077</u>	<u>9,188</u>	<u>13,897</u>	<u>(700)</u>	<u>(1,667)</u>	<u>8,488</u>	<u>12,230</u>
<u>RESULT</u>												
Segmental result	<u>5,385</u>	<u>(480)</u>	<u>(515)</u>	<u>11,820</u>	<u>376</u>	<u>136</u>	<u>5,246</u>	<u>11,476</u>	<u>(1,391)</u>	<u>(2,243)</u>	<u>3,855</u>	<u>9,233</u>
Net income/(loss)							<u>5,246</u>	<u>11,476</u>	<u>(1,391)</u>	<u>(2,243)</u>	<u>3,855</u>	<u>9,233</u>

BMB INVESTMENT BANK (B.S.C.)

Notes to the interim condensed consolidated financial statements at 30 June 2006

8 OTHER INCOME

(for the six months period ended 30 June 2006 – Reviewed)

	<u>Banking</u>		<u>Manufacturing</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Other income comprises:						
Fees and commission	724	643	-	-	724	643
Rental income	420	401	-	-	420	401
Other income/(loss)	<u>318</u>	<u>33</u>	<u>(144)</u>	<u>(785)</u>	<u>174</u>	<u>(752)</u>
Total other income/(loss)	<u>1,462</u>	<u>1,077</u>	<u>(144)</u>	<u>(785)</u>	<u>1,318</u>	<u>292</u>

9 RELATED-PARTY TRANSACTIONS

	<u>Reviewed</u>			<u>Audited</u>		
	<u>30 June 2006</u>			<u>31 December 2005</u>		
	<u>Directors</u>	<u>Major Shareholders</u>	<u>Total</u>	<u>Directors</u>	<u>Major Shareholders</u>	<u>Total</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Loans and Advances	=	=	=	=	=	=
Deposits	<u>9</u>	<u>45</u>	<u>54</u>	<u>25</u>	<u>51</u>	<u>76</u>

Key management compensation

Compensation to key management personnel including directors were as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>30 June 2006</u>	<u>30 June 2005</u>	<u>30 June 2006</u>	<u>30 June 2005</u>
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits	382	317	743	628
Termination benefits	<u>27</u>	<u>24</u>	<u>53</u>	<u>49</u>
	<u>409</u>	<u>341</u>	<u>796</u>	<u>677</u>
Directors' benefits	<u>10</u>	<u>4</u>	<u>27</u>	<u>8</u>

10 CAPITAL RESTORATION

The shareholders of the Bank, at their Extraordinary General Meeting held on 11 May 2005 approved a capital reorganization and capital raising plan (the “plan”) (Note 12).

As part of the plan, the capital raising took place during the month of July 2005 and included a Rights Offering of US\$ 50,000,000, a Private placement and a Debt/Deposit Conversion to Equity Program of US\$ 50,000,000.

An aggregate of US\$ 52,334,705.75 was raised under the plan.

BMB INVESTMENT BANK (B.S.C.)

Notes to the interim condensed consolidated financial statements at 30 June 2006

10 **CAPITAL RESTORATION (CONTINUED)**

On 30 August 2005, the Bank implemented the plan by formally registering the following changes in its capital with the relevant authorities in the Kingdom of Bahrain:

- a) Reduction in paid-in-capital to US\$ 3,281.75 (13,127 shares at par value of US\$ 0.25 each) by the capitalization of US\$ 90,806,145 of accumulated losses and treasury shares against the issued and paid in share capital of US\$ 90,809,426.75.
- b) A simultaneous increase in paid-in-capital by US\$ 52,334,705.75 (209,338,823 shares at par value of US\$ 0.25 each) representing US\$ 35,434,701.75 (141,738,807 shares at par value of US\$ 0.25 each) raised in the Rights Offering and US\$ 16,900,004 (67,600,016 shares at par value of US\$ 0.25) raised in the Private Placement and Debt/Deposit Conversion to Equity Program.

As a result, the issued and paid-in-capital of the Bank is US\$ 52,337,987.50 consisting of 209,351,950 shares of common stock with a par value of US\$ 0.25 each (note 11). The Bank's Memorandum and Articles of Association have been amended to reflect this change.

The capital raising exercise resulted in:

1. The conversion of the US\$ 20 million subordinated loan to equity (note 6).
2. The conversion of US\$ 16.8 million of the Medium Term Loan to equity (note 4).
3. The conversion of US\$ 0.1 million in deposits to equity.
4. Proceeds of US\$ 15.4 million subscription from shareholders of which US\$ 13.8 million was from the Bank's major shareholder.

11 **SHARE CAPITAL**

	<u>Reviewed</u>		<u>Audited</u>	
	<u>30 June 2006</u>		<u>31 December 2005</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	<u>000</u>	<u>US\$000</u>	<u>000</u>	<u>US\$000</u>
Authorized				
Ordinary shares of US \$ 0.25 each	<u>2,000,000</u>	<u>500,000</u>	<u>2,000,000</u>	<u>500,000</u>
Issued and fully paid				
Ordinary shares of US \$ 0.25 each				
At 1 January	209,353	52,338	363,238	90,809
Reduction in capital	-	-	(363,225)	(90,806)
New shares issued	-	-	<u>209,340</u>	<u>52,335</u>
At 30 June 2006/31 December 2005	<u>209,353</u>	<u>52,338</u>	<u>209,353</u>	<u>52,338</u>
Treasury shares at 30 June 2006/31 December 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

12 **LEGAL CLAIM**

In February 2006, a shareholder of the Bank instituted a legal case in Bahrain challenging the validity of the Bank's Extra Ordinary General Meeting ("EGM") of Shareholders held on 11 May 2005 and seeking to have the Bank placed under judicial receivership. In April 2006, the Court ruled in favour of the Bank rejecting the plaintiff's request for receivership and in favour of the plaintiff in the matter of the Bank's EGM.

Both the Bank and the shareholder have filed appeals, which are before the appeals court in Bahrain.

The Bank remains confident that it will prevail in this case.