

**Condensed Consolidated Interim Financial Information  
Three Month Period Ended 31 March 2009**



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

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE DIRECTORS OF  
BAHRAIN MIDDLE EAST BANK (B.S.C.)**

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bahrain Middle East Bank (B.S.C.) (the Bank) and its subsidiaries (together, the Group) as at 31 March 2009 and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

**Scope of 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 enquires, 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.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.



**Manama, Kingdom of Bahrain**  
14 May 2009

**BAHRAIN MIDDLE EAST BANK (B.S.C.)****CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

(Expressed in thousands of United States Dollars)

	Reviewed 31 March <u>2009</u>	Audited 31 December <u>2008</u>
<b><u>ASSETS</u></b>		
Cash and deposits with banks	1,367	3,688
Trading equities and funds	225	726
Government bonds	4,388	4,388
Other equities and funds (Note 3)	46,772	49,816
Other bonds (Note 4)	10,785	15,214
Derivative financial instruments	20	849
Loans and advances	1,343	1,521
Instalment sale receivable	17,299	17,299
Fixed assets	537	504
Other assets	<u>6,240</u>	<u>6,488</u>
<b>TOTAL ASSETS</b>	<b><u>88,976</u></b>	<b><u>100,493</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b><u>Liabilities</u></b>		
Customer deposits (Note 5)	25,456	26,493
Securities sold under repurchase agreements	819	817
Derivative financial instruments	398	1,735
Revolving loan facility	11,600	11,600
Other liabilities	5,833	6,870
Subordinated loan	<u>10,000</u>	<u>10,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>54,106</u></b>	<b><u>57,515</u></b>
<b><u>Shareholders' equity</u></b>		
Share capital (Note 6)	54,955	54,955
Fair value reserve	(7,933)	(5,698)
Other reserves	<u>(12,152)</u>	<u>(6,279)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>34,870</u></b>	<b><u>42,978</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>88,976</u></b>	<b><u>100,493</u></b>

This condensed consolidated interim financial information was approved by the Board of Directors on 14 May 2009 and signed on its behalf by:



Sheikh Abdulla A. K. Al Sabah  
Vice Chairman



Dr. Awadh Kh. Al-Enezi  
Director



Akbar A. Habib  
Chief Executive Officer

Notes 1 to 13 form an integral part of this condensed consolidated interim financial information.

**BAHRAIN MIDDLE EAST BANK (B.S.C.)****CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**  
(Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>	
	<u>31 March</u> <u>2009</u>	<u>31 March</u> <u>2008</u>
(Loss)/income from investments (Note 7)	(2,394)	6,608
Foreign exchange income	809	631
Fee and commission income	77	100
Other income	<u>14</u>	<u>17</u>
	<u>(1,494)</u>	<u>7,356</u>
Interest income	370	578
Interest expense	<u>(449)</u>	<u>(1,153)</u>
NET INTEREST EXPENSE	<u>(79)</u>	<u>(575)</u>
TOTAL (LOSS)/INCOME FROM OPERATIONS	<u>(1,573)</u>	<u>6,781</u>
(Impairment provisions)/writebacks (Note 12)	(1,036)	165
General and administrative expenses	<u>(3,094)</u>	<u>(2,508)</u>
TOTAL OPERATING EXPENSES	<u>(4,130)</u>	<u>(2,343)</u>
OPERATING (LOSS)/PROFIT (Note 12)	(5,703)	4,438
Net income from assets sold	<u>-</u>	<u>10</u>
(LOSS)/PROFIT FOR THE PERIOD	<u>(5,703)</u>	<u>4,448</u>
(LOSS)/EARNINGS PER SHARE		
Basic	(US\$ 0.03)	US\$ 0.02
Diluted	(US\$ 0.03)	US\$ 0.02

This condensed consolidated interim financial information was approved by the Board of Directors on 14 May 2009 and signed on its behalf by:



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Sheikh Abdulla A. K. Al Sabah  
Vice Chairman



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Dr. Awadh Kh. Al-Enezi  
Director



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Akbar A. Habib  
Chief Executive Officer

**BAHRAIN MIDDLE EAST BANK (B.S.C.)**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2009</u>	<u>2008</u>
(Loss)/profit for the period	(5,703)	4,448
Other comprehensive (loss)		
Fair value loss on available-for-sale investments	(2,235)	(1,947)
Exchange translations on retained earnings of foreign subsidiaries	<u>(170)</u>	<u>147</u>
OTHER COMPREHENSIVE LOSS	<u>(2,405)</u>	<u>(1,800)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(8,108)</u>	<u>2,648</u>

Notes 1 to 13 form an integral part of this condensed consolidated interim financial information.

**BAHRAIN MIDDLE EAST BANK (B.S.C.)**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in thousands of United States Dollars)

	Share capital	Fair value reserve	Retained earnings	Legal reserve	General reserve	Other reserves		Total
						Proposed stock dividends reserve	Total other reserves	
<b><u>31 March 2008</u></b>								
At 1 January 2008	52,338	11,249	(18,599)	16,310	7,521	2,617	7,849	71,436
Stock dividends approved	2,617	-	-	-	-	(2,617)	(2,617)	-
Total comprehensive (loss)/income	-	(1,947)	4,595	-	-	-	4,595	2,648
At 31 March 2008	<u>54,955</u>	<u>9,302</u>	<u>(14,004)</u>	<u>16,310</u>	<u>7,521</u>	<u>-</u>	<u>9,827</u>	<u>74,084</u>
<b><u>31 March 2009</u></b>								
At 1 January 2009	54,955	(5,698)	(30,110)	16,310	7,521	-	(6,279)	42,978
Total comprehensive loss	-	(2,235)	(5,873)	-	-	-	(5,873)	(8,108)
At 31 March 2009	<u>54,955</u>	<u>(7,933)</u>	<u>(35,983)</u>	<u>16,310</u>	<u>7,521</u>	<u>-</u>	<u>(12,152)</u>	<u>34,870</u>

Notes 1 to 13 form an integral part of this condensed consolidated interim financial information.

**BAHRAIN MIDDLE EAST BANK (B.S.C.)****CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT**  
(Expressed in thousands of United States Dollars)**CASH FLOWS FROM OPERATING ACTIVITIES**

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2009</u>	<u>2008</u>
NET CASH USED IN OPERATING ACTIVITIES (Note 8a)	(2,273)	(2,043)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of fixed assets	(84)	(202)
Proceeds from sale of fixed assets	-	8
Net cash flow from freehold land and building sold	<u>-</u>	<u>18,047</u>
NET CASH (USED IN)/ PROVIDED BY INVESTING ACTIVITIES	<u>(84)</u>	<u>17,853</u>

**CASH FLOWS FROM FINANCING ACTIVITIES****Net changes in:**

Bank deposits	-	(8,433)
Securities sold under repurchase agreement	2	-
Medium term loan	-	(28,500)
Prior year dividends claimed and paid	<u>-</u>	<u>(3)</u>
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	<u>2</u>	<u>(36,936)</u>

**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**

	<u>34</u>	<u>465</u>
Net decrease in cash and cash equivalents	(2,321) <sup>1</sup>	(20,661)
Cash and cash equivalents at the beginning of the period	<u>3,688</u>	<u>36,602</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 8b)</b>	<u>1,367</u>	<u>15,941</u>

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 1 GENERAL INFORMATION

Bahrain Middle East Bank (B.S.C.) (the "Bank", "BMB" or "BMB Investment Bank") is a Bahraini Shareholding Company with limited liability and is incorporated in the Kingdom of Bahrain. The registered office of the Bank is: BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

The Bank operates under a Wholesale Banking License issued by the Central Bank of Bahrain.

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, trading and investment, asset management and funds distribution.

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standard ("IFRS").

#### (b) Accounting policies

Except as described below, the accounting policies applied by the Group in this condensed consolidated interim financial information are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2008.

The following amendments to existing standards and new standards are effective for the first time for the Group's financial year beginning 1 January 2009:

**IAS 1 (revised), 'Presentation of financial statements'**. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the statement of income and statement of comprehensive income). The Group has elected to present two statements: statement of income and statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

**IFRS 8, 'Operating segments'**. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. No new segments have been identified by Management on adoption of this standard.

**IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009)**. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.



## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).** The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

#### (c) Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner which is not impacted by any form of seasonality. The condensed consolidated interim financial information is prepared based upon an accrual concept, which requires income and expense to be recorded as earned or incurred and not as received or paid throughout the period.

### 3 OTHER EQUITIES AND FUNDS

	Reviewed 31 March 2009 US\$000	Audited 31 December 2008 US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	41,816	44,639
Unquoted equity investments - at fair value	3,659	3,659
Unquoted equity investments - at cost	<u>1,297</u>	<u>1,518</u>
	<u>46,772</u>	<u>49,816</u>

The determination of fair value for unquoted equity funds investments and unquoted equity investments held as available-for-sale involves significant estimates and judgement on the part of the Bank's management and such determinations made are estimates, not absolute or certain values.

At 31 March 2009, the Bank had undrawn investment commitments to private equity funds of US\$ 74,718,000 (31 December 2008: US\$ 77,713,000). 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 Bahrain 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.

Certain of the Bank's private equity investments are pledged against the revolving loan facility.

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 4 OTHER BONDS

	<u>Corporate</u> US\$000	<u>Structured Products</u>			<u>Total</u> US\$000
		<u>Listed</u> <u>Capital</u> <u>Protected</u> <u>Note</u> US\$000	<u>Student</u> <u>Loans</u> US\$000	<u>CDOs</u> US\$000	
<b>31 March 2009 - Reviewed</b>					
Held for trading	915	4,736	-	-	5,651
Held-to-maturity - at amortised cost	-	-	-	4,926	4,926
Loans and receivables - at amortised cost	<u>-</u>	<u>-</u>	<u>208</u>	<u>-</u>	<u>208</u>
	<u>915</u>	<u>4,736</u>	<u>208</u>	<u>4,926</u>	<u>10,785</u>
<b>31 December 2008 - Audited</b>					
Held for trading	2,756	7,309	-	-	10,065
Held-to-maturity - at amortised cost	-	-	-	4,937	4,937
Loans and receivables - at amortised cost	<u>-</u>	<u>-</u>	<u>212</u>	<u>-</u>	<u>212</u>
	<u>2,756</u>	<u>7,309</u>	<u>212</u>	<u>4,937</u>	<u>15,214</u>

### 5 CUSTOMER DEPOSITS

	<u>Current</u> US\$000	<u>Non-Current</u> US\$000	<u>Total</u> USD000
<b>31 March 2009 – Reviewed</b>			
Customers participating in funds	113	11,783	11,896
Government entities, corporates and individuals	<u>4,000</u>	<u>9,560</u>	<u>13,560</u>
	<u>4,113</u>	<u>21,343</u>	<u>25,456</u>
<b>31 March 2008 – Audited</b>			
Customers participating in funds	275	12,694	12,969
Government entities, corporates and individuals	<u>13,524</u>	<u>-</u>	<u>13,524</u>
	<u>13,799</u>	<u>12,694</u>	<u>26,493</u>

Customer participation in funds represents amounts received from customers to be invested in private equity funds marketed by BMB and amounts from private equity realizations received by the Bank and not yet distributed to customers. These funds, although treated as part of customer deposits, are retained by the Bank until drawdowns are made by private equity fund managers or paid to the customers as part of realised distributions. Customer deposits carry market rates of interest for the period until drawdown or payment. Customer participation in funds includes US\$ 2,009,000 (31 December 2008: US\$ 2,888,200) in deposits held on behalf of BMB Technology and Telecommunications Fund.

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 5 CUSTOMER DEPOSITS (CONTINUED)

On 15 January 2009 a floating rate term deposit agreement was signed with a depositor included in “Government entities, corporates and individuals” amounting to US\$ 13,119,000, with agreed terms and conditions. As part of the terms and conditions of the agreement a partial repayment of US\$ 2,000,000 is due on 5 October 2009.

### 6 SHARE CAPITAL

	<u>Reviewed</u>		<u>Audited</u>	
	<u>31 March 2009</u>		<u>31 December 2008</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>
<b>Authorized</b>				
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>
<b>Issued and fully paid</b>				
Ordinary shares of US \$ 0.25 each				
At 1 January	219,819	54,955	209,352	52,338
Stock dividend	<u>-</u>	<u>-</u>	<u>10,467</u>	<u>2,617</u>
At 31 March 2009/31 December 2008	<u>219,819</u>	<u>54,955</u>	<u>219,819</u>	<u>54,955</u>

### 7 (LOSS)/INCOME FROM INVESTMENTS

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2009</u>	<u>2008</u>
	<u>US\$000</u>	<u>US\$000</u>
<b><u>Trading – Marked to market</u></b>		
Loss from other bonds – Listed Capital Protected Note	(1,823)	-
(Loss)/income from sovereign debt and bonds	(119)	72
(Loss)/income from quoted equities and ETFs	(58)	118
(Loss)/ income from managed funds	(1)	(2)
Income from other bonds - corporate	31	-
Loss from derivatives – equity options	<u>-</u>	<u>(188)</u>
	<u>(1,970)</u>	<u>-</u>
<b><u>Available-for-sale – at fair value</u></b>		
Income from other equities and funds	<u>(424)</u>	<u>6,608</u>
Total (loss)/income from investments	<u>(2,394)</u>	<u>6,608</u>

Total unrealized loss of US\$1,598,000 is included in loss from other bonds – Listed Capital Protected Note for the period ended 31 March 2009 (2008: Nil) which is held for trading and marked to market.

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

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### NOTES TO THE CASH FLOW STATEMENT

(a) Cash flows from operating activities comprise:

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2009</u>	<u>2008</u>
	<u>US\$000</u>	<u>US\$000</u>
Operating (loss)/profit for the period	(5,703)	4,438
<u>Adjustments to reconcile (loss)/profit from operations to net cash</u> <u>(used in)/provided by operating activities:</u>		
Impairment provisions/(writebacks)	1,036	(165)
Depreciation and amortisation	48	27
Loss/(profit) on sale of fixed assets	2	(8)
<u>Net changes in:</u>		
Trading equities and funds	501	(1,250)
Other equities and funds	(147)	(1,989)
Other bonds	4,349	(54)
Derivative financial instruments	(508)	211
Loans and advances	178	(149)
Accrued interest receivable	(154)	(137)
Accrued interest payable	142	(88)
Other assets	402	1,292
Other liabilities	(1,178)	(417)
Customer deposits	(1,037)	(3,436)
Change in exchange rates related to retained earnings of overseas subsidiaries	(170)	147
Foreign exchange movements on investments and others	(34)	(465)
Net cash (used in)/provided by operating activities	<u>(2,273)</u>	<u>(2,043)</u>

(b) Cash and cash equivalents comprise:

Included in cash and cash equivalents are the following:

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2009</u>	<u>2008</u>
	<u>US\$000</u>	<u>US\$000</u>
Placements with banks – short-term	-	13,765
Cash balances at banks	1,301	2,110
Cash balances at Central Bank of Bahrain	<u>66</u>	<u>66</u>
	<u>1,367</u>	<u>15,941</u>

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

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### RELATED-PARTY TRANSACTIONS AND BALANCES

	<u>Reviewed</u> <u>Directors and key</u> <u>management personnel</u> <u>31 March 2009</u> US\$000	<u>Audited</u> <u>Directors and key</u> <u>management personnel</u> <u>31 December 2008</u> US\$000
<b>Loans</b>		
At 31 December	851	661
Advanced during the period 1 January to 31 March/year	85	420
Repayments during the period 1 January to 31 March/year	<u>(627)</u>	<u>(230)</u>
	<u>309</u>	<u>851</u>
Administration charges for the period 1 January to 31 March	<u>2</u>	<u>8</u>

No loans were advanced to any director of the Bank during the period.

No provisions have been recognised in respect of loans given to related parties (31 December 2008: Nil).

The above loans are included within "Other assets".

The loans made to key management personnel are repayable monthly up to a period of three years. The majority of the loans are fully secured. All loans bear an administration charge of 1% per annum (2008: 1% p.a.).

	<u>Reviewed</u> <u>Directors and key</u> <u>management personnel</u> <u>31 March 2009</u> US\$000	<u>Audited</u> <u>Directors and key</u> <u>management personnel</u> <u>31 December 2008</u> US\$000
<b>Deposits</b>		
At 31 December	542	376
Received during the period 1 January to 31 March/year	36	918
Repaid during the period 1 January to 31 March/year	(68)	(768)
Interest capitalised during the period 1 January to 31 March/year	<u>2</u>	<u>16</u>
	<u>512</u>	<u>542</u>
Interest expense on deposits for the period 1 January to 31 March/year	<u>2</u>	<u>16</u>

### **Key management compensation**

Compensation to key management personnel, including directors, was as follows:

	<u>Three months ended</u> <u>31 March</u> <u>2009</u> US\$000	<u>Three months ended</u> <u>31 March</u> <u>2008</u> US\$000
Salaries and other short-term employee benefits	427	461
Termination benefits	<u>24</u>	<u>46</u>
	<u>451</u>	<u>507</u>
Directors' remuneration	<u>21</u>	<u>18</u>

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 10 LEGAL CLAIM

#### Share issuance – 1982

The Bank and the Bank of Bahrain and Kuwait were co-defendants in a litigation in Kuwait arising in connection with the issuance of the original shares of BMB in 1982. In May 2002, the Court of First Instance in Kuwait ruled in favour of the Bank and its co-defendant. In April 2003, the Appellate Court upheld the judgement of the Court of First Instance, ruling in the Bank's favour. The Kuwaiti litigant had the right to appeal to the Court of Cassation but did not file a challenge within the stipulated time and, hence, the litigation in Kuwait has come to a final conclusion in the Bank's favour.

On 10 August 2003, the Kuwaiti litigant filed a suit in Bahrain. The case is pending in the courts of Bahrain, having been adjourned several times, the latest being 18 June 2009. Based on the nature of this action and a previous favourable decision in its favour in a similar case in Bahrain, the Bank believes that this case will be decided in its favour and, accordingly, no provision has been made in the financial information.

#### Leased land - 2009

On 11 March 2009, an Urgent Matters case was filed against the Bank by a former lessor. As at 12 May 2009, the courts of Bahrain made a judgement in favour of the former lessor, and deemed the case closed as at that date. Damages are to be awarded. However, the Bank believes that such damages will not be material within the overall context of this financial information.

### 11 SEGMENTAL RESULTS

(for the three month period ended 31 March)

	Trading activity		Investing activity		Other activity		Banking Total banking		Manufacturing		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	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 (loss)/income	<u>(1,160)</u>	<u>625</u>	<u>(504)</u>	<u>6,033</u>	<u>91</u>	<u>117</u>	<u>(1,573)</u>	<u>6,775</u>	=	<u>6</u>	<u>(1,573)</u>	<u>6,781</u>
<u>RESULT</u>												
Segmental result	<u>(1,744)</u>	<u>600</u>	<u>(3,481)</u>	<u>4,503</u>	<u>(478)</u>	<u>(661)</u>	<u>(5,703)</u>	<u>4,442</u>	=	<u>6</u>	<u>(5,703)</u>	<u>4,448</u>
Net (loss)/income							<u>(5,703)</u>	<u>4,442</u>	=	<u>6</u>	<u>(5,703)</u>	<u>4,448</u>

The segmental information has been prepared on the same basis as used for management purposes in reference to the Bank's current main business activities, which include the following:

- Trading activities includes current investments in equities and funds, bond and other derivative instruments,
- Investment activities includes investments in bonds, and other equities and funds
- Others include investor marketing fees and management fees

The above report is prepared on a regular basis to assist the chief operating decision maker in assessing the financial performance of the Bank's activities.

During the first quarter of 2009, there have been no changes in the segments identified as set out in the Annual Report at 31 December 2008.

## BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2009

### 12 OPERATING (LOSS)/PROFIT

The following items of unusual nature, size or incidence have been charged to operating (loss)/profit during the period:

	<u>Three months ended</u> 31 March <u>2009</u> US\$000	<u>Three months ended</u> 31 March <u>2008</u> US\$000
Impairment on private equity funds – at fair value	726	-
Impairment on private equity investments – at cost	230	-
Impairment/ (writeback) on other bonds	<u>80</u>	<u>(165)</u>
	<u>1,036</u>	<u>(165)</u>

### 13 POST BALANCE SHEET EVENTS

#### Revolving loan facility

In April 2009, the Bank signed an amended and restated agreement on the floating rate revolving loan facility. With the exception of the interest rate, all the other terms and conditions remain the same.