

BAHRAIN MIDDLE EAST BANK BSC
INTERIM FINANCIAL INFORMATION
30 JUNE 2011



The legal name of BMB Investment Bank is Bahrain Middle East Bank BSC.

BAHRAIN MIDDLE EAST BANK BSC

**Interim financial information
for the six months ended 30 June 2011**

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Independent auditors' report on review of interim financial information

10 August 2011

The Board of Directors
Bahrain Middle East Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bahrain Middle East Bank BSC (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2011, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended ("the interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim 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 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.

Conclusion

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

BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

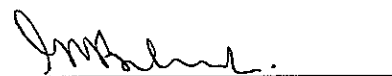
(United States Dollars thousands)

	Note	30 June 2011 (reviewed)	31 December 2010 (audited)
Assets			
Cash and cash equivalents		4,933	8,923
Placement with financial institutions	4	10,200	10,306
Trading securities		4,354	5,794
Available-for-sale investments	5	30,660	30,451
Held-to-maturity investments		4,621	4,614
Loans and advances	6	14,613	12,133
Other assets		2,095	1,939
Total assets		71,476	74,160
Liabilities			
Deposit from a financial institution		3,000	3,000
Deposits from customers	7	12,101	17,249
Revolving loan facility		9,389	9,600
Other liabilities		3,923	5,970
Unclaimed dividends		2,736	3,224
Subordinated loan		10,000	10,000
Total liabilities		41,149	49,043
Equity			
Share capital		54,955	54,955
Advanced towards share-capital	9	5,000	-
Legal reserve		16,954	16,954
General reserve		7,521	7,521
Accumulated losses		(57,070)	(59,074)
Fair value reserve		2,967	4,761
Total equity		30,327	25,117
Total liabilities and equity		71,476	74,160

This interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 10 August 2011 and signed on its behalf by:



Sheikh Abdullah A. K. Al Sabah
Vice Chairman



Ebrahim A. S Bu Hendi
Director



Akbar A. Habib
Chief Executive Officer and Member of the Board

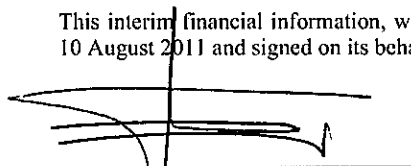
BAHRAIN MIDDLE EAST BANK BSC

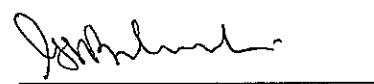
CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2011


(United States Dollars thousands)

	Note	Six months ended		Three months ended	
		30 June 2011 (reviewed)	30 June 2010 (reviewed)	30 June 2011 (reviewed)	30 June 2010 (reviewed)
Income/(loss) from trading securities		1,281	(36)	992	(184)
Income / (loss) from sale of available-for-sale investments		1,846	1,011	764	(902)
Foreign exchange translation gain		593	667	56	310
Fees and commission income		1,385	75	682	-
Interest income		696	530	324	262
Other income	8	658	6,261	556	5,265
Total income		6,459	8,508	3,374	4,751
Staff expenses		(1,614)	(1,880)	(734)	(905)
Premises expenses		(381)	(424)	(185)	(216)
Interest expense		(1,010)	(1,140)	(466)	(601)
Other operating expenses		(1,450)	(743)	(850)	(388)
Total expenses		(4,455)	(4,187)	(2,235)	(2,110)
Profit before provisions		2,004	4,321	1,139	2,641
Impairment provisions on investments		-	(184)	-	(156)
Profit for the period		2,004	4,137	1,139	2,485
Basic and diluted earnings per share		USD 0.01	USD 0.02	USD 0.01	USD 0.01

This interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 10 August 2011 and signed on its behalf by:


Sheikh Abdullah A.K. Al Sabah
Vice Chairman


Ebrahim A. S Bu Hendi
Director


Akbar A. Habib
Chief Executive Officer and Member of the Board

BAHRAIN MIDDLE EAST BANK BSC**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the six months ended 30 June 2011

(United States Dollars thousands)

	Six months ended		Three months ended	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	(reviewed)	(reviewed)	(reviewed)	(reviewed)
Profit for the period	2,004	4,137	1,139	2,485
Other comprehensive income:				
Fair value reserves (Available for sale investments):				
Net amount transferred to income statement	(1,846)	(1,011)	(764)	350
Net changes in fair value	52	(2,775)	(551)	(2,076)
Other comprehensive income for the period	(1,794)	(3,786)	(1,315)	(1,726)
Total comprehensive income for the period	210	351	(176)	759

The interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011**

(United States Dollars thousands)

2011 (reviewed)	Share capital	Advance towards share capital	Legal reserve	General reserve	Accumulated losses	Fair value reserve	Total equity
Balance at 1 January	54,955	-	16,954	7,521	(59,074)	4,761	25,117
Total comprehensive income for the period:							
Profit for the period	-	-	-	-	2,004	-	2,004
<u>Other comprehensive income</u>							
Fair value reserves (Available for sale investments):							
Net amount transferred to income statement	-	-	-	-	-	(1,846)	(1,846)
Net changes in fair value	-	-	-	-	-	52	52
Other comprehensive income	-	-	-	-	-	(1,794)	(1,794)
Total comprehensive income for the period				-	2,004	(1,794)	210
Advance towards proposed share capital	-	5,000	-	-	-	-	5,000
Balance at 30 June	54,955	5,000	16,954	7,521	(57,070)	2,967	30,327
2010 (reviewed)	Share capital		Legal reserve	General reserve	Accumulated losses	Fair value reserve	Total equity
Balance at 1 January	54,955		16,310	7,521	(64,870)	9,745	23,661
Total comprehensive income for the period:							
Profit for the period	-		-	-	4,137	-	4,137
<u>Other comprehensive income</u>							
Fair value reserves (Available for sale investments):							
Net amount transferred to income statement	-		-	-	-	(1,011)	(1,011)
Net changes in fair value	-		-	-	-	(2,775)	(2,775)
Other comprehensive income	-		-	-	-	(3,786)	(3,786)
Total comprehensive income for the period				-	4,137	(3,786)	351
Balance at 30 June	54,955		16,310	7,521	(60,733)	5,959	24,012

The interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2011**

(United States Dollars thousands)

	Six months ended	
	30 June 2011 (reviewed)	30 June 2010 (reviewed)
Cash flow from operating activities		
Profit for the period	2,004	4,137
<u>Adjustments for:</u>		
Impairment provisions on investments	-	184
Depreciation	105	121
Foreign currency movement	(7)	19
<u>Changes in operating assets and liabilities:</u>		
Trading securities	1,440	861
Available-for-sale investments	(2,003)	(5,204)
Loans and advances	(2,480)	-
Other assets	(246)	1,229
Other liabilities	(1,746)	1,188
Deposits from customers	(5,148)	(3,027)
Deposit from a financial institution	-	2,500
Placement with financial institutions	106	-
Net cash (used in)/ from operating activities	(7,975)	531
Cash flow from investing activities		
Purchase of equipment	(15)	(61)
Net cash used in investing activities	(15)	(61)
Cash flow from financing activities		
Repayment of loans and advances	-	1,804
Repayment of revolving loan principal	(1,000)	-
Advance received towards share capital	5,000	-
Net cash from financing activities	4,000	1,804
Net (decrease)/increase in cash and cash equivalents	(3,990)	4,774
Cash and cash equivalents at 1 January	8,923	3,425
Cash and cash equivalents at 30 June	4,933	8,199

The interim financial information consists of pages 3 to 11.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

(United States Dollars thousands)

1. Basis of preparation

The interim financial information comprise the interim financial information of Bahrain Middle East Bank BSC (the “Bank”) and its subsidiaries (together the “Group”) and has been prepared in a condensed form in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

The accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are consistent with those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2010, except for the changes arising from adoption of relevant revised IFRS, amendments and interpretations issued by IASB that are effective for annual reporting periods beginning 1 January 2011. The adoption of these standards did not have an impact on the interim financial information. The Group’s financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2010.

2. The interim financial information is not audited but has been reviewed. The corresponding figures for the condensed consolidated statement of financial position have been extracted from audited consolidated financial statements for the year ended 31 December 2010. The corresponding figures for the condensed consolidated income statement, statements of comprehensive income, changes in equity and cash flows have been extracted from the reviewed interim financial information for the six months ended 30 June 2010.
3. Due to the nature of the Group’s business, the six months results reported in this interim financial information may not represent a proportionate share of the overall annual results.

4. Placement with financial institutions

Placement with Financial Institutions include US\$ 5,200 thousand (31 December 2010: US\$ 5,300 thousand) placed with a third party retail Bank in the Kingdom of Bahrain - representing amounts held on account of sub-participants in Private Equity Funds and for the purposes of honoring their capital calls to fund managers.

5. Available-for-sale investments

	30 June 2011 (reviewed)	31 December 2010 (audited)
Unquoted equity fund investments - at fair value	27,892	29,741
Unquoted equity investments - at cost less impairment	712	710
Quoted equity investments - at fair value	2,056	-
	<u>30,660</u>	<u>30,451</u>

Commitments

At 30 June 2011, the Bank had undrawn investment commitments to private equity funds of USD 11.3 million (31 December 2010: USD 12.6 million). Of this, proprietary commitments amounted to USD 6.3 million (31 December 2010: USD 7.4 million). 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 contrary to Shari’ah principles where the Bank is a co-investor with its clients who apply Shari’ah principles to their investment activity.

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

(United States Dollars thousands)

6. Loans and advances

	30 June 2011 (reviewed)	31 December 2010 (audited)
Instalment sale receivable	11,261	11,261
Trade finance	2,480	-
Other	872	872
	14,613	12,133

7. Deposits from customers

	30 June 2011 (reviewed)	31 December 2010 (audited)
Customer participation in funds	4,996	5,215
Quasi government entities, corporate and individuals	6,338	10,845
Others	767	1,189
	12,101	17,249

Customer participation in funds represents amounts received from customers to be invested in private equity funds marketed by the Bank. 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. These amounts have been segregated and placed with a third party retail Bank in the Kingdom of Bahrain.

8. Other income

	Six months ended	
	30 June 2011	30 June 2010
Provisions written back	479	927
Forfeiture of customer's assets	-	5,153
Others	179	181
	658	6,261

9. Advance towards share capital

This advance represents amounts provided by the Bank's existing major shareholder towards the Bank's ongoing capital raising effort - for which it plans to issue new shares.

10. Related party transactions & balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank.

- a. The transactions and balances with the related parties included in this interim financial information are as follows:

	30 June 2011 (reviewed)	31 December 2010 (audited)
Statement of financial position		
Deposits from related parties	101	94

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

(United States Dollars thousands)

10 Related party transactions & balances (continued)

	Six months ended	
	30 June 2011	30 June 2010
	(reviewed)	(reviewed)
Income statement		
Interest expense on deposits from related parties	-	1

- b. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the Board of Directors, Chief Executive Officer, Head of Business development and Chief Financial Officer. The key management personnel compensation is as follows:

	30 June 2011	30 June 2010
	(reviewed)	(reviewed)
Income statement		
Directors' remuneration	27	22
Salaries and other short-term benefits	536	531
Post employment benefits	18	16

11. Segment results

Six months ended 30 June 2011	Trading activity	Investing activity	Other Operating segments	Total
Income from investments	1,281	1,846	-	3,127
Foreign exchange translation income	-	593	-	593
Fees and commission income	-	-	1,385	1,385
Other income	-	-	179	179
Interest income	228	133	335	696
Interest expense	(8)	(78)	(924)	(1,010)
Results from operations before impairment	1,501	2,494	975	4,970
Impairment provisions	-	-	-	-
Unallocated other income	-	-	-	479
Unallocated corporate expenses	-	-	-	(3,445)
Net income for the period				2,004
Six months ended 30 June 2010	Trading activity	Investing activity	Other Operating segments	Total
Income/(loss) from investments	(36)	1,011	-	975
Foreign exchange translation income	-	667	-	667
Fees and commission income	-	-	75	75
Other income	-	5,334	-	5,334
Interest income	129	2	399	530
Interest expense	(13)	(103)	(1,024)	(1,140)
Results from operations before impairment	80	6,911	(550)	6,441
Impairment provisions	-	(184)	-	(184)
Unallocated other income	-	-	-	927
Unallocated corporate expenses	-	-	-	(3,047)
Net income for the period				4,137

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

(United States Dollars thousands)

11 Segment results (continued)

During the six months period there have been no changes in the segments identified as set out in the audited consolidated financial statements of the Group as at and for the year ended 31 December 2010.

12. Off balance sheet items

The following were the off-balance sheet items as at 30 June 2011:

	30 June 2011 (reviewed)	31 December 2010 (audited)
Undrawn investment commitments in other equities and funds	11,350	12,655
Funds under management	84,745	85,350

13. Appropriations, if any, will be made only at the year end.

14. Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.