

**BAHRAIN MIDDLE EAST BANK BSC**  
**INTERIM FINANCIAL INFORMATION**  
**31 MARCH 2011**



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

**BAHRAIN MIDDLE EAST BANK BSC**

**Interim financial information  
for the three months ended 31 March 2011**

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## **Independent auditors' report on review of interim financial information**

4 May 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 31 March 2011, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three 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*.

### **Emphasis of matter**

Without qualifying our conclusion, we draw attention to note 1 to the interim financial information which discusses material uncertainties relating to the Group's financial position, which may cast significant doubt about the appropriateness of the going concern assumption used in the preparation of the interim financial information. The management's plans to deal with these issues are set out in note 1 to the interim financial information.

**BAHRAIN MIDDLE EAST BANK BSC**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 31 March 2011

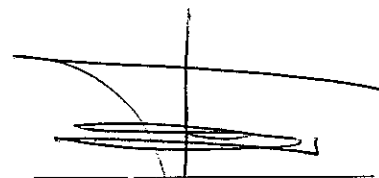
(United States Dollars thousands)

	Note	31 March 2011 (reviewed)	31 December 2010 (audited)
<b>Assets</b>			
Cash and cash equivalents		5,877	8,923
Placement with financial institutions	4	9,831	10,306
Trading securities		6,420	5,794
Available-for-sale investments	5	29,539	30,451
Held-to-maturity investments		4,621	4,614
Loans and advances		12,133	12,133
Other assets		2,283	1,939
<b>Total assets</b>		<b>70,704</b>	<b>74,160</b>
<b>Liabilities</b>			
Deposit from a financial institution		3,000	3,000
Deposits from customers	6	14,451	17,249
Revolving loan facility		10,389	9,600
Other liabilities		4,173	5,970
Unclaimed dividends		3,188	3,224
Subordinated loan		10,000	10,000
<b>Total liabilities</b>		<b>45,201</b>	<b>49,043</b>
<b>Equity</b>			
Share capital		54,955	54,955
Legal reserve		16,954	16,954
General reserve		7,521	7,521
Accumulated losses		(58,209)	(59,074)
Fair value reserve		4,282	4,761
<b>Total equity</b>		<b>25,503</b>	<b>25,117</b>
<b>Total liabilities and equity</b>		<b>70,704</b>	<b>74,160</b>

This interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 4 May 2011 and signed on its behalf by:



Wilson S. Benjamin  
Chairman



Sheikh Abdulla A.K. Al Sabah  
Vice Chairman



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


BAHRAIN MIDDLE EAST BANK BSC

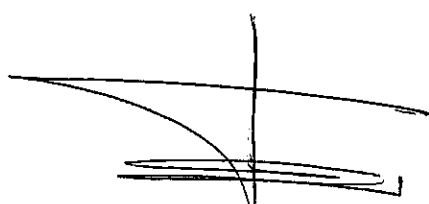
CONDENSED CONSOLIDATED INCOME STATEMENT  
for the three months ended 31 March 2011


(United States Dollars thousands)

	Note	Three months ended	
		31 March 2011 (reviewed)	31 March 2010 (reviewed)
Income from trading securities		289	148
Income from sale of available-for-sale investments		1,082	1,913
Foreign exchange translation gain		537	357
Fees and commission income		703	75
Interest income		372	268
Other income	7	102	996
<b>Total income</b>		<b>3,085</b>	<b>3,757</b>
Staff expenses		(880)	(975)
Premises expenses		(196)	(208)
Interest expense		(544)	(539)
Other expenses		(600)	(355)
<b>Total expenses</b>		<b>(2,220)</b>	<b>(2,077)</b>
<b>Profit before provisions</b>		<b>865</b>	<b>1,680</b>
Impairment provisions on investments		-	(28)
<b>Profit for the period</b>		<b>865</b>	<b>1,652</b>
<b>Basic and diluted earnings per share</b>		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 4 May 2011 and signed on its behalf by:

  
Wilson S. Benjamin  
Chairman

  
Sheikh Abdulla A.K. Al Sabah  
Vice Chairman

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

**BAHRAIN MIDDLE EAST BANK BSC****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the three months ended 31 March 2011** (United States Dollars thousands)

	<b>Three months ended</b>	
	<b>31 March 2011 (reviewed)</b>	<b>31 March 2010 (reviewed)</b>
<b>Profit for the period</b>	<b>865</b>	<b>1,652</b>
<b>Other comprehensive income:</b>		
Fair value reserves (Available for sale investments):		
Net amount transferred to income statement	(1,082)	(1,913)
Net changes in fair value	603	(147)
Other comprehensive income for the period	(479)	(2,060)
<b>Total comprehensive income for the period</b>	<b>386</b>	<b>(408)</b>

The interim financial information consists of pages 3 to 11.

**BAHRAIN MIDDLE EAST BANK BSC**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the three months ended 31 March 2011**

(United States Dollars thousands)

2011 (reviewed)	<u>Share capital</u>	<u>Legal Reserve</u>	<u>Accumulated losses</u>	<u>Fair value Reserve</u>	<u>General reserve</u>	<u>Total equity</u>
Balance at 1 January	54,955	16,954	(59,074)	4,761	7,521	25,117
Profit for the period	-	-	865	-	-	865
<u>Other comprehensive income</u>						
Fair value reserves (Available for sale investments):						
Net amount transferred to income statement	-	-	-	(1,082)	-	(1,082)
Net change in fair value	-	-	-	603	-	603
Total other comprehensive income	-	-	-	(479)	-	(479)
Total comprehensive income for the period	-	-	865	(479)	-	386
<b>Balance at 31 March</b>	<b>54,955</b>	<b>16,954</b>	<b>(58,209)</b>	<b>4,282</b>	<b>7,521</b>	<b>25,503</b>
2010 (reviewed)	<u>Share capital</u>	<u>Legal reserve</u>	<u>Accumulated losses</u>	<u>Fair value Reserve</u>	<u>General reserve</u>	<u>Total equity</u>
Balance at 1 January	54,955	16,310	(64,870)	9,745	7,521	23,661
Profit for the period	-	-	1,652	-	-	1,652
<u>Other comprehensive income</u>						
Fair value reserves (Available for sale investments):						
Net amount transferred to income statement	-	-	-	(1,913)	-	(1,913)
Net change in fair value	-	-	-	(147)	-	(147)
Total other comprehensive income	-	-	-	(2,060)	-	(2,060)
Total comprehensive income for the period	-	-	1,652	(2,060)	-	(408)
Balance at 31 March	54,955	16,310	(63,218)	7,685	7,521	23,253

The interim financial information consists of pages 3 to 11.

**BAHRAIN MIDDLE EAST BANK BSC**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
for the three months ended 31 March 2011**

(United States Dollars thousands)

	<b>Three months ended</b>	
	<b>31 March 2011 (reviewed)</b>	<b>31 March 2010 (reviewed)</b>
<b>Cash flow from operating activities</b>		
Profit for the period	865	1,652
<u>Adjustments for:</u>		
Impairment provisions on investments	-	28
Depreciation	55	60
<u>Changes in operating assets and liabilities:</u>		
Trading securities	(626)	(140)
Available-for-sale investments	432	782
Held-to-maturity investments	(7)	16
Other assets	(384)	(376)
Other liabilities	(1,008)	(613)
Placement in financial institutions	475	-
Deposits from customers	(2,798)	(237)
<b>Net cash (used in) / from operating activities</b>	<b>(2,996)</b>	<b>1,172</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(14)	(47)
<b>Net cash used in investing activities</b>	<b>(14)</b>	<b>(47)</b>
<b>Cash flow from financing activities</b>		
Prior year dividends claimed and paid	(36)	-
<b>Net cash used in financing activities</b>	<b>(36)</b>	<b>-</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(3,046)</b>	<b>1,125</b>
Cash and cash equivalents at 1 January	8,923	3,425
<b>Cash and cash equivalents at 31 March</b>	<b>5,877</b>	<b>4,550</b>

The interim financial information consists of pages 3 to 11.



## BAHRAIN MIDDLE EAST BANK BSC

### NOTES TO THE INTERIM FINANCIAL INFORMATION for the three months ended 31 March 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.

#### *Going concern*

The Group has accumulated losses as at 31 March 2011 amounting to USD 58,209 thousands (31 December 2010: USD 59,074 thousands), which exceeds the Group's issued and paid up share capital by USD 3,254 thousands (31 December 2010: USD 4,119 thousand). This raises doubt about the Group's ability to continue as a going concern.

However, the Bank's Board of Directors and management point out that this shortfall has been 'consistently reduced since 2009' supported by positive net operating performances, and further expected positive net operating results will help further reduce if not completely eliminate this shortfall. Initiatives currently underway include (a) Further efforts underway and expected to be taken such as gradually increase the Bank's capital to meet the Central Bank of Bahrain's capital requirement, (b) success in already rescheduling debt repayments with key creditors and further expected to be taken, (c) overall improvements in private equity activity and, importantly, (d) the Bank's successful efforts in venturing into several key new business lines will all help strengthen the Bank's overall liquidity status and contribute towards meeting the funding requirements of the Group.

Taking into account the above factors, the Group's interim financial information as at 31 March 2011 has been prepared on a going concern basis.

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 three months ended 31 March 2010.
3. Due to the nature of the Group's business, the three 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

	<b>31 March 2011 (reviewed)</b>	31 December 2010 (audited)
Unquoted equity fund investments - at fair value	28,829	29,741
Unquoted equity investments - at cost less impairment	710	710
	<u><b>29,539</b></u>	<u><b>30,451</b></u>

**BAHRAIN MIDDLE EAST BANK BSC**

**NOTES TO THE INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2011**

(United States Dollars thousands)

5 *Available-for-sale investments (continued)*

*Commitments*

At 31 March 2011, the Bank had undrawn investment commitments to private equity funds of USD 12.2 million (31 December 2010: USD 12.7 million). Of this, proprietary commitments amounted to USD 7.0 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.

6. **Deposits from customers**

	<b>31 March 2011 (reviewed)</b>	31 December 2010 (audited)
Customers participating in funds	5,025	5,215
Quasi government entities, corporate and individuals	8,573	10,845
Others	<u>853</u>	<u>1,189</u>
	<b><u>14,451</u></b>	<b><u>17,249</u></b>

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.

7. **Other income**

	<b>Three months ended</b>	
	<b>31 March 2011</b>	31 March 2010
Over provisions written back	-	927
Others	<u>102</u>	<u>69</u>
	<b><u>102</u></b>	<b><u>996</u></b>

8. **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:

	<b>31 March 2011 (reviewed)</b>	31 December 2010 (audited)
<b>Statement of financial position</b>		
Deposits from key management personnel	84	94

**BAHRAIN MIDDLE EAST BANK BSC**

**NOTES TO THE INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2011**

(United States Dollars thousands)

7 *Related party transactions & balances (continued)*

	<b>Three months ended</b>	
	<b>31 March 2011</b>	31 March 2010
	<b>(reviewed)</b>	(reviewed)
<b>Income statement</b>		
Interest expense on deposits from customers	-	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:

	<b>31 March 2011</b>	31 March 2010
	<b>(reviewed)</b>	(reviewed)
<b>Income statement</b>		
Directors' remuneration	15	15
Salaries and other short-term benefits	254	257
Post employment benefits	8	8

9. **Segment results**

<b>Three months ended 31 March 2011</b>	<b>Trading activity</b>	<b>Investing activity</b>	<b>Other Operating segments</b>	<b>Total</b>
Income from investments	289	1,082	-	1,371
Foreign exchange translation income	-	537	-	537
Fees and commission income	-	-	703	703
Other income	-	-	90	90
Interest income	149	70	153	372
Interest expense	(4)	(42)	(498)	(544)
Results from operations before impairment	434	1,647	448	2,529
Unallocated other income	-	-	-	12
Unallocated corporate expenses	-	-	-	(1,676)
<b>Net income for the period</b>				<b>865</b>
<b>Three months ended 31 March 2010</b>	<b>Trading activity</b>	<b>Investing activity</b>	<b>Other Operating segments</b>	<b>Total</b>
Income from investments	148	1,913	-	2,061
Foreign exchange translation income	-	357	-	357
Fees and commission income	-	-	75	75
Other income	-	-	69	69
Interest income	-	63	205	268
Interest expense	(4)	(51)	(484)	(539)
Results from operations before impairment	144	2,282	(135)	2,291
Impairment provisions	-	-	-	(28)
Unallocated other income	-	-	-	927
Unallocated corporate expenses	-	-	-	(1,538)
<b>Net income for the period</b>				<b>1,652</b>

**BAHRAIN MIDDLE EAST BANK BSC**

**NOTES TO THE INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2011**

(United States Dollars thousands)

9 *Segment results (continued)*

During the three 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.

10. **Subsequent events**

Subsequent to the reporting date;

- a) The Group has completed the restructuring of its revolving loan facility. The loan which had an original maturity of 15 December 2011, has been rescheduled to be paid over a period of two years, maturing on 15 March 2013.
- b) An existing major shareholder has made a firm commitment to invest a minimum of USD 5 million in the form of new equity capital which is expected to come into fruition by 30 June 2011.

11. **Off balance sheet items**

The following were the off-balance sheet items as at 31 March 2011:

	<b>31 March 2011 (reviewed)</b>	31 December 2010 (audited)
Undrawn investment commitments in other equities and funds	12,200	12,655
Funds under management	84,245	85,350

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

13. 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.