

Bahrain Middle East Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2017 (Reviewed)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Middle East Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 31 March 2017, comprising of the interim condensed consolidated statement of financial position as at 31 March 2017 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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. Consequently, it 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 statements are not prepared, in all material respects, in accordance with IAS 34.



Partner's registration no. 115
26 April 2017
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2017 (Reviewed)

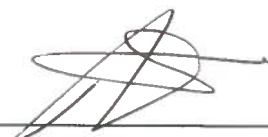
		<i>Reviewed</i> 31 March 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
ASSETS			
Balances with banks and financial institutions		20,490	40,374
Treasury bills and placements with financial institutions		13,258	4,207
Investments at fair value through profit or loss		705	1,149
Loans and advances	3	131,730	123,958
Available-for-sale investments	4	4,066	5,021
Held-to-maturity investment		183	179
Other assets		2,632	2,464
TOTAL ASSETS		173,064	177,352
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial institutions		126,673	126,567
Deposits from customers		4,197	8,405
Other liabilities		1,769	2,443
Total liabilities		132,639	137,415
EQUITY			
Share capital		60,501	60,501
Accumulated losses		(20,076)	(21,481)
Fair value reserve		-	917
Total equity		40,425	39,937
TOTAL LIABILITIES AND EQUITY		173,064	177,352



Wilson S Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Ritchie Skelding
Chief Executive Officer

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three-month period ended 31 March 2017 (Reviewed)

	Note	Three-month period ended 31 March	
		2017	2016
		US\$ '000	US\$ '000
OPERATING INCOME			
Interest income		2,813	2,572
Interest expense		(63)	(339)
Net interest income		2,750	2,233
Investment banking (loss) income	6	(18)	419
Other income		34	82
Foreign exchange gain (loss)		14	(8)
Total operating income		2,780	2,726
OPERATING EXPENSES			
Staff expenses		963	777
Premises expenses		84	85
Other operating expenses		289	244
Total operating expenses		1,336	1,106
NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISIONS			
		1,444	1,620
Impairment provisions - net	5	(39)	(133)
NET PROFIT FOR THE PERIOD		1,405	1,487
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)			
		0.58	0.61



Wilson S Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Ritchie Skelding
Chief Executive Officer

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2017 (Reviewed)

	<i>Three-month period ended 31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
NET PROFIT FOR THE PERIOD	1,405	1,487
Other comprehensive loss:		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Fair value reserves (available-for-sale investments):		
Net amount transferred to statement of income on sale/impairment	-	(29)
Net changes in fair value during the period	(917)	(449)
Total other comprehensive loss for the period	(917)	(478)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	488	1,009

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2017 (Reviewed)

	Note	Three-month period ended 31 March	
		2017 US\$ '000	2016 US\$ '000
OPERATING ACTIVITIES			
Net profit for the period		1,405	1,487
Adjustments for:			
Impairment provisions - net	5	39	133
Depreciation and amortisation		9	14
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		444	(1,307)
Loans and advances		(7,772)	(8,749)
Available-for-sale investments		(1)	108
Held-to-maturity investment		(4)	7
Other assets		(177)	(110)
Deposits from financial institutions		106	242
Deposits from customers		(4,208)	(1,096)
Other liabilities		(674)	(348)
Net cash used in operating activities		(10,833)	(9,619)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(10,833)	(9,619)
Cash and cash equivalents at 1 January		44,581	48,371
CASH AND CASH EQUIVALENTS AT 31 MARCH		33,748	38,752
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		20,490	14,822
Treasury bills and placements with financial institutions with original maturities of three months or less		13,258	23,930
		33,748	38,752

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2017 (Reviewed)

	<i>Share capital US\$ '000</i>	<i>Accumulated losses US\$ '000</i>	<i>Fair value reserve US\$ '000</i>	<i>Total equity US\$ '000</i>
Balance at 1 January 2017	60,501	(21,481)	917	39,937
Total comprehensive income (loss) for the period	-	1,405	(917)	488
Balance at 31 March 2017	60,501	(20,076)	-	40,425
Balance at 1 January 2016	60,501	(26,554)	1,315	35,262
Total comprehensive income (loss) for the period	-	1,487	(478)	1,009
Balance at 31 March 2016	60,501	(25,067)	837	36,271

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

1 INCORPORATION AND ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain. On 9 April 2007, the Central Bank of Bahrain ("the CBB") issued a Conventional Wholesale Banking license to the Bank. The commercial registration ("CR") number of the Bank is 12266. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. The principal activities of the Bank and its subsidiaries (together "the Group") are trade finance and corporate advisory in the digital media and e-commerce sectors.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 26 April 2017.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2017 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. In addition, results for the three-month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

2.2 Significant accounting policies

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 consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective for annual period beginning on or after as of 1 January 2017.

The below new standards and amendments apply for the first time in 2017. However, they do not have a material impact on the interim condensed consolidated financial statements of the Group:

- *IAS 7 Disclosure Initiative - Amendments*
- *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments*
- *IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12*

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts from Customers*
- *IFRS 16 Leases*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

3 LOANS AND ADVANCES

	<i>Reviewed</i> 31 March 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Trade finance	126,633	118,861
Installment sale receivable (refer note 7)	3,533	3,533
Corporate loan (refer note 7)	3,000	3,000
	133,166	125,394
Less: Provision for loan losses	(1,436)	(1,436)
	131,730	123,958

The breakup of provision for loan losses is as follows:

	<i>Reviewed</i> 31 March 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Collective impairment provision	1,436	1,436

4 AVAILABLE-FOR-SALE INVESTMENTS

	<i>Reviewed</i> 31 March 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
<i>Equity and managed funds investments:</i>		
Unquoted equity fund investments	4,066	5,021

5 IMPAIRMENT PROVISIONS

	31 March 2017 (Reviewed)		
	<i>Loans and advances</i> US\$ '000	<i>Available- for-sale investments</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2017	1,436	3,000	4,436
Charge for the period	-	39	39
At 31 March 2017	1,436	3,039	4,475
	31 March 2016 (Reviewed)		
	<i>Loans and advances</i> US\$ '000	<i>Available- for-sale investments</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2016	2,936	10,813	13,749
Charge for the period	-	133	133
Written-off	-	(7,153)	(7,153)
Foreign exchange movements	-	52	52
At 31 March 2016	2,936	3,845	6,781
At 31 December 2016	1,436	3,000	4,436

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

6 INVESTMENT BANKING (LOSS) INCOME

	<i>Reviewed 31 March 2017 US\$ '000</i>	<i>Reviewed 31 March 2016 US\$ '000</i>
Fee and commission income	25	424
Gain from available-for-sale investments - net	59	34
Loss from investments at fair value through profit or loss - net	(102)	(39)
	<u>(18)</u>	<u>419</u>

7 RELATED PARTY TRANSACTIONS AND 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, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the period and balances at period-end are set out below:

All related party transactions are on terms equivalent to arm's length transactions and are approved by the Board of Directors.

	<i>Key management personnel</i>		<i>Shareholders and their related parties</i>	
	<i>Reviewed 31 March 2017 US\$ '000</i>	<i>Audited 31 December 2016 US\$ '000</i>	<i>Reviewed 31 March 2017 US\$ '000</i>	<i>Audited 31 December 2016 US\$ '000</i>
Assets				
Loans and advances	-	-	3,000	-
Liabilities				
Deposits	-	-	1,229	139
Other liabilities - employee leaving indemnity	233	225	-	-
Statement of income				
Interest income	-	-	66	-
Investment banking income	-	-	-	11

Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

	<i>Reviewed 31 March 2017 US\$ '000</i>	<i>Reviewed 31 March 2016 US\$ '000</i>
Salaries and other short-term employee benefits	678	421
Employee leaving indemnity	9	7
	<u>687</u>	<u>428</u>
Directors' fees	<u>28</u>	<u>28</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**Guarantee**

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable (refer note 3), and an additional guarantee from an associate of the shareholder.

8 SEGMENT RESULTS**Segment information**

For management purposes, the Group is organised into three major business segments:

Financing	- Financing and trade finance
Investing	- Investments in listed bonds, equities and private equity funds
Other operating segments	- Corporate advisory and building management etc.

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

Segment information for the period ended 31 March 2017 is as follows:

	<i>Three-month period ended 31 March 2017 (Reviewed)</i>			
	<i>Financing</i>	<i>Investing</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest income	2,812	1	-	2,813
Interest expense	(63)	-	-	(63)
Investment banking income	-	(43)	25	(18)
Other income	-	-	34	34
Foreign exchange gain	-	-	14	14
Results from operations	2,749	(42)	73	2,780
Impairment provisions - net (note 5)	-	(39)	-	(39)
Unallocated corporate expenses	-	-	-	(1,336)
Net profit (loss) for the period	2,749	(81)	73	1,405
Reportable segment assets	167,766	4,954	344	173,064
Reportable segment liabilities	131,107	-	1,532	132,639
Equity				40,425
Total liabilities and equity				173,064

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

8 SEGMENT RESULTS (continued)

Segment information for the period ended 31 March 2016 is as follows:

	<i>Three-month period ended 31 March 2016 (Reviewed)</i>			
	<i>Financing</i>	<i>Investing</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest income	2,538	34	-	2,572
Interest expense	(339)	-	-	(339)
Investment banking income	169	(5)	255	419
Other income	-	-	82	82
Foreign exchange loss	-	-	(8)	(8)
Results from operations	2,368	29	329	2,726
Impairment provisions - net (note 5)	-	(133)	-	(133)
Unallocated corporate expenses	-	-	-	(1,106)
Net profit (loss) for the period	2,368	(104)	329	1,487
Reportable segment assets	160,335	10,520	824	171,679
Reportable segment liabilities	134,225	-	1,183	135,408
Equity				36,271
Total liabilities and equity				171,679

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss and available-for-sale investments. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value:

<i>Three-month period ended 31 March 2017 (Reviewed)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investments at fair value through profit or loss	476	-	229	705	705
Available-for-sale investments	-	-	4,066	4,066	4,066
<i>Financial assets not measured at fair value:</i>					
Held-to-maturity investment	-	-	151	151	183
<i>31 December 2016 (Audited)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investments at fair value through profit or loss	849	-	300	1,149	1,149
Available-for-sale investments	-	-	5,021	5,021	5,021
<i>Financial assets not measured at fair value:</i>					
Held-to-maturity investment	-	-	149	149	179

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, treasury bills and placements with financial institutions, loans and advances and other assets, and financial liabilities comprising of deposits from financial institutions, deposits from customers and other liabilities approximate their carrying amounts.

For held-to-maturity investment, fair value is lower than the carrying amount; however this shortfall in fair value is not relevant except in a forced sale situation since the Bank has the intention to hold held-to-maturity investment until maturity when it would recover full nominal amount.

The fair value of held-to-maturity investment is based on last quoted market prices at the reporting date or on the present value of future cash flows.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 fair value hierarchy of investments:

	<i>Reviewed</i> 31 March 2017 <i>US\$ '000</i>	<i>Audited</i> 31 December 2016 <i>US\$ '000</i>
At 1 January	5,321	7,036
Net fair value movement	(988)	(184)
Additions	22	5
Exits (at cost)	(21)	(895)
Impairment / fair value transferred to statement of income on disposals	(39)	(641)
	4,295	5,321

Level 3 available-for-sale investments represent private equity funds where the underlying fund managers exercise judgements in valuation of investments.

During the period, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

10 COMMITMENTS AND CONTINGENT LIABILITIES

The outstanding commitments and contingent liabilities of the Group are as follows:

	<i>Reviewed</i> 31 March 2017 <i>US\$ '000</i>	<i>Audited</i> 31 December 2016 <i>US\$ '000</i>
Undrawn investment commitments in equity funds	3,295	4,522
Other commitments	2,579	2,579
Assets under management	6,326	7,227