

Bahrain Middle East Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

31 March 2015 (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 2015, comprising of the interim consolidated statement of financial position as at 31 March 2015 and the related interim 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.



5 May 2015
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 March 2015 (Reviewed)


	<i>Note</i>	<i>Reviewed</i> 31 March <i>2015</i> US\$ '000	<i>Audited</i> 31 December <i>2014</i> US\$ '000
ASSETS			
Balances with banks and financial institutions		9,940	13,139
Placements with financial institutions		21,308	30,469
Investments at fair value through profit or loss		571	588
Loans and advances	3	129,867	117,014
Available-for-sale investments	4	7,915	8,794
Held-to-maturity investments		215	227
Other assets		2,657	2,613
TOTAL ASSETS		172,473	172,844
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial institutions		124,249	124,778
Deposits from customers		14,245	15,027
Other liabilities		1,914	2,035
Total liabilities		140,408	141,840
EQUITY			
Share capital		60,501	60,501
Accumulated losses		(30,230)	(31,633)
Fair value reserve		1,794	2,136
Total equity		32,065	31,004
TOTAL LIABILITIES AND EQUITY		172,473	172,844



Wilson S Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Ritchie Skelding
Chief Executive Officer

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three-month period ended 31 March 2015 (Reviewed)

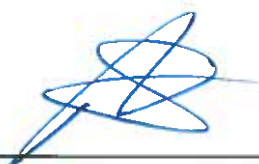
	Note	Three-month period ended 31 March	
		2015	2014
		US\$ '000	US\$ '000
OPERATING INCOME			
Interest income		2,652	2,315
Interest expense		(336)	(262)
Net interest income		2,316	2,053
Investment banking income	6	284	929
Other income		93	55
Foreign exchange gain (loss)		81	(5)
Total operating income		2,774	3,032
OPERATING EXPENSES			
Staff expenses		772	718
Premises expenses		88	112
Other operating expenses		306	512
Total operating expenses		1,166	1,342
NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISIONS		1,608	1,690
Impairment provisions - net	5	(205)	(167)
NET PROFIT FOR THE PERIOD		1,403	1,523
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)		0.58	0.63



Wilson S Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Ritchie Skelding
Chief Executive Officer

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2015 (Reviewed)

	<i>Three-month period ended 31 March</i>	
	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
NET PROFIT FOR THE PERIOD	1,403	1,523
Other comprehensive (loss) income:		
Other comprehensive income 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	(27)	(459)
Net changes in fair value during the period	(315)	521
Total other comprehensive (loss) income for the period	(342)	62
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,061	1,585

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2015 (Reviewed)

	Note	Three-month period ended 31 March	
		2015	2014
		US\$ '000	US\$ '000
OPERATING ACTIVITIES			
Net profit for the period		1,403	1,523
Adjustments for:			
Impairment provisions - net	5	205	167
Depreciation and amortisation		11	19
Changes in operating assets and liabilities:			
Placements with financial institutions		-	748
Investments at fair value through profit or loss		17	73
Loans and advances		(12,700)	(10,204)
Available-for-sale investments		179	44
Held-to-maturity investments		12	(3,036)
Other assets		(55)	(168)
Deposits from financial institutions		(529)	56
Deposits from customers		(782)	(517)
Other liabilities		(121)	196
Net cash used in operating activities		(12,360)	(11,099)
FINANCING ACTIVITY			
Repayment of borrowings		-	(3,000)
Net cash used in financing activity		-	(3,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(12,360)	(14,099)
Cash and cash equivalents at 1 January		40,608	37,972
CASH AND CASH EQUIVALENTS AT 31 MARCH		28,248	23,873
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		9,940	4,415
Placements with financial institutions with original maturities of three months or less		18,308	19,458
		28,248	23,873

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2015 (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 2015	60,501	(31,633)	2,136	31,004
Total comprehensive income (loss) for the period	-	1,403	(342)	1,061
Balance at 31 March 2015	60,501	(30,230)	1,794	32,065
Balance at 1 January 2014	60,501	(36,157)	4,352	28,696
Total comprehensive income for the period	-	1,523	62	1,585
Balance at 31 March 2014	60,501	(34,634)	4,414	30,281

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (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 5 May 2015.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2015 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 2014. In addition, results for the three-month period ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

2.2 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter company transactions and balances.

2.3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015 that are applicable to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new amendment applicable to the Group is described below:

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (Reviewed)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 8 in these interim condensed consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of his decision making.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

3 LOANS AND ADVANCES

	<i>Reviewed</i> 31 March 2015 US\$ '000	<i>Audited</i> 31 December 2014 US\$ '000
Trade finance	120,257	107,354
Installment sale receivable (refer note 7)	7,876	7,876
Corporate loan	3,000	3,000
Others	561	850
	131,694	119,080
Less: Provision for loan losses	(1,827)	(2,066)
	129,867	117,014

The breakup of provision for loan losses is as follows:

	<i>Reviewed</i> 31 March 2015 US\$ '000	<i>Audited</i> 31 December 2014 US\$ '000
Specific provision	561	850
Collective provision	1,266	1,216
	1,827	2,066

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (Reviewed)

4 AVAILABLE - FOR - SALE INVESTMENTS

	<i>Reviewed</i> 31 March 2015 US\$ '000	<i>Audited</i> 31 December 2014 US\$ '000
Unquoted equity fund investments	7,381	8,013
Unquoted strategic investments	392	678
Quoted equity investments	142	103
	<u>7,915</u>	<u>8,794</u>

5 IMPAIRMENT PROVISIONS

	<i>31 March 2015 (Reviewed)</i>			
	<i>Loans and advances US\$ '000</i>	<i>Available- for-sale investments US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>
At 1 January 2015	2,066	14,554		16,620
Charge for the period	50	358	-	408
Reversal on recovery / sale	(203)	-	-	(203)
Exchange and other movements	(86)	(182)	-	(268)
At 31 March 2015	<u>1,827</u>	<u>14,730</u>	<u>-</u>	<u>16,557</u>
	<i>31 March 2014 (Reviewed)</i>			
	<i>Loans and advances US\$ '000</i>	<i>Available- for-sale investments US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>
At 1 January 2014	1,077	16,018	1,907	19,002
Charge for the period	-	167	-	167
Written-off	-	-	(1,907)	(1,907)
At 31 March 2014	<u>1,077</u>	<u>16,185</u>	<u>-</u>	<u>17,262</u>
At 31 December 2014	<u>2,066</u>	<u>14,554</u>	<u>-</u>	<u>16,620</u>

6 INVESTMENT BANKING INCOME

	<i>Reviewed</i> 31 March 2015 US\$ '000	<i>Reviewed</i> 31 March 2014 US\$ '000
Gain from available-for-sale investments - net	79	503
Fee and commission income	222	500
Loss from investments at fair value through profit or loss	(17)	(74)
	<u>284</u>	<u>929</u>

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (Reviewed)

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 the period-end are set out below.

	<i>Key management</i>		<i>Other related parties</i>	
	<i>Reviewed</i>	<i>Audited</i>	<i>Reviewed</i>	<i>Audited</i>
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans	6	9	-	-
Deposits	-	-	128	149
Other liabilities - employee leaving indemnity	175	35	-	-

Key management compensation

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

	<i>Reviewed</i>	<i>Reviewed</i>
	<i>31 March</i>	<i>31 March</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Salaries and other short-term employee benefits	420	355
Employee leaving indemnity	7	14
	<u>427</u>	<u>369</u>
Directors' fees	<u>28</u>	<u>22</u>

Guarantee

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable, and an additional guarantee from an associate of the shareholder. This additional guarantee is secured by real estate in the Arab Republic of Egypt (registration of the security is in process).

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

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (Reviewed)

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 2015 is as follows:

	<i>Three-month period ended 31 March 2015 (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	2,651	1	-	2,652
Interest expense	(336)	-	-	(336)
Investment banking income	-	62	222	284
Other income	-	-	93	93
Foreign exchange gain	-	-	81	81
Results from operations	2,315	63	396	2,774
Impairment provisions - net (note 5)	153	(358)	-	(205)
Unallocated corporate expenses	-	-	-	(1,166)
Net profit (loss) for the period	2,468	(295)	396	1,403
Reportable segment assets	163,210	8,731	532	172,473
Reportable segment liabilities	139,316	284	808	140,408
Equity	-	-	-	32,065
Total liabilities and equity				172,473
	<i>Three-month period ended 31 March 2014 (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	2,128	187	-	2,315
Interest expense	(262)	-	-	(262)
Investment banking income	-	429	500	929
Other income	-	-	55	55
Foreign exchange loss	-	-	(5)	(5)
Results from operations	1,866	616	550	3,032
Impairment provisions - net	-	(167)	-	(167)
Unallocated corporate expenses	-	-	-	(1,342)
Net profit for the period	1,866	449	550	1,523
Reportable segment assets	140,087	25,021	2,713	167,821
Reportable segment liabilities	127,007	-	10,533	137,540
Equity	-	-	-	30,281
Total liabilities and equity				167,821

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.

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:

	Three-month period ended 31 March 2015 (Reviewed)				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	US\$	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets measured at fair value					
Investments at fair value through profit or loss	250	-	321	571	571
Available-for-sale investments	142	-	7,773	7,915	7,915
Derivative financial instruments	-	7	-	7	7
Financial assets not measured at fair value					
Held-to-maturity investments	-	-	183	183	215

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2014 (Audited)				
	Level 1	Level 2	Level 3	Total fair	carrying
	US\$	US\$ '000	US\$ '000	values US\$ '000	amount US\$ '000
<i>Financial assets measured at fair value</i>					
Investments at fair value through profit or loss	250	-	338	588	588
Available-for-sale investments	103	-	8,691	8,794	8,794
<i>Financial assets not measured at fair value</i>					
Held-to-maturity investments	-	-	183	183	227

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, 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 investments, 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 investments until maturity when it would recover full nominal amounts.

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

Movements in level 3 fair value hierarchy of investments:

	Reviewed 31 March 2015 US\$ '000	Audited 31 December 2014 US\$ '000
At 1 January	9,029	17,170
Net fair value movement	(371)	854
Additions	-	878
Exits (at cost)	(139)	(5,060)
Fair value transferred to statement of income on disposals / impairment	(425)	(4,813)
	8,094	9,029

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.

Bahrain Middle East Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2015 (Reviewed)

10 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. The Group uses forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

The table below shows the fair values of the derivative financial instruments together with the notional amounts:

	<u>31 March 2015 (Reviewed)</u>		<u>31 December 2014 (Audited)</u>	
	<i>Notional amounts</i>	<i>Fair value</i>	<i>Notional amounts</i>	<i>Fair value</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held for trading:</i>				
Forward foreign exchange contracts	500	7	-	-

11 COMMITMENTS AND CONTINGENT LIABILITIES

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

	<i>Reviewed</i>	<i>Audited</i>
	<i>31 March</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Undrawn investment commitments in equity funds	5,801	6,079
Other commitments	2,579	2,579
Funds under management	18,352	14,215