

**Interim Condensed Consolidated Financial Statements
Six Month Period Ended 30 June 2005**



The legal name of BMB Investment Bank is Bahrain Middle East Bank (EC)

**REVIEW REPORT OF THE AUDITORS TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
BAHRAIN MIDDLE EAST BANK (E.C.)**

We have reviewed the accompanying consolidated balance sheet of Bahrain Middle East Bank (E.C.) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These interim condensed consolidated financial statements are the responsibility of the Directors of the Bank. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements have not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers


Manama, Kingdom of Bahrain
9 August 2005

BMB INVESTMENT BANK
Interim Condensed Consolidated Financial Statements


CONSOLIDATED BALANCE SHEET
 AT 30 JUNE 2005
 (Expressed in thousands of United States Dollars)

	Reviewed 30 June <u>2005</u>	Audited 31 December <u>2004</u>
<u>ASSETS</u>		
Cash and deposits with banks	24,640	3,196
Trading equities and funds	7,478	4,622
Other equities and funds (Note 3)	89,174	100,415
Other bonds	9,901	23,154
Loans and advances	9,876	9,428
Installment sale receivable (Note 6)	21,954	22,485
Fixed assets	11,309	11,511
Other assets (Note 9)	<u>9,305</u>	<u>7,193</u>
TOTAL ASSETS	<u>183,637</u>	<u>182,004</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Customer deposits	84,092	73,376
Securities sold under repurchase agreements	3,700	8,700
Medium term loan (Note 4)	70,000	75,000
Revolving loan facility (Note 5)	13,600	13,600
Other liabilities	6,347	9,105
Subordinated loans (Note 6)	<u>30,000</u>	<u>30,000</u>
TOTAL LIABILITIES	<u>207,739</u>	<u>209,781</u>
<u>Shareholders' equity</u>		
Share capital (Note 10)	90,809	90,809
Fair value reserve	(19,198)	(12,973)
Fixed asset revaluation reserve	5,056	5,056
Other reserves	(74,418)	(84,318)
Treasury shares	<u>(26,351)</u>	<u>(26,351)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>(24,102)</u>	<u>(27,777)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>183,637</u>	<u>182,004</u>

These financial statements were approved by the Board of Directors on 9 August 2005 and signed on its behalf by:



 Sheikh Ali Jarrah Al Sabah
 Chairman



 Wilson S. Benjamin
 Vice Chairman



 Albert I. Kittaneh
 Chief Executive

BMB INVESTMENT BANK
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CONSOLIDATED INCOME STATEMENT
 FOR THE SIX MONTHS ENDED 30 JUNE 2005 (Reviewed)
 (Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>30 June</u> <u>2005</u>	<u>30 June</u> <u>2004</u>	<u>30 June</u> <u>2005</u>	<u>30 June</u> <u>2004</u>
Interest income	514	503	1,006	1,125
Interest expense	<u>(2,313)</u>	<u>(1,563)</u>	<u>(4,419)</u>	<u>(3,108)</u>
NET INTEREST (EXPENSE)	(1,799)	(1,060)	(3,413)	(1,983)
Income from investments	8,408	684	19,334	4,419
Foreign exchange trading (loss)	(2,520)	(724)	(3,983)	(266)
Other income (Note 8)	<u>164</u>	<u>423</u>	<u>292</u>	<u>1,003</u>
TOTAL INCOME/(LOSS) FROM OPERATIONS	<u>4,253</u>	<u>(677)</u>	<u>12,230</u>	<u>3,173</u>
Impairment provisions released	711	-	714	-
General and administrative expenses	(1,922)	(1,441)	(3,710)	(3,711)
Donations	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>(1,212)</u>	<u>(1,441)</u>	<u>(2,997)</u>	<u>(3,711)</u>
NET INCOME/(LOSS) FOR THE PERIOD	<u>3,041</u>	<u>(2,118)</u>	<u>9,233</u>	<u>(538)</u>
EARNINGS PER SHARE				
Basic	US\$ 0.01	US\$ (0.01)	US\$ 0.03	US\$ 0.00
Diluted	US\$ 0.01	US\$ (0.01)	US\$ 0.03	US\$ 0.00

These financial statements were approved by the Board of Directors on 9 August 2005 and signed on its behalf by:



 Sheikh Ali Jarrah Al Sabah
 Chairman



 Wilson S. Benjamin
 Vice Chairman



 Albert I. Kittaneh
 Chief Executive

The notes on pages 6 to 10 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2005 (Reviewed)
(Expressed in thousands of United States Dollars)

	Share capital	Fixed asset revaluation reserve	Fair value reserve	Other reserves				Treasury shares	Total
				Retained earnings	Legal reserve	General reserve	Total other reserves		
2004									
At 1 January 2004	90,809	-	(8,320)	(104,544)	10,960	9,361	(84,223)	(26,351)	(28,085)
Exchange translation adjustment	-	-	1,089	(779)	-	-	(779)	-	310
Net fair value (loss) on available- for- sale investments	-	-	(107)	-	-	-	-	-	(107)
Fair value reserve transferred to income statement	-	-	(2,697)	-	-	-	-	-	(2,697)
Net (loss) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(538)</u>	<u>-</u>	<u>-</u>	<u>(538)</u>	<u>-</u>	<u>(538)</u>
At 30 June 2004	<u>90,809</u>	<u>-</u>	<u>(10,035)</u>	<u>(105,861)</u>	<u>10,960</u>	<u>9,361</u>	<u>(85,540)</u>	<u>(26,351)</u>	<u>(31,117)</u>
2005									
At 1 January 2005	90,809	5,056	(12,973)	(104,639)	10,960	9,361	(84,318)	(26,351)	(27,777)
Exchange translation adjustment	-	-	(2,773)	667	-	-	667	-	(2,106)
Net fair value gain on available- for- sale investments	-	-	3,265	-	-	-	-	-	3,265
Fair value reserve transferred to income statement	-	-	(6,717)	-	-	-	-	-	(6,717)
Net profit for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,233</u>	<u>-</u>	<u>-</u>	<u>9,233</u>	<u>-</u>	<u>9,233</u>
At 30 June 2005	<u>90,809</u>	<u>5,056</u>	<u>(19,198)</u>	<u>(94,739)</u>	<u>10,960</u>	<u>9,361</u>	<u>(74,418)</u>	<u>(26,351)</u>	<u>(24,102)</u>

The notes on pages 6 to 10 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK
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CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE SIX MONTHS ENDED 30 JUNE 2005 (Reviewed)
 (Expressed in thousands of United States Dollars)

	<u>30 June</u> <u>2005</u>	<u>30 June</u> <u>2004</u>
NET INCOME/(LOSS) FOR THE PERIOD	9,233	(538)
Net cash provided by operating activities	11,140	3,732
Net cash provided by investing activities	475	469
Net cash provided by financing activities	685	2,129
Effect of exchange rates on cash and cash equivalents	<u>(89)</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>21,444</u>	<u>5,792</u>
Cash and cash equivalents at the beginning of the period	<u>3,196</u>	<u>815</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>24,640</u>	<u>6,607</u>

The notes on pages 6 to 10 form an integral part of these interim condensed consolidated financial statements.

BMB INVESTMENT BANK

Notes to the interim condensed consolidated financial statements at 30 June 2005

1 INCORPORATION AND PRINCIPAL ACTIVITY

Bahrain Middle East Bank (E.C.) (the “Bank”) was formed in the Kingdom of Bahrain as an exempt joint stock company, pursuant to the notarisation of its Articles and Memorandum of Association on 21 March 1982. Formalities in respect of the registration of the Bank were completed on 5 July 1982, the Bank’s date of incorporation. Effective 10 April 2000, the Bank launched a new brand identity and is known as BMB Investment Bank. The legal name of the Bank continues to be Bahrain Middle East Bank (E.C.) which has its registered office at BMB Centre, Diplomatic Area, Manama, Kingdom 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.

2 PREPARATION OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as promulgated by the International Accounting Standards Board. 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 financial statements for the year ended 31 December 2004. The Bank has adopted International Accounting Standards (IAS) 39 “Financial Instruments Recognition and Measurement” which was revised and effective 1 January 2005. The adoption of revised IAS 39 has no impact on the retained earnings at 1 January 2005.

As at 30 June 2005, the Group’s total liabilities exceeded its total assets by US\$ 24,100,000 (31 December 2004: US\$ 27,800,000). Subsequent to 30 June 2005, the Group raised US\$ 52,300,000 in new capital, and has also obtained confirmation from the lenders of the medium term facility that all the conditions precedent have been met and the refinancing is effective from 28 July 2005 (note 10).

3 OTHER EQUITIES AND FUNDS

Other equities and funds comprise:

	<u>Reviewed</u> <u>30 June 2005</u> US\$000	<u>Audited</u> <u>31 December 2004</u> US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	80,527	87,680
Unquoted equity investments - at fair value	5,422	8,178
Unquoted equity investments - at cost	<u>3,225</u>	<u>4,557</u>
Total other equities and funds	<u>89,174</u>	<u>100,415</u>

The fair values in respect of unquoted equity investments carried at an amount of US\$ 3,225,000 could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 30 June 2005, the Bank had undrawn investment commitments to private equity funds of US\$ 26,271,000 (31 December 2004: US\$ 39,100,000). 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 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.

As disclosed in note 5, certain of the Bank’s private equity investments are pledged against the revolving loan facility.

BMB INVESTMENT BANK

Notes to the interim condensed consolidated financial statements at 30 June 2005

4 MEDIUM TERM LOAN

On 14 December 2004, the Bank and the lenders signed an agreement to refinance the US\$ 75,000,000 medium term facility dated 21 December 1999. Subsequent to 30 June 2005, the Agent on this loan confirmed that the refinancing became effective as of 28 July 2005 following the satisfactory fulfillment of all conditions precedent.

The refinancing bears interest at a rate of Libor plus 150 basis points. After the conversion of US\$ 16,800,000 of the medium term loan under BMB's capital restoration plan (note 6) in July 2005, the loan balance was reduced to US\$ 53,200,000 with principal repayments of US\$ 9,500,000 (June 2006), US\$ 15,200,000 (June 2007) and US\$ 28,500,000 (June 2008).

5 REVOLVING LOAN FACILITY

	Reviewed 30 June 2005 US\$000	Audited 31 December 2004 US\$000
Revolving loan facility	<u>13,600</u>	<u>13,600</u>

On 30 December 2003, the Bank signed a new US\$ 20,000,000 three-year revolving facility secured by certain of the Bank's investments in private equity funds/investments (note 3). This facility is designed to provide liquidity to the Bank and bears interest at floating US\$ Libor.

6 SUBORDINATED LOANS

Under the terms of the refinancing of its US\$75,000,000 medium term facility (note 4), the Bank is required to arrange the extension of the maturity on the US\$10,000,000 subordinated loan until December 2008. Subsequent to 30 June 2005, the Bank secured this extension in maturity.

Further, the US\$ 20,000,000 subordinated debt facility, which currently secures the installment sale receivable, will be converted in full pursuant to the exercise of the AI Fawares underwriting commitment (note 10). Consequently, the Bank is in the process of obtaining replacement collateral to secure the installment sale receivable.

7 SEGMENTAL RESULTS

(for the six month period ended 30 June 2005 - Reviewed)

	Trading activity		Investing activity		Other activity		Banking Total banking		Manufacturing		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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 income/(loss)	<u>(468)</u>	<u>144</u>	<u>13,288</u>	<u>2,335</u>	<u>1,077</u>	<u>1,026</u>	<u>13,897</u>	<u>3,505</u>	<u>(1,667)</u>	<u>(332)</u>	<u>12,230</u>	<u>3,173</u>
<u>RESULT</u>												
Segmental result	<u>(480)</u>	<u>(85)</u>	<u>11,820</u>	<u>170</u>	<u>136</u>	<u>302</u>	<u>11,476</u>	<u>387</u>	<u>(2,243)</u>	<u>(925)</u>	<u>9,233</u>	<u>(538)</u>
Net income/(loss)							<u>11,476</u>	<u>387</u>	<u>(2,243)</u>	<u>(925)</u>	<u>9,233</u>	<u>(538)</u>

BMB INVESTMENT BANK

Notes to the interim condensed consolidated financial statements at 30 June 2005

8 OTHER INCOME

(for the six months period ended 30 June 2005 – Reviewed)

	<u>Banking</u>		<u>Manufacturing</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Other income comprises:						
Fees and commission	643	639	-	-	643	639
Rental income	401	400	-	-	401	400
Other income/(loss)	<u>33</u>	<u>(12)</u>	<u>(785)</u>	<u>(24)</u>	<u>(752)</u>	<u>(36)</u>
Total other income/(loss)	<u>1,077</u>	<u>1,027</u>	<u>(785)</u>	<u>(24)</u>	<u>292</u>	<u>1,003</u>

9 RELATED-PARTY TRANSACTIONS

	Reviewed Directors and key management personnel <u>30 June 2005</u> US\$000
Loans	
Loans at 31 December 2004	555
Loans advanced during the period 1 January 2005 to 30 June 2005	48
Loan repayments during the period 1 January 2005 to 30 June 2005	<u>(15)</u>
Loans at 30 June 2005	<u>588</u>
Administration charges for the period 1 January 2005 to 30 June 2005 (30 June 2004: US\$ 2,000)	<u>2</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 2004: nil).

The above loans are included as part of Other assets.

The loans made to key management personnel are repayable monthly up to a period of three years except for the loan to the Chief Executive which does not have a set repayment schedule. All loans are fully secured and bear an administration charge of 1% per annum (2004: 1% p.a.).

	Reviewed Directors and key management personnel <u>30 June 2005</u> US\$000
Deposits	
Deposits at 31 December 2004	3,342
Deposits received during the period 1 January 2005 to 30 June 2005	11,023
Deposits repaid during the period 1 January 2005 to 30 June 2005	(663)
Interest capitalised during the period 1 January 2005 to 30 June 2005	<u>99</u>
Deposits at 30 June 2005	<u>13,801</u>
Interest expense on deposits for the period 1 January 2005 to 30 June 2005	<u>99</u>

BMB INVESTMENT BANK

Notes to the interim condensed consolidated financial statements at 30 June 2005

9 RELATED-PARTY TRANSACTIONS (CONTINUED)

Included in customer deposits is a deposit of US\$ 13,801,000 (31 December 2004: US\$ 3,300,000) from Al Fawares Construction and Development Company (KSC) (closed) ("Al Fawares"), as part of its underwriting commitment for the Bank's rights issue (note 10).

The deposit is being rolled over on a weekly basis at US\$ Libor interest rate. The interest is being capitalised and the accumulated balance will be adjusted against Al Fawares's commitment towards the Bank's rights issue. Interest expense for the six months period to 30 June 2005 amounted to US\$ 99,000 (30 June 2004: US\$ Nil).

Key management compensation

Compensation to key management personnel including directors were as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>30 June 2005</u>	<u>30 June 2004</u>	<u>30 June 2005</u>	<u>30 June 2004</u>
	US\$000	US\$000	US\$000	US\$000
Salaries and other short-term employee benefits	317	309	628	617
Termination benefits	<u>24</u>	<u>21</u>	<u>49</u>	<u>43</u>
	<u>341</u>	<u>330</u>	<u>677</u>	<u>660</u>
Directors' remuneration	<u>4</u>	<u>0</u>	<u>8</u>	<u>0</u>

10 CAPITAL RESTORATION

On 22 March 2005, BMB's Board of Directors approved a capital restoration plan and to raise up to US\$ 75 million in new capital. The shareholders of the Bank, at their extra ordinary general meeting held on 11 May 2005, approved the rights issue and an increase in the new capital by an additional amount of US\$ 25 million, aggregating to US\$ 100 million.

The capital reorganization plan consists of the following:

1. Capitalization of US\$90,806,165.75 of accumulated losses and treasury shares against the issued and paid in share capital of US\$90,809,426.75, resulting in a reduction in issued and paid in share capital to US\$ 3,261.00.
2. Reduction in the number of shares from 363,237,707 shares of par value US\$ 0.25 each to 13,044 shares of par value of US\$ 0.25 each.
3. Distribution of the 13,044 shares among the existing shareholders as of the "Record Date" (11 May 2005) being one share of par value US\$ 0.25 to each shareholder, regardless of the number of shares owned by an individual shareholder at that date.

The share capital raising plan consists of the following:

1. A Rights Offering by issuing 200,000,000 ordinary shares with a par value of US\$ 0.25 per share for a total amount of US\$ 50,000,000. Shareholders' preemptive rights to these shares are based on their pre capital reorganization ownership share in the Bank.
2. In the event that the Rights Offering does not raise the full US\$ 50,000,000, the underwriting commitment US\$ 33,000,000 provided by the Bank's major shareholder, Al Fawares Construction and Development Company KSC (c), will be called upon by the Bank.
3. Subsequent to the Rights Offering and the exercise, if any, of the Al Fawares underwriting commitment, the Board will undertake a private placement of any unsubscribed shares from the Rights Offering plus up to an additional US\$ 50,000,000 representing 200,000,000 shares of par value US\$ 0.25 each. Up to US\$ 50,000,000 of this amount may be offered through the conversion of existing deposits or borrowings to shares in the Bank. (The additional 200,000,000 shares referred to above aggregating US\$ 50,000,000 are in addition to any amounts of new shares offered under the Rights Issue).

BMB INVESTMENT BANK

Notes to the interim condensed consolidated financial statements at 30 June 2005

10 CAPITAL RESTORATION (CONTINUED)

The Bank has received an underwriting commitment of US\$ 33,000,000 to the rights issue from its major shareholder, Al Fawares Construction and Development Company KSC (closed) ("AlFawares"). Under this commitment, AlFawares has agreed to subscribe and pay for Rights Shares equivalent in value to US\$ 13,000,000 during the Rights Offering. To the extent that there is a subscription shortfall, AlFawares has also committed to arrange for the conversion to the Bank's equity of all or part of the US\$ 20,000,000 subordinated loan granted to the Bank in the year 2001. The conversion will be for the lesser of (a) US\$ 20,000,000 and (b) the amount of the shortfall (note 10).

11 SUBSEQUENT EVENTS

Subsequent to 30 June 2005, the Group raised US\$ 52,300,000 in new capital. The Group has also obtained confirmation from the lenders of the medium term facility that all the conditions precedent have been met and the refinancing is effective from 28 July 2005.