

**Interim Condensed Consolidated Financial Statements
Nine Month Period Ended 30 September 2005**



The legal name of BMB Investment Bank is Bahrain Middle East Bank (B.S.C.)

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

We have reviewed the accompanying consolidated balance sheet of Bahrain Middle East Bank (B.S.C.) (the "Bank") and its subsidiaries (the "Group") as of 30 September 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine 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
30 October, 2005

BMB INVESTMENT BANK
Interim Condensed Consolidated Financial Statements

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

	Reviewed 30 September <u>2005</u>	Audited 31 December <u>2004</u>
<u>ASSETS</u>		
Cash and deposits with banks	24,880	3,196
Trading equities and funds	7,738	4,622
Other equities and funds (Note 3)	88,003	100,415
Other bonds	9,814	23,154
Loans and advances	8,440	9,428
Instalment sale receivable (Note 6)	21,869	22,485
Fixed assets	11,224	11,511
Other assets (Note 9)	7,306	7,193
TOTAL ASSETS	<u>179,274</u>	<u>182,004</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Customer deposits	64,361	73,376
Securities sold under repurchase agreements	3,700	8,700
Medium term loan (Note 4)	53,200	75,000
Revolving loan facility (Note 5)	13,600	13,600
Other liabilities	5,962	9,105
Subordinated loans (Note 6)	<u>10,000</u>	<u>30,000</u>
TOTAL LIABILITIES	<u>150,823</u>	<u>209,781</u>
<u>Shareholders' equity</u>		
Share capital (Notes 10 and 11)	52,338	90,809
Fair value reserve	(19,246)	(12,973)
Fixed asset revaluation reserve	5,056	5,056
Other reserves	(9,697)	(84,318)
Treasury shares	<u>-</u>	<u>(26,351)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>28,451</u>	<u>(27,777)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>179,274</u>	<u>182,004</u>


These financial statements were approved by the Board of Directors on 30 October 2005 and signed on its behalf by:



 Sheikh Ali Jarrah Al Sabah
 Chairman



 Albert I. Kittaneh
 Chief Executive



 Wilson S. Benjamin
 Vice Chairman


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 INCOME STATEMENT
 FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005 (Reviewed)
 (Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Interest income	690	501	1,696	1,626
Interest expense	<u>(1,913)</u>	<u>(1,731)</u>	<u>(6,332)</u>	<u>(4,839)</u>
NET INTEREST (EXPENSE)	(1,223)	(1,230)	(4,636)	(3,213)
Income from investments	4,416	(12)	23,750	4,407
Foreign exchange translation (loss)/income	(308)	405	(4,291)	139
Other income (Note 8)	<u>1,536</u>	<u>469</u>	<u>1,828</u>	<u>1,472</u>
TOTAL INCOME/(LOSS) FROM OPERATIONS	<u>4,421</u>	<u>(368)</u>	<u>16,651</u>	<u>2,805</u>
Impairment provisions (charged)/released	(1,638)	139	(924)	139
General and administrative expenses	(2,363)	(2,938)	(6,073)	(6,649)
Donations	—	—	(1)	—
TOTAL OPERATING EXPENSES	<u>(4,001)</u>	<u>(2,799)</u>	<u>(6,998)</u>	<u>(6,510)</u>
NET INCOME/(LOSS) FOR THE PERIOD	<u>420</u>	<u>(3,167)</u>	<u>9,653</u>	<u>(3,705)</u>
EARNINGS PER SHARE				
Basic	US\$ 0.00	US\$ (0.01)	US\$ 0.03	US\$ (0.01)
Diluted	US\$ 0.00	US\$ (0.01)	US\$ 0.03	US\$ (0.01)

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Sheikh Ali Jarrah Al Sabah
 Chairman



Wilson S. Benjamin
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Albert I. Kittaneh
 Chief Executive

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

	Share capital	Fixed asset revaluation reserve	Fair value reserve	Other reserves			Total other reserves	Treasury shares	Total
				Retained earnings	Legal reserve	General reserve			
<u>2004</u>									
At 1 January 2004	90,809	-	(8,320)	(104,544)	10,960	9,361	(84,223)	(26,351)	(28,085)
Exchange translation adjustment	-	-	362	(100)	-	-	(100)	-	261
Fixed asset revaluation reserve	-	5,056	-	-	-	-	-	-	5,056
Net fair value (loss) on available- for- sale investments	-	-	(337)	-	-	-	-	-	(337)
Fair value reserve transferred to income statement	-	-	(3,621)	-	-	-	-	-	(3,621)
Net (loss) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,705)</u>	<u>-</u>	<u>-</u>	<u>(3,705)</u>	<u>-</u>	<u>(3,705)</u>
At 30 September 2004	<u>90,809</u>	<u>5,056</u>	<u>(11,916)</u>	<u>(108,349)</u>	<u>10,960</u>	<u>9,361</u>	<u>(88,028)</u>	<u>(26,351)</u>	<u>(30,430)</u>
<u>2005</u>									
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	-	-	(450)	732	-	-	732	-	282
Net fair value gain on available- for- sale investments	-	-	5,945	-	-	-	-	-	5,945
Fair value reserve transferred to income statement	-	-	(11,768)	-	-	-	-	-	(11,768)
Reduction in capital (notes 10 and 11)	(90,806)	-	-	64,455	-	-	64,455	26,351	-
Rights issue/private placement (notes 10 and 11)	52,335	-	-	-	-	-	-	-	52,335
Rights issue expense	-	-	-	(219)	-	-	(219)	-	(219)
Net profit for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,653</u>	<u>-</u>	<u>-</u>	<u>9,653</u>	<u>-</u>	<u>9,653</u>
At 30 September 2005	<u>52,338</u>	<u>5,056</u>	<u>(19,246)</u>	<u>(30,018)</u>	<u>10,960</u>	<u>9,361</u>	<u>(9,697)</u>	<u>-</u>	<u>28,451</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 NINE MONTHS ENDED 30 SEPTEMBER 2005 (Reviewed)
(Expressed in thousands of United States Dollars)

	<u>30 September</u> <u>2005</u>	<u>30 September</u> <u>2004</u>
NET INCOME/(LOSS) FOR THE PERIOD	9,653	(3,705)
Net cash provided by operating activities	15,131	5,526
Net cash provided by investing activities	521	464
Net cash (used in) financing activities	(3,525)	(1,844)
Effect of exchange rates on cash and cash equivalents	<u>(96)</u>	<u>4</u>
Net increase in cash and cash equivalents	<u>21,684</u>	<u>445</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>24,880</u>	<u>1,260</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 September 2005

1 INCORPORATION AND PRINCIPAL ACTIVITY

Bahrain Middle East Bank (B.S.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 (B.S.C.) which has its registered office at BMB Centre, Diplomatic Area, Manama, Kingdom of Bahrain.

On 30 August 2005, the Bank formally amended its Memorandum and Articles of Association to comply with provisions of the Bahrain Commercial Companies Law of 2001 of the Kingdom of Bahrain and the Implementing Regulations issued by Ministerial Resolution No. 6 for 2002. As part of that process, the Bank converted from an Exempt Company to a Bahrain Shareholding Company and the legal duration of the Bank was amended from a twenty-five year period to an indefinite period.

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.

3 OTHER EQUITIES AND FUNDS

Other equities and funds comprise:

	<u>Reviewed</u> <u>30 September 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	79,108	87,680
Unquoted equity investments - at fair value	5,678	8,178
Unquoted equity investments - at cost	<u>3,217</u>	<u>4,557</u>
Total other equities and funds	<u>88,003</u>	<u>100,415</u>

The fair values in respect of unquoted equity investments carried at an amount of US\$ 3,217,000 could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 30 September 2005, the Bank had undrawn investment commitments to private equity funds of US\$ 23,052,000 (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 September 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. In August 2005, the Agent on this loan confirmed that the refinancing became effective as of 28 July 2005 following the satisfactory fulfilment of all conditions precedent.

The refinancing bears interest at a rate of Libor plus 150 basis points. After the conversion on 30 August 2005 of US\$ 16,800,000 of the medium term loan under the Bank's capital restoration plan (note 10) 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 <u>30 September 2005</u> US\$000	Audited <u>31 December 2004</u> US\$000
Revolving loan facility	<u>13,600</u>	<u>13,600</u>

On 30 December 2003, the Bank signed a US\$ 20,000,000 three-year revolving facility secured by certain of the Bank's private equity 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 was required to arrange the extension of the maturity on the US\$ 10,000,000 subordinated loan until December 2008. The Bank secured the extension of maturity in July 2005.

Further, the US\$ 20,000,000 subordinated debt facility, was converted in full pursuant to the exercise of the Al Fawares underwriting commitment (note 10). The Bank obtained a replacement security to secure the instalment sale receivable.

7 SEGMENTAL RESULTS

(for the nine month period ended 30 September 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>(1,106)</u>	<u>(807)</u>	<u>17,230</u>	<u>3,169</u>	<u>1,977</u>	<u>1,511</u>	<u>18,101</u>	<u>3,873</u>	<u>(1,450)</u>	<u>(1,068)</u>	<u>16,651</u>	<u>2,805</u>
<u>RESULT</u>												
Segmental result	<u>(1,106)</u>	<u>(807)</u>	<u>13,501</u>	<u>(46)</u>	<u>681</u>	<u>524</u>	<u>13,076</u>	<u>(329)</u>	<u>(3,423)</u>	<u>(3,376)</u>	<u>9,653</u>	<u>(3,705)</u>
Net income/(loss)											<u>9,653</u>	<u>(3,705)</u>

BMB INVESTMENT BANK

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

8 OTHER INCOME

(for the nine months period ended 30 September 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	1,316	898	-	-	1,316	898
Rental income	596	598	-	-	596	598
Other income/(loss)	<u>65</u>	<u>15</u>	<u>(149)</u>	<u>(39)</u>	<u>(84)</u>	<u>(24)</u>
Total other income/(loss)	<u>1,977</u>	<u>1,511</u>	<u>(149)</u>	<u>(39)</u>	<u>1,828</u>	<u>1,472</u>

9 RELATED-PARTY TRANSACTIONS

	<u>Reviewed</u> Directors and key management personnel 30 September 2005 US\$000
Loans	
Loans at 31 December 2004	555
Loans advanced during the period 1 January 2005 to 30 September 2005	77
Loan repayments during the period 1 January 2005 to 30 September 2005	<u>(30)</u>
Loans at 30 September 2005	<u>602</u>
Administration charges for the period 1 January 2005 to 30 September 2005 (30 September 2004: US\$ 3,000)	<u>4</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.).

	<u>Reviewed</u> Directors and key management personnel 30 September 2005 US\$000
Deposits	
Deposits at 31 December 2004	3,364
Deposits received during the period 1 January 2005 to 30 September 2005	11,574
Deposits repaid during the period 1 January 2005 to 30 September 2005	(14,464)
Interest capitalised during the period 1 January 2005 to 30 September 2005	<u>141</u>
Deposits at 30 September 2005	<u>615</u>
Interest expense on deposits for the period 1 January 2005 to 30 September 2005 (30 September 2004: US\$ 28,000)	<u>141</u>

BMB INVESTMENT BANK

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

9 RELATED-PARTY TRANSACTIONS (CONTINUED)

Key management compensation

Compensation to key management personnel including directors were as follows:

	<u>Reviewed</u>		<u>Reviewed</u>	
	<u>30 September 2005</u>	<u>Three months ended</u> <u>30 September 2004</u>	<u>30 September 2005</u>	<u>Nine months ended</u> <u>30 September 2004</u>
	US\$000	US\$000	US\$000	US\$000
Salaries and other short-term employee benefits	360	309	988	926
Termination benefits	<u>26</u>	<u>21</u>	<u>74</u>	<u>65</u>
	<u>386</u>	<u>330</u>	<u>1,062</u>	<u>991</u>
Directors' remuneration	<u>6</u>	<u>4</u>	<u>14</u>	<u>4</u>

10 CAPITAL RESTORATION

The shareholders of the Bank, at their Extraordinary General Meeting held on 11 May 2005 approved a capital reorganization and capital raising plan (the "plan").

As part of the plan, the capital raising took place during the month of July 2005 and included a Rights Offering of US\$ 50,000,000, a Private placement and a Debt/Deposit Conversion to Equity Program of US\$ 50,000,000.

An aggregate of US\$ 52,334,705.75 was raised under the plan.

On 30 August 2005, the Bank implemented the plan by formally registering the following changes in its capital with the relevant authorities in the Kingdom of Bahrain:

- Reduction in paid-in-capital to US\$ 3,281.75 (13,127 shares at par value of US\$ 0.25 each) by the capitalization of US\$ 90,806,145 of accumulated losses and treasury shares against the issued and paid in share capital of US\$ 90,809,426.75.
- A simultaneous increase in paid-in-capital by US\$ 52,334,705.75 (209,338,823 shares at par value of US\$ 0.25 each) representing US\$ 35,434,701.75 (141,738,807 shares at par value of US\$ 0.25 each) raised in the Rights Offering and US\$ 16,900,004 (67,600,016 shares at par value of US\$ 0.25) raised in the Private Placement and Debt/Deposit Conversion to Equity Program.

As a result, the issued and paid-in-capital of the Bank is US\$ 52,337,987.50 consisting of 209,351,950 shares of common stock with a par value of US\$ 0.25 each (note 11). The Bank's Memorandum and Articles of Association have been amended to reflect this change.

The capital raising exercise resulted in:

- The conversion of the US\$ 20 million subordinated loan to equity (note 6).
- The conversion of US\$ 16.8 million of the Medium Term Loan to equity (note 4).
- The conversion of US\$ 0.1 million in deposits to equity.
- Proceeds of US\$ 15.4 million subscription from shareholders of which US\$ 13.8 million was from the Bank's major shareholder.

BMB INVESTMENT BANK**Notes to the interim condensed consolidated financial statements at 30 September 2005**11 **SHARE CAPITAL**

	<u>Reviewed</u>		<u>Audited</u>	
	<u>Number</u>	<u>2005</u>	<u>Number</u>	<u>2004</u>
	<u>000</u>	<u>US\$000</u>	<u>000</u>	<u>US\$000</u>
Authorized				
Ordinary shares of US \$ 0.25 each	2,000,000	500,000	2,000,000	500,000
Issued and fully paid				
Ordinary shares of US \$ 0.25 each				
At 1 January	363,238	90,809	363,238	90,809
Reduction in capital	(363,225)	(90,806)	-	-
New shares issued	<u>209,340</u>	<u>52,335</u>	-	-
At 30 September 2005/31 December 2004	<u>209,353</u>	<u>52,338</u>	<u>363,238</u>	<u>90,809</u>
Treasury shares at 30 September 2005/31 December 2004	<u>-</u>	<u>-</u>	<u>(54,156)</u>	<u>(13,539)</u>