

**Condensed Consolidated Interim Financial Information
Three Month Period Ended 31 March 2007**



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

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Bahrain Middle East Bank (B.S.C) (the "Bank") and its subsidiaries (the "Group") as of March 31, 2007 and the related condensed consolidated interim statements of income, changes in shareholder equity and cash flow for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

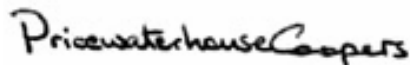
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter

Without qualifying our report, we draw attention to Note 12(b) to the condensed consolidated interim financial information. The Bank is the defendant in a lawsuit alleging non-compliance of a legal procedural requirement with regards to the Bank's holding of the Extra Ordinary General Meeting of 11 May 2005 which considered the reorganisation and capital raising of the Bank's issued and paid up capital. The first degree Court and the Court of Appeals ruled in favour of the plaintiff. The Bank has filed a final objection and appeal before the Court of Cassation. The ultimate outcome of this matter and its impact on the condensed consolidated interim financial information cannot presently be determined.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, handwritten-style font.

19 May 2007
Manama, Kingdom of Bahrain

BMB INVESTMENT BANK (B.S.C.)
Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
 AT 31 MARCH 2007
 (Expressed in thousands of United States Dollars)

	Reviewed 31 March <u>2007</u>	Audited 31 December <u>2006</u>
<u>ASSETS</u>		
Cash and deposits with banks	31,411	12,708
Trading equities and funds	9,598	8,506
Government bonds	4,388	4,388
Other equities and funds (Note 3)	82,268	75,690
Other bonds	9,605	9,687
Loans and advances	2,951	3,222
Instalment sale receivable	20,311	20,311
Fixed assets	12,710	12,796
Other assets	<u>9,658</u>	<u>25,358</u>
TOTAL ASSETS	<u>182,900</u>	<u>172,666</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Customer deposits	51,113	47,595
Securities sold under repurchase agreements	3,700	3,700
Medium term loan (Note 4)	43,700	43,700
Revolving loan facility (Note 5)	13,600	13,600
Other liabilities	6,900	7,644
Subordinated loan (Note 6)	<u>10,000</u>	<u>10,000</u>
TOTAL LIABILITIES	<u>129,013</u>	<u>126,239</u>
<u>Shareholders' equity</u>		
Share capital (Notes 10 and 11)	52,338	52,338
Fair value reserve	10,128	3,580
Fixed asset revaluation reserve	7,098	7,098
Other reserves	<u>(15,677)</u>	<u>(16,589)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>53,887</u>	<u>46,427</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>182,900</u>	<u>172,666</u>

This condensed consolidated interim financial information was approved by the Board of Directors on 19 May 2007 and signed on its behalf by:



Wilson S. Benjamin
 Chairman



Sheikh Abdulla A. K. Al Sabah
 Vice Chairman



Albert I. Kittaneh
 Chief Executive

BMB INVESTMENT BANK (B.S.C.)
Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
 FOR THE THREE MONTHS ENDED 31 MARCH 2007 (Reviewed)
 (Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>	
	<u>31 March</u>	<u>31 March</u>
	<u>2007</u>	<u>2006</u>
Interest income	631	498
Interest expense	<u>(1,824)</u>	<u>(1,807)</u>
NET INTEREST (EXPENSE)	(1,193)	(1,309)
Income from investments	3,140	5,120
Foreign exchange translation income	170	774
Other income (Note 8)	<u>593</u>	<u>522</u>
TOTAL INCOME FROM OPERATIONS	<u>2,710</u>	<u>5,107</u>
Impairment provisions released	-	135
General and administrative expenses	<u>(1,709)</u>	<u>(2,031)</u>
TOTAL OPERATING EXPENSES	<u>(1,709)</u>	<u>(1,896)</u>
NET INCOME BEFORE TAXATION	1,001	3,211
Taxation	-	<u>(678)</u>
NET INCOME	<u>1,001</u>	<u>2,533</u>
EARNINGS PER SHARE		
Basic	US\$ 0.00	US\$ 0.01
Diluted	US\$ 0.00	US\$ 0.01

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Wilson S. Benjamin
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BMB INVESTMENT BANK (B.S.C.)
Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2007 (Reviewed)
(Expressed in thousands of United States Dollars)

	Share capital	Fixed asset revaluation reserve	Fair value reserve	Other reserves			Total other reserves	Total
				Retained earnings	Legal reserve	General reserve		
31 March 2006								
At 1 January 2006	52,338	5,056	6,933	(58,954)	11,737	10,138	(37,079)	27,248
Exchange translation adjustment	-	-	73	(89)	-	-	(89)	(16)
Net fair value gain on available-for-sale investments	-	-	3,865	-	-	-	-	3,865
Fair value reserve transferred to income statement	-	-	(2,246)	-	-	-	-	(2,246)
Net profit for the period	-	-	-	2,533	-	-	2,533	2,533
At 31 March 2006	<u>52,338</u>	<u>5,056</u>	<u>8,625</u>	<u>(56,510)</u>	<u>11,737</u>	<u>10,138</u>	<u>(34,635)</u>	<u>31,384</u>
31 March 2007								
At 1 January 2007	52,338	7,098	3,580	(40,575)	13,848	10,138	(16,589)	46,427
Exchange translation adjustment	-	-	333	(89)	-	-	(89)	244
Net fair value gain on available-for-sale investments	-	-	7,223	-	-	-	-	7,223
Fair value reserve transferred to income statement	-	-	(1,008)	-	-	-	-	(1,008)
Net profit for the period	-	-	-	1,001	-	-	1,001	1,001
At 31 March 2007	<u>52,338</u>	<u>7,098</u>	<u>10,128</u>	<u>(39,663)</u>	<u>13,848</u>	<u>10,138</u>	<u>(15,677)</u>	<u>53,887</u>

Notes 1 to 12 form an integral part of this condensed consolidated interim financial information.

BMB INVESTMENT BANK (B.S.C.)
Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
 FOR THE THREE MONTHS ENDED 31 MARCH 2007 (Reviewed)
 (Expressed in thousands of United States Dollars)

	31 March <u>2007</u>	31 March <u>2006</u>
NET INCOME FOR THE PERIOD	1,001	2,533
Net cash from/(used in) operating activities	17,692	(5,955)
Net cash (used in) investing activities	(41)	(3)
Net cash (used in) financing activities	(4)	(8)
Effect of exchange rates on cash and cash equivalents	55	11
Net increase/(decrease) in cash and cash equivalents	<u>18,703</u>	<u>(3,422)</u>
Cash and cash equivalents at the beginning of the period	<u>12,708</u>	<u>13,263</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>31,411</u>	<u>9,841</u>

Notes 1 to 12 form an integral part of this condensed consolidated interim financial information.

BMB INVESTMENT BANK (B.S.C.)

Notes to the condensed consolidated interim financial information at 31 March 2007

1 INCORPORATION AND PRINCIPAL ACTIVITY

Bahrain Middle East Bank (B.S.C.) (the “Bank” or “BMB”) was formed in the Kingdom of Bahrain as an exempt joint stock company, pursuant to the notarisation of its Memorandum and Articles 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 and the Implementing Regulations issued by Ministerial Resolution No. 6 for 2002. As part of this process, the Bank converted from an Exempt Company to a Shareholding Company and the legal duration of the Bank was amended from a twenty-five year period to an indefinite period.

On 9 April 2007 the Central Bank of Bahrain issued a Wholesale Banking License to BMB.

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 INFORMATION

The condensed consolidated interim financial information of the Group has 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 condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2006.

3 OTHER EQUITIES AND FUNDS

Other equities and funds comprise:

	Reviewed <u>31 March 2007</u> US\$000	Audited <u>31 December 2006</u> US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	68,804	62,225
Unquoted equity investments - at fair value	12,308	12,297
Unquoted equity investments - at cost	<u>1,156</u>	<u>1,168</u>
Total other equities and funds	<u>82,268</u>	<u>75,690</u>

The fair values in respect of unquoted equity investments carried at an amount of US\$ 1,156,000 (31 December 2006: US\$ 1,168,000) could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 31 March 2007, the Bank had undrawn investment commitments to private equity funds of US\$ 31,327,000 (31 December 2006: US\$ 35,611,000). 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 Bahrain 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 (B.S.C.)

Notes to the condensed consolidated interim financial information at 31 March 2007

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, which 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 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). The instalment of US\$9,500,000 due in June 2006 has been paid. A refinancing fee of 1% was paid and is being amortized over the life of the loan to maturity.

5 REVOLVING LOAN FACILITY

	Reviewed 31 March 2007 US\$000	Audited 31 December 2006 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 funds/investments (note 3). This facility was designed to provide liquidity to the Bank with interest at floating US\$ Libor. By an amended agreement signed in December 2006, the facility has been extended to 30 December 2007 with a revised interest rate of floating US\$ Libor plus 25 basis points.

6 SUBORDINATED LOAN

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 three months period ended 31 March 2007 - Reviewed)

	Trading activity		Investing activity		Other activity		Banking Total banking		Manufacturing		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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>1,619</u>	<u>1,850</u>	<u>498</u>	<u>3,165</u>	<u>617</u>	<u>578</u>	<u>2,734</u>	<u>5,593</u>	<u>(24)</u>	<u>(486)</u>	<u>2,710</u>	<u>5,107</u>
<u>RESULT</u>												
Segmental result	<u>1,619</u>	<u>1,850</u>	<u>(657)</u>	<u>1,468</u>	<u>63</u>	<u>44</u>	<u>1,025</u>	<u>3,362</u>	<u>(24)</u>	<u>(829)</u>	<u>1,001</u>	<u>2,533</u>
Net income/(loss)							<u>1,025</u>	<u>3,362</u>	<u>(24)</u>	<u>(829)</u>	<u>1,001</u>	<u>2,533</u>

BMB INVESTMENT BANK (B.S.C.)

Notes to the condensed consolidated interim financial information at 31 March 2007

8 OTHER INCOME

(for the three months period ended 31 March 2007 – Reviewed)

	<u>Banking</u>		<u>Manufacturing</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Other income comprises:						
Fees and commission	369	309	-	-	369	309
Rental income	200	210	-	-	200	210
Other income/(loss)	<u>44</u>	<u>59</u>	<u>(20)</u>	<u>(56)</u>	<u>24</u>	<u>3</u>
Total other income/(loss)	<u>613</u>	<u>578</u>	<u>(20)</u>	<u>(56)</u>	<u>593</u>	<u>522</u>

9 RELATED-PARTY TRANSACTIONS

	<u>Reviewed</u> Directors and key management personnel 31 March 2007 US\$000
Loans	
At 31 December 2006	685
Advanced during the period 1 January 2007 to 31 March 2007	-
Repayments during the period 1 January 2007 to 31 March 2007	<u>(28)</u>
At 31 March 2007	<u>657</u>
Administration charges for the period 1 January 2007 to 31 March 2007 (31 March 2006: 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 2006: 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 (2006: 1% p.a.).

	<u>Reviewed</u> Directors and key management personnel 31 March 2007 US\$000
Deposits	
At 31 December 2006	57
Received during the period 1 January 2007 to 31 March 2007	114
Repaid during the period 1 January 2007 to 31 March 2007	(18)
Interest capitalised during the period 1 January 2007 to 31 March 2007	—
Deposits at 31 March 2007	<u>153</u>
Interest expense on deposits for the period 1 January 2007 to 31 March 2007 (31 March 2006: US\$ Nil)	<u>—</u>

BMB INVESTMENT BANK (B.S.C.)

Notes to the condensed consolidated interim financial information at 31 March 2007

9 RELATED-PARTY TRANSACTIONS (CONTINUED)

Key management compensation

Compensation to key management personnel including directors was as follows:

	<u>Three months ended</u> 31 March 2007 US\$000	<u>Reviewed</u> <u>Three months ended</u> 31 March 2006 US\$000
Salaries and other short-term employee benefits	422	361
Termination benefits	<u>29</u>	<u>26</u>
	<u>451</u>	<u>387</u>
Directors' remuneration	<u>22</u>	<u>17</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:

- a) 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.
- b) 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:

1. The conversion of the US\$ 20 million subordinated loan to equity (note 6).
2. The conversion of US\$ 16.8 million of the Medium Term Loan to equity (note 4).
3. The conversion of US\$ 0.1 million in deposits to equity.
4. 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 (B.S.C.)

Notes to the condensed consolidated interim financial information at 31 March 2007

11 SHARE CAPITAL

	<u>Reviewed</u>		<u>Audited</u>	
	<u>31 March 2007</u>		<u>31 December 2006</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	<u>000</u>	<u>US\$000</u>	<u>000</u>	<u>US\$000</u>
Authorized				
Ordinary shares of US \$ 0.25 each	<u>2,000,000</u>	<u>500,000</u>	<u>2,000,000</u>	<u>500,000</u>
Issued and fully paid				
Ordinary shares of US \$ 0.25 each				
At 1 January	209,352	52,338	209,352	52,338
Reduction in capital	-	-	-	-
New shares issued	-	-	-	-
At 31 March 2007/31 December 2006	<u>209,352</u>	<u>52,338</u>	<u>209,352</u>	<u>52,338</u>
Treasury shares at 31 March 2007/31 December 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

12 LEGAL CLAIM

(a) Share issuance - 1982

The Bank and the Bank of Bahrain and Kuwait were co-defendants in a litigation in Kuwait arising in connection with the issuance of the original shares of BMB in 1982. In May 2002, the Court of First Instance in Kuwait ruled in favour of the Bank and its co-defendant. In April 2003, the Appellate Court upheld the judgement of the Court of First Instance ruling in the Bank's favour. The Kuwaiti litigant had the right to appeal to the Court of Cassation, but did not file a challenge within the stipulated time, and hence, the litigation in Kuwait has come to a final conclusion in the Bank's favour.

On 10 August 2003, the Kuwaiti litigant filed a suit in Bahrain. The case is pending in the courts of Bahrain having been adjourned several times, the latest being 15 January 2007. The case was postponed again to a date to be determined by the Court. Based on the nature of this action and a previous favourable decision in its favour in a similar case in Bahrain, the Bank believes that this case will be decided in its favour and accordingly, no provision has been made in the financial information.

(b) Validity of Extra Ordinary General Meeting – May 2005

In February 2006, a shareholder of the Bank instituted a legal case in Bahrain challenging the validity of the Bank's Extra Ordinary General Meeting ("EGM") of Shareholders held on 11 May 2005 and seeking to have the Bank placed under judicial receivership. In April 2006, the Court ruled in favour of the Bank, rejecting the plaintiff's request for receivership and in favour of the plaintiff in the matter of the Bank's EGM.

On 24 December 2006, the Court of Appeals rejected the appeals of the Bank and the shareholder.

On 25 January 2007, BMB filed an appeal with the Court of Cassation against the judgement of the Court of Appeals.

On 19 February 2007, the Court of Cassation agreed to hear BMB's appeal and filed a temporary stay of execution of the judgement of the Court of Appeals, pending the Court of Cassation's review and final judgement on BMB's appeal.

BMB remains confident that it will prevail in this matter. However, in the event that the Bank loses its appeal, it will regularize the decisions taken at the May 2005 EGM and related matters by holding another EGM.