

**Condensed Consolidated Interim Financial Information
For The Nine Month Period Ended 30 September 2009**



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

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE DIRECTORS OF
BAHRAIN MIDDLE EAST BANK (B.S.C.)**

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Bahrain Middle East Bank (B.S.C.) (the Bank) and its subsidiaries (together, the Group) as at 30 September 2009 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in shareholders' equity and condensed consolidated interim cash flow statement for the nine 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 enquires, 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 International Accounting Standard 34, "Interim Financial Reporting".

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 2 to the condensed consolidated interim financial information which indicates that the Group has incurred a net loss of US\$ 24.8 million during the nine month period ended 30 September 2009 and, as of that date, (i) the accumulated losses exceeded the Group's issued share capital by US\$ 1.05 million; and (ii) the Group's short-term liabilities exceeded its short-term assets by US\$ 14.1 million. These conditions, along with other matters as set forth in note 2 to the condensed consolidated interim financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.



13 November 2009

Manama, Kingdom of Bahrain

BAHRAIN MIDDLE EAST BANK (B.S.C.)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of United States Dollars)

	Reviewed 30 September 2009	Audited 31 December 2008
<u>ASSETS</u>		
Cash and deposits with banks	3,722	3,688
Trading equities and funds	723	726
Government bonds (Note 3)	9,310	4,388
Other equities and funds (Note 4)	45,740	49,816
Other bonds (Note 5)	233	15,214
Derivative financial instruments	-	849
Loans and advances	1,440	1,521
Instalment sale receivable	15,682	17,299
Fixed assets	486	504
Other assets	4,410	6,488
TOTAL ASSETS	81,746	100,493
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Customer deposits (Note 6)	25,459	26,493
Securities sold under repurchase agreements	-	817
Derivative financial instruments	-	1,735
Revolving loan facility (Note 7)	11,600	11,600
Other liabilities	6,647	6,870
Subordinated loan	10,000	10,000
TOTAL LIABILITIES	53,706	57,515
<u>Shareholders' equity</u>		
Share capital (Note 8)	54,955	54,955
Fair value reserve	5,260	(5,698)
Other reserves	(32,175)	(6,279)
TOTAL SHAREHOLDERS' EQUITY	28,040	42,978
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	81,746	100,493

This condensed consolidated interim financial information was approved by the Board of Directors on 11 November 2009 and signed on its behalf by:



Wilson S. Benjamin
Chairman



Sheikh Abdulla A.K. Al Sabah
Vice Chairman



Akbar A. Habib
Chief Executive Officer

BAHRAIN MIDDLE EAST BANK (B.S.C.)**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**
(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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
(Loss)/income from investments (Note 9)	-	(1,288)	(2,262)	6,873
Foreign exchange (loss)/income	(458)	(1,843)	1,416	(887)
Fee and commission income	151	110	304	703
Other income/(loss)	<u>16</u>	<u>(15)</u>	<u>(21)</u>	<u>(5)</u>
	<u>(291)</u>	<u>(3,036)</u>	<u>(563)</u>	<u>6,684</u>
Interest income	349	495	1,084	1,550
Interest expense	<u>(542)</u>	<u>(642)</u>	<u>(1,517)</u>	<u>(2,415)</u>
NET INTEREST EXPENSE	<u>(193)</u>	<u>(147)</u>	<u>(433)</u>	<u>(865)</u>
TOTAL (LOSS)/INCOME FROM OPERATIONS	<u>(484)</u>	<u>(3,183)</u>	<u>(996)</u>	<u>5,819</u>
(Impairment provisions)/writeback (Note 14)	(2,402)	48	(16,095)	30
General and administrative expenses	(2,245)	(2,256)	(7,710)	(7,071)
TAXATION	<u>—</u>	<u>(98)</u>	<u>—</u>	<u>(98)</u>
OPERATING LOSS (Note 14)	(5,131)	(5,489)	(24,801)	(1,320)
Net income from assets sold	<u>—</u>	<u>—</u>	<u>—</u>	<u>10</u>
LOSS FOR THE PERIOD	<u>(5,131)</u>	<u>(5,489)</u>	<u>(24,801)</u>	<u>(1,310)</u>
LOSS PER SHARE				
Basic	US\$ (0.02)	US\$ (0.03)	US\$ (0.11)	US\$ (0.01)
Diluted	US\$ (0.02)	US\$ (0.03)	US\$ (0.11)	US\$ (0.01)

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Vice Chairman



Akbar A. Habib
Chief Executive Officer

Notes 1 to 14 form an integral part of this condensed consolidated interim financial information.

BAHRAIN MIDDLE EAST BANK (B.S.C.)CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Loss for the period	(5,131)	(5,489)	(24,801)	(1,310)
<u>Other comprehensive income/(loss)</u>				
Net fair value income/(loss) on				
available-for-sale investments	3,671	(3,278)	(1,325)	(5,711)
Fair value reserve transferred to income statement	275	88	12,283	(3,452)
Exchange translations on retained earnings of				
foreign subsidiaries	<u>279</u>	<u>991</u>	<u>(1,095)</u>	<u>1,109</u>
OTHER COMPREHENSIVE INCOME/(LOSS)	<u>4,225</u>	<u>(2,199)</u>	<u>9,863</u>	<u>(8,054)</u>
TOTAL COMPREHENSIVE LOSS FOR THE				
PERIOD	<u>(906)</u>	<u>(7,688)</u>	<u>(14,938)</u>	<u>(9,364)</u>

Notes 1 to 14 form an integral part of this condensed consolidated interim financial information.

BAHRAIN MIDDLE EAST BANK (B.S.C.)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of United States Dollars)

						<u>Other reserves</u>		
	<u>Share capital</u>	<u>Fair value reserve</u>	<u>Retained earnings</u>	<u>Legal reserve</u>	<u>General reserve</u>	<u>Proposed stock dividends reserve</u>	<u>Total other reserves</u>	<u>Total</u>
<u>30 September 2008</u>								
At 1 January 2008	52,338	11,249	(18,599)	16,310	7,521	2,617	7,849	71,436
Stock dividends approved	2,617	-	-	-	-	(2,617)	(2,617)	-
Total comprehensive loss	-	(9,163)	(201)	-	-	-	(201)	(9,364)
At 30 September 2008	<u>54,955</u>	<u>2,086</u>	<u>(18,800)</u>	<u>16,310</u>	<u>7,521</u>	<u>-</u>	<u>5,031</u>	<u>62,072</u>
<u>30 September 2009</u>								
At 1 January 2009	54,955	(5,698)	(30,110)	16,310	7,521	-	(6,279)	42,978
Total comprehensive income/(loss)	-	10,958	(25,896)	-	-	-	(25,896)	(14,938)
At 30 September 2009	<u>54,955</u>	<u>5,260</u>	<u>(56,006)</u>	<u>16,310</u>	<u>7,521</u>	<u>-</u>	<u>(32,175)</u>	<u>28,040</u>

Notes 1 to 14 form an integral part of this condensed consolidated interim financial information.

BAHRAIN MIDDLE EAST BANK (B.S.C.)**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT**
(Expressed in thousands of United States Dollars)

	<u>Nine months ended</u>	
	<u>30 September</u>	<u>30 September</u>
	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET CASH USED IN OPERATING ACTIVITIES (Note 10a)	(551)	(16,556)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of fixed assets	(144)	(400)
Proceeds from sale of fixed assets	25	10
Net cash flow from freehold land and building sold	-	18,047
Amount received against instalment sale receivable	<u>1,617</u>	<u>1,540</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,498</u>	<u>19,197</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Bank deposits	-	(10,015)
Securities sold under repurchase agreement	(817)	6,155
Medium term loan	-	(28,500)
Prior year dividends claimed and paid	(5)	(7)
Revolving loan	<u>-</u>	<u>(2,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(822)</u>	<u>(34,367)</u>
<u>EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</u>		
	<u>(91)</u>	<u>402</u>
Net increase/(decrease) in cash and cash equivalents	34	(31,324)
Cash and cash equivalents at the beginning of the period	<u>3,688</u>	<u>36,602</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 10b)	<u><u>3,722</u></u>	<u><u>5,278</u></u>

Notes 1 to 14 form an integral part of this condensed consolidated interim financial information.

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

1 GENERAL INFORMATION

Bahrain Middle East Bank (B.S.C.) (the "Bank", "BMB" or "BMB Investment Bank") is a Bahraini Shareholding Company with limited liability and is incorporated in the Kingdom of Bahrain. The registered office of the Bank is: BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

The Bank operates under a Wholesale Banking License issued by the Central Bank 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, trading and investment, asset management and funds distribution.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standard ("IFRS").

During the nine month period ended 30 September 2009, the Group incurred losses of US\$ 24.8 million. This was, in part, due to the transfer of US\$ 12.3 million negative fair values to the income statement as impairment provision, as undertaken on select private equity investments. Comprehensive loss for the nine month period ended 30 September 2009 amounted to US\$ 15.0 million. Shareholders' equity amounted to US\$ 28.0 million as at 30 September 2009 compared to US\$ 28.9 million as at 30 June 2009 (US\$ 43.0 million as at 31 December 2008). As a consequence, the Group's accumulated losses exceeded its issued share capital by US\$ 1.1 million as at 30 September 2009. Further, the Group's total short term-liabilities exceeded its short term-assets by US\$ 14.1 million as at 30 September 2009.

On 4 October 2009, the Central Bank of Bahrain directed the Bank to increase its issued share capital to US\$ 100 million by 31 December 2009. The Directors are currently working on an action plan to address this directive to be presented to the Central Bank of Bahrain. As well as increasing capital as requested by the Central Bank of Bahrain it is also critical for the Bank to negotiate with the respective holders amendments to the repayment schedule of (i) the US\$ 11.6 million revolving loan facility; and (ii) the US\$ 13.1 million term deposit included in "government entities, corporates and individuals" deposits. Negotiations for such rescheduling of terms between the Bank and the revolving loan facility holder as well as the term deposit holder are currently underway.

Although the above matters may indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, the Bank's Board of Directors and management are confident that the initiatives will be successful in addressing the funding requirements of the Group. Hence the Group's condensed consolidated interim financial information as at 30 September 2009 and for the nine month period then ended has been prepared on a going concern basis. In the event that the Bank is not successful in the above initiatives, then the Group's ability to continue as a going concern could become uncertain. In such an eventuality, the Group may not be able to meet its commitments, particularly those disclosed in Note 4, realise its assets at their carrying values and discharge its liabilities in the normal course of business.

(b) Accounting policies

Except as described below, the accounting policies applied by the Group in this condensed consolidated interim financial information are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2008.

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following amendments to existing standards and new standards are effective for the first time for the Group's financial year beginning 1 January 2009:

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the statement of income and statement of comprehensive income). The Group has elected to present two statements: statement of income and statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. No new segments have been identified by Management on adoption of this standard.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

(c) Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner which is not impacted by any form of seasonality. The condensed consolidated interim financial information is prepared based upon an accrual concept, which requires income and expense to be recorded as earned or incurred and not as received or paid throughout the period.

3 GOVERNMENT BONDS

	Reviewed 30 September 2009 US\$000	Audited 31 December 2008 US\$000
Held for trading	4,922	-
Held-to-maturity – at amortised cost	4,388	4,388
	<u>9,310</u>	<u>4,388</u>

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

4 OTHER EQUITIES AND FUNDS

	Reviewed <u>30 September 2009</u> US\$000	Audited <u>31 December 2008</u> US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	44,071	44,639
Unquoted equity investments - at fair value	430	3,659
Unquoted equity investments - at cost	<u>1,239</u>	<u>1,518</u>
	<u>45,740</u>	<u>49,816</u>

The determination of fair value for unquoted equity fund investments and unquoted equity investments held as available-for-sale involves significant estimates and judgement on the part of the Bank's management and such determinations made are estimates, not absolute or certain values.

At 30 September 2009, the Bank had undrawn investment commitments to private equity funds of US\$ 74,828,000 (31 December 2008: US\$ 77,713,000). 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 of 30 October 2009, the Bank finalised transfers of commitments totalling US\$ 28.1 million, resulting in cash outflows of US\$ 0.95 million towards transaction fees and expenses.

The Bank is in the process of negotiating with a certain party a transfer totalling an amount of US \$ 9.8 million in private equity funds' commitments.

Certain of the Bank's private equity investments are pledged against the revolving loan facility.

5 OTHER BONDS

	<u>Structured Products</u>				
	<u>Listed Capital Protected Note</u>	<u>Student Loans</u>	<u>CDOs</u>	<u>Total</u>	
	<u>Corporate US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
30 September 2009 - Reviewed					
Held-to-maturity - at amortised cost	-	-	-	-	-
Loans and receivables - at amortised cost	-	233	-	-	233
	-	<u>233</u>	-	-	<u>233</u>
31 December 2008 - Audited					
Held for trading	2,756	7,309	-	-	10,065
Held-to-maturity - at amortised cost	-	-	-	4,937	4,937
Loans and receivables - at amortised cost	-	212	-	-	212
	<u>2,756</u>	<u>7,309</u>	<u>212</u>	<u>4,937</u>	<u>15,214</u>

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

6 CUSTOMER DEPOSITS

	<u>Current</u> US\$000	<u>Non-Current</u> US\$000	<u>Total</u> US\$000
<u>30 September 2009 – Reviewed</u>			
Customers participating in funds	3,439	8,057	11,496
Government entities, corporates and individuals	<u>8,805</u>	<u>5,158</u>	<u>13,963</u>
	<u>12,244</u>	<u>13,215</u>	<u>25,459</u>
<u>31 December 2008 – Audited</u>			
Customers participating in funds	275	12,694	12,969
Government entities, corporates and individuals	<u>13,524</u>	-	<u>13,524</u>
	<u>13,799</u>	<u>12,694</u>	<u>26,493</u>

Customer participation in funds represents amounts received from customers to be invested in private equity funds marketed by BMB and amounts from private equity realizations received by the Bank and not yet distributed to customers. These funds, although treated as part of customer deposits, are retained by the Bank until drawdowns are made by private equity fund managers or paid to the customers as part of realised distributions. Customer deposits carry market rates of interest for the period until drawdown or payment. Customer participation in funds includes US\$ 1,268,050 (31 December 2008: US\$ 2,888,200) in deposits held on behalf of BMB Technology and Telecommunications Fund.

On 15 January 2009 a floating rate term deposit agreement was signed with a depositor included in “Government entities, corporates and individuals” amounting to US\$ 13,119,000, with agreed terms and conditions.

7 REVOLVING LOAN

In January 2009, the amended revolving loan agreement was further amended and extended to 17 June 2010 with the following repayment schedule: US\$ 3 million (30 September 2009); US\$ 3 million (7 January 2010); US\$ 3 million (31 March 2010) and US\$ 2.6 million (17 June 2010). The Bank is currently negotiating with the revolving loan holder the terms of the revolving loan agreement including rescheduling the repayments that were due from 30 September 2009.

8 SHARE CAPITAL

	<u>Reviewed</u> <u>30 September 2009</u>		<u>Audited</u> <u>31 December 2008</u>	
	<u>Number</u> <u>000</u>	<u>Amount</u> <u>US\$000</u>	<u>Number</u> <u>000</u>	<u>Amount</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	219,819	54,955	209,352	52,338
Stock dividend	-	-	<u>10,467</u>	<u>2,617</u>
At 30 September 2009/31 December 2008	<u>219,819</u>	<u>54,955</u>	<u>219,819</u>	<u>54,955</u>

The Bank’s capital raising campaign, currently underway, has gained momentum as several potential new investors have been identified as strategic partners.

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

9 (LOSS)/INCOME FROM INVESTMENTS

	<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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<u>Trading – Marked to market</u>				
Loss from other bonds –				
Listed Capital Protected Note	-	-	(59)	-
Loss from sovereign debt and bonds	(8)	(71)	(78)	-
Loss from quoted equities and ETFs	(16)	(702)	(56)	(978)
Loss from managed funds	-	(208)	(1)	(274)
Income/(loss) from other bonds - corporate	56	(61)	207	(64)
Income/(loss) from derivatives – equity options	<u>-</u>	<u>82</u>	<u>-</u>	<u>(169)</u>
	<u>32</u>	<u>(960)</u>	<u>13</u>	<u>(1,485)</u>
<u>Available-for-sale – at fair value</u>				
(Loss)/income from other equities and funds	<u>(32)</u>	<u>(328)</u>	<u>(2,275)</u>	<u>8,358</u>
Total (loss)/income from investments	<u>-</u>	<u>(1,288)</u>	<u>(2,262)</u>	<u>6,873</u>

10 NOTES TO THE CASH FLOW STATEMENT

(a) Cash flows from operating activities comprise:

	<u>Nine months ended</u>	
	<u>30 September</u>	<u>30 September</u>
	<u>2009</u>	<u>2008</u>
	<u>US\$000</u>	<u>US\$000</u>
Operating loss for the period	(24,801)	(1,310)
<u>Adjustments to reconcile (loss) from operations to net cash</u>		
<u>(used in)/provided by operating activities:</u>		
Impairment provisions	16,095	(30)
Depreciation and amortisation	156	102
Profit on sale of fixed assets	(19)	(10)
<u>Net changes in:</u>		
Trading equities and funds	3	6,768
Government Bonds	(4,922)	(997)
Other equities and funds	(846)	(629)
Other bonds	14,766	(6,521)
Derivative financial instruments	(886)	97
Loans and advances	81	(860)
Accrued interest receivable	253	(456)
Accrued interest payable	743	(504)
Other assets	1,825	(2,952)
Other liabilities	(961)	(955)
Customer deposits	(1,034)	(9,006)
Change in exchange rates related to retained earnings of overseas subsidiaries	(1,095)	1,109
Foreign exchange movements on investments and others	<u>91</u>	<u>(402)</u>
Net cash used in operating activities	<u>(551)</u>	<u>(16,556)</u>

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

10 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(b) Cash and cash equivalents comprise:

Included in cash and cash equivalents are the following:

	30 September <u>2009</u> US\$000	31 December <u>2008</u> US\$000
Cash balances at banks	3,656	3,622
Cash balances at Central Bank of Bahrain	<u>66</u>	<u>66</u>
	<u>3,722</u>	<u>3,688</u>

11 RELATED-PARTY TRANSACTIONS AND BALANCES

	<u>Reviewed</u> <u>Directors and key</u> <u>management personnel</u> <u>30 September</u> <u>2009</u> US\$000	<u>Audited</u> <u>Directors and key</u> <u>management personnel</u> <u>31 December</u> <u>2008</u> US\$000
Loans		
At 31 December	851	661
Advanced during the period 1 January to 30 September/year	112	420
Repayments during the period 1 January to 30 September/year	<u>(924)</u>	<u>(230)</u>
	<u>39</u>	<u>851</u>

Administration charges for the period 1 January to 30 September/year	<u>3</u>	<u>8</u>
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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 2008: Nil).

The above loans are included within "Other assets".

The loans made to key management personnel are repayable monthly up to a period of three years. The majority of the loans are fully secured. All loans bear an administration charge of 1% per annum (2008: 1% p.a.).

	<u>Reviewed</u> <u>Directors and key</u> <u>management personnel</u> <u>30 September</u> <u>2009</u> US\$000	<u>Audited</u> <u>Directors and key</u> <u>management personnel</u> <u>31 December</u> <u>2008</u> US\$000
Deposits		
At 31 December	542	376
Received during the period 1 January to 30 September/year	122	918
Repaid during the period 1 January to 30 September/year	(244)	(768)
Interest capitalised during the period 1 January to 30 September/year	<u>3</u>	<u>16</u>
	<u>423</u>	<u>542</u>
Interest expense on deposits for the period 1 January to 30 September/year	<u>3</u>	<u>16</u>

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

11 RELATED-PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation

Compensation to key management personnel, including directors, was as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>30 September</u> <u>2009</u> US\$000	<u>30 September</u> <u>2008</u> US\$000	<u>30 September</u> <u>2009</u> US\$000	<u>30 September</u> <u>2008</u> US\$000
Salaries and other short-term employee benefits	345	459	1,161	1,541
Termination benefits	<u>15</u>	<u>42</u>	<u>55</u>	<u>104</u>
	<u>360</u>	<u>501</u>	<u>1,216</u>	<u>1,645</u>
Directors' fees	<u>17</u>	<u>12</u>	<u>49</u>	<u>43</u>

12 LEGAL CLAIMS

Share issuance – 1982

The Bank and the Bank of Bahrain and Kuwait (BBK) 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. After a number of hearings in the courts of Bahrain, on 23 June 2009 the High Civil Court passed judgement in favour of the Plaintiff with no liability to the Bank. However, BBK has filed an appeal against the judgement; the first hearing at the Appeal court took place on 02 November 2009 and was adjourned until 14 December 2009.

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.

Labour complaints filed with the Ministry of Labour

Three former employees of the Bank have filed labour complaints with the Ministry of Labour. After discussions between the three individual parties and the Ministry of Labour, as no settlement had been reached, the Ministry of Labour transferred the three cases to the Labour Court. On 25 October 2009 the Labour Court examined two cases and adjourned both cases until 21 December 2009; on 28 October 2009 the Labour Court examined the third case and adjourned the hearing of this case to 23 December 2009.

Leased land - 2009

On 02 July 2009, a civil case was filed against the Bank and BMB Property Services (a subsidiary) by a former lessor for non-settlement of dues. On 30 September 2009, the Court adjourned the case to 10 November 2009. At the hearing on 10 November 2009 the Court adjourned the case to 09 December 2009. The Bank believes that any damages awarded will not be material within the overall context of this financial information.

BAHRAIN MIDDLE EAST BANK (B.S.C.)

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2009

13 SEGMENTAL RESULTS

(for the nine month period ended 30 September)

	<u>Trading activity</u>		<u>Investing activity</u>		<u>Other activity</u>		<u>Banking Total banking</u>		<u>Manufacturing</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	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>1,432</u>	<u>(2,372)</u>	<u>(2,711)</u>	<u>7,494</u>	<u>283</u>	<u>697</u>	<u>(996)</u>	<u>5,819</u>	<u>-</u>	<u>-</u>	<u>(996)</u>	<u>5,819</u>
<u>RESULT</u>												
Segmental result	<u>(28)</u>	<u>(4,977)</u>	<u>(23,611)</u>	<u>5,248</u>	<u>(1,162)</u>	<u>(1,581)</u>	<u>(24,801)</u>	<u>(1,310)</u>	<u>-</u>	<u>-</u>	<u>(24,801)</u>	<u>(1,310)</u>
Net (loss)									<u>-</u>	<u>-</u>	<u>(24,801)</u>	<u>(1,310)</u>

The segmental information has been prepared on the same basis as used for management purposes in reference to the Bank's current main business activities, which include the following:

- Trading activities includes current investments in equities and funds, bond and other derivative instruments,
- Investment activities includes investments in bonds, and other equities and funds
- Others include investor marketing fees and management fees

The above report is prepared on a regular basis to assist the chief operating decision maker in assessing the financial performance of the Bank's activities.

During the third quarter of 2009, there have been no changes in the segments identified as set out in the Annual Report at 31 December 2008.

14 OPERATING LOSS

The following items of unusual nature, size or incidence have been charged to operating loss during the period:

	<u>Nine months ended</u> <u>30 September</u> <u>2009</u> US\$000	<u>Nine months ended</u> <u>30 September</u> <u>2008</u> US\$000
(Impairment) on private equity funds – at fair value	(12,919)	-
(Impairment) on private equity investments – at fair value	(2,621)	-
(Impairment) on private equity investments – at cost	(340)	-
(Impairment)/writeback on other bonds	<u>(215)</u>	<u>30</u>
	<u>(16,095)</u>	<u>30</u>