

**Condensed Consolidated Interim Financial Information
For The Six Month Period Ended 30 June 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 June 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 six 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'.



Manama, Kingdom of Bahrain
12 August 2009

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of United States Dollars)

| | Reviewed 30 June <u>2009</u> | Audited 31 December <u>2008</u> |
|--|------------------------------------|---------------------------------------|
| <u>ASSETS</u> | | |
| Cash and deposits with banks | 8,806 | 3,688 |
| Trading equities and funds | 250 | 726 |
| Government bonds | 4,388 | 4,388 |
| Other equities and funds (Note 3) | 43,102 | 49,816 |
| Other bonds (Note 4) | 5,141 | 15,214 |
| Derivative financial instruments | - | 849 |
| Loans and advances | 1,445 | 1,521 |
| Instalment sale receivable | 15,682 | 17,299 |
| Fixed assets | 526 | 504 |
| Other assets | <u>4,724</u> | <u>6,488</u> |
| TOTAL ASSETS | <u>84,064</u> | <u>100,493</u> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| <u>Liabilities</u> | | |
| Customer deposits (Note 5) | 26,144 | 26,493 |
| Securities sold under repurchase agreements | - | 817 |
| Derivative financial instruments | - | 1,735 |
| Revolving loan facility | 11,600 | 11,600 |
| Other liabilities | 7,374 | 6,870 |
| Subordinated loan | <u>10,000</u> | <u>10,000</u> |
| TOTAL LIABILITIES | <u>55,118</u> | <u>57,515</u> |
| <u>Shareholders' equity</u> | | |
| Share capital (Note 6) | 54,955 | 54,955 |
| Fair value reserve | 1,314 | (5,698) |
| Other reserves | <u>(27,323)</u> | <u>(6,279)</u> |
| TOTAL SHAREHOLDERS' EQUITY | <u>28,946</u> | <u>42,978</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>84,064</u> | <u>100,493</u> |

This condensed consolidated interim financial information was approved by the Board of Directors on 12 August 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

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

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>Six months ended</u> | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | 30 June 2009 | 30 June 2008 | 30 June 2009 | 30 June 2008 |
| Income/(loss) from investments (Note 7) | 132 | 1,553 | (2,262) | 8,161 |
| Foreign exchange income | 1,065 | 325 | 1,874 | 956 |
| Fee and commission income | 76 | 493 | 153 | 593 |
| Other (loss)/income | <u>(51)</u> | <u>(7)</u> | <u>(37)</u> | <u>10</u> |
| | <u>1,222</u> | <u>2,364</u> | <u>(272)</u> | <u>9,720</u> |
| Interest income | 365 | 478 | 735 | 1,055 |
| Interest expense | <u>(526)</u> | <u>(621)</u> | <u>(975)</u> | <u>(1,773)</u> |
| NET INTEREST EXPENSE | <u>(161)</u> | <u>(143)</u> | <u>(240)</u> | <u>(718)</u> |
| TOTAL INCOME/(LOSS) FROM OPERATIONS | <u>1,061</u> | <u>2,221</u> | <u>(512)</u> | <u>9,002</u> |
| Impairment provisions (Note 12) | (12,657) | (183) | (13,693) | (18) |
| General and administrative expenses | <u>(2,371)</u> | <u>(2,307)</u> | <u>(5,465)</u> | <u>(4,815)</u> |
| OPERATING (LOSS)/PROFIT (Note 12) | (13,967) | (269) | (19,670) | 4,169 |
| Net income from assets sold | — | — | — | <u>10</u> |
| (LOSS)/PROFIT FOR THE PERIOD | <u>(13,967)</u> | <u>(269)</u> | <u>(19,670)</u> | <u>4,179</u> |
| (LOSS)/EARNINGS PER SHARE | | | | |
| Basic | (US\$ 0.06) | US\$ 0.00 | (US\$ 0.09) | US\$ 0.02 |
| Diluted | (US\$ 0.06) | US\$ 0.00 | (US\$ 0.09) | US\$ 0.02 |

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Chief Executive Officer

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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>Six months ended</u> | |
|---|---------------------------|----------------|-------------------------|----------------|
| | <u>30 June</u> | <u>30 June</u> | <u>30 June</u> | <u>30 June</u> |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| (Loss)/profit for the period | (13,967) | (269) | (19,670) | 4,179 |
| <u>Other comprehensive income/(loss)</u> | | | | |
| Net fair value loss on available-for-sale investments | (2,253) | (4,026) | (4,996) | (5,973) |
| Fair value reserve transferred to income statement | 11,500 | - | 12,008 | - |
| Exchange translations on retained earnings of foreign subsidiaries | <u>(1,204)</u> | <u>(29)</u> | <u>(1,374)</u> | <u>118</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) | <u>8,043</u> | <u>(4,055)</u> | <u>5,638</u> | <u>(5,855)</u> |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | <u>(5,924)</u> | <u>(4,324)</u> | <u>(14,032)</u> | <u>(1,676)</u> |

Notes 1 to 12 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 June 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)/income | <u>-</u> | <u>(5,973)</u> | <u>4,297</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,297</u> | <u>(1,676)</u> |
| At 30 June 2008 | <u>54,955</u> | <u>5,276</u> | <u>(14,302)</u> | <u>16,310</u> | <u>7,521</u> | <u>-</u> | <u>9,529</u> | <u>69,760</u> |
| <u>30 June 2009</u> | | | | | | | | |
| At 1 January 2009 | 54,955 | (5,698) | (30,110) | 16,310 | 7,521 | - | (6,279) | 42,978 |
| Total comprehensive income/(loss) | <u>-</u> | <u>7,012</u> | <u>(21,044)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(21,044)</u> | <u>(14,032)</u> |
| At 30 June 2009 | <u>54,955</u> | <u>1,314</u> | <u>(51,154)</u> | <u>16,310</u> | <u>7,521</u> | <u>-</u> | <u>(27,323)</u> | <u>28,946</u> |

Notes 1 to 12 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>Six months ended</u> | |
|--|-------------------------|-----------------|
| | <u>30 June</u> | <u>30 June</u> |
| | <u>2009</u> | <u>2008</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES (Note 8a) | 4,516 | (1,556) |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchase of fixed assets | (130) | (254) |
| 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>1,618</u> | <u>1,540</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>1,513</u> | <u>19,343</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Bank deposits | - | (10,015) |
| Securities sold under repurchase agreement | (817) | 2,812 |
| Medium term loan | - | (28,500) |
| Prior year dividends claimed and paid | <u>(3)</u> | <u>(5)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(820)</u> | <u>(35,708)</u> |
| <u>EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</u> | | |
| | <u>(91)</u> | <u>459</u> |
| Net increase/(decrease) in cash and cash equivalents | 5,118 | (17,462) |
| 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 8b) | <u>8,806</u> | <u>19,140</u> |

Notes 1 to 12 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 six month period ended 30 June 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").

(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.

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.

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 OTHER EQUITIES AND FUNDS

| | <u>Reviewed</u> <u>30 June 2009</u> US\$000 | <u>Audited</u> <u>31 December 2008</u> US\$000 |
|--|---|--|
| <u>Available-for-sale</u> | | |
| Unquoted equity fund investments – at fair value | 39,677 | 44,639 |
| Unquoted equity investments - at fair value | 2,077 | 3,659 |
| Unquoted equity investments - at cost | <u>1,348</u> | <u>1,518</u> |
| | <u>43,102</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 June 2009, the Bank had undrawn investment commitments to private equity funds of US\$ 75,345,000 (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.

The Bank is in the process of negotiating with various parties transfers totalling an amount of US \$ 38.6 million in private equity funds' commitments.

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

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

4 OTHER BONDS

| | <u>Structured Products</u> | | | | <u>Total</u> US\$000 |
|---|-----------------------------|---|--|------------------------|-------------------------|
| | <u>Corporate</u> US\$000 | <u>Listed</u> <u>Capital</u> <u>Protected</u> <u>Note</u> US\$000 | <u>Student</u> <u>Loans</u> US\$00 | <u>CDOs</u> US\$000 | |
| 30 June 2009 - Reviewed | | | | | |
| Held-to-maturity - at amortised cost | - | - | - | 4,901 | 4,901 |
| Loans and receivables - at amortised cost | <u>-</u> | <u>-</u> | <u>240</u> | <u>-</u> | <u>240</u> |
| | <u>-</u> | <u>-</u> | <u>240</u> | <u>4,901</u> | <u>5,141</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 | <u>-</u> | <u>-</u> | <u>212</u> | <u>-</u> | <u>212</u> |
| | <u>2,756</u> | <u>7,309</u> | <u>212</u> | <u>4,937</u> | <u>15,214</u> |

5 CUSTOMER DEPOSITS

| | <u>Current</u> US\$000 | <u>Non-Current</u> US\$000 | <u>Total</u> USD000 |
|---|---------------------------|-------------------------------|------------------------|
| 30 June 2009 – Reviewed | | | |
| Customers participating in funds | 3,946 | 8,140 | 12,086 |
| Government entities, corporates and individuals | <u>6,039</u> | <u>8,019</u> | <u>14,058</u> |
| | <u>9,985</u> | <u>16,159</u> | <u>26,144</u> |
| 31 December 2008 – Audited | | | |
| Customers participating in funds | 275 | 12,694 | 12,969 |
| Government entities, corporates and individuals | <u>13,524</u> | <u>-</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\$ 2,617,000 (31 December 2008: US\$ 2,888,200) in deposits held on behalf of BMB Technology and Telecommunications Fund.

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

5 CUSTOMER DEPOSITS (CONTINUED)

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. As part of the terms and conditions of the agreement a partial repayment of US\$ 2,000,000 is due on 5 October 2009.

6 SHARE CAPITAL

| | <u>Reviewed</u> | | <u>Audited</u> | |
|------------------------------------|---------------------|----------------|-------------------------|----------------|
| | <u>30 June 2009</u> | | <u>31 December 2008</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 | 219,819 | 54,955 | 209,352 | 52,338 |
| Stock dividend | - | - | 10,467 | 2,617 |
| At 30 June 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.

7 (LOSS)/INCOME FROM INVESTMENTS

| | <u>Three months ended</u> | | <u>Six months ended</u> | |
|--|---------------------------|----------------|-------------------------|----------------|
| | <u>30 June</u> | <u>30 June</u> | <u>30 June</u> | <u>30 June</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> | | | | |
| Income/(loss) from other bonds – | | | | |
| Listed Capital Protected Note | 1,764 | - | (59) | - |
| Income/(loss) from sovereign debt and bonds | 49 | (1) | (70) | 70 |
| Income/(loss) from quoted equities and ETFs | 19 | (395) | (39) | (276) |
| Loss from managed funds | - | (65) | (1) | (66) |
| Income/(loss) from other bonds - corporate | 119 | (3) | 150 | (3) |
| Loss from derivatives – equity options | - | (62) | - | (251) |
| | <u>1,951</u> | <u>(526)</u> | <u>(19)</u> | <u>(526)</u> |
| <u>Available-for-sale – at fair value</u> | | | | |
| (Loss)/income from other equities and funds | <u>(1,819)</u> | <u>2,079</u> | <u>(2,243)</u> | <u>8,687</u> |
| Total income/(loss) from investments | <u>132</u> | <u>1,553</u> | <u>(2,262)</u> | <u>8,161</u> |

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

8

NOTES TO THE CASH FLOW STATEMENT

(a) Cash flows from operating activities comprise:

| | <u>Six months ended</u> | |
|---|--|--|
| | <u>30 June</u> <u>2009</u> US\$000 | <u>30 June</u> <u>2008</u> US\$000 |
| Operating (loss)/profit for the period | (19,670) | 4,169 |
| <u>Adjustments to reconcile (loss)/profit from operations to net cash</u> <u>(used in)/provided by operating activities:</u> | | |
| Impairment provisions | 13,693 | 18 |
| Depreciation and amortisation | 102 | 62 |
| Profit on sale of fixed assets | (19) | (10) |
| <u>Net changes in:</u> | | |
| Trading equities and funds | 476 | (1,670) |
| Government and Government Agency Bonds | - | (996) |
| Other equities and funds | 209 | 440 |
| Other bonds | 9,897 | (2,085) |
| Derivative financial instruments | (886) | 178 |
| Loans and advances | 76 | (122) |
| Accrued interest receivable | 397 | 484 |
| Accrued interest payable | 529 | (691) |
| Other assets | 1,367 | 1,530 |
| Other liabilities | (24) | (1,006) |
| Customer deposits | (349) | (1,516) |
| Change in exchange rates related to retained earnings of overseas subsidiaries | (1,373) | 118 |
| Foreign exchange movements on investments and others | <u>91</u> | <u>(459)</u> |
| Net cash provided by/(used in) operating activities | <u>4,516</u> | <u>(1,556)</u> |

(b) Cash and cash equivalents comprise:

Included in cash and cash equivalents are the following:

| | <u>30 June</u> <u>2009</u> US\$000 | <u>31 December</u> <u>2008</u> US\$000 |
|--|--|--|
| Cash balances at banks | 8,740 | 3,622 |
| Cash balances at Central Bank of Bahrain | <u>66</u> | <u>66</u> |
| | <u>8,806</u> | <u>3,688</u> |

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

9

RELATED-PARTY TRANSACTIONS AND BALANCES

| | <u>Reviewed</u> | <u>Audited</u> |
|---|---|---|
| | <u>Directors and key management personnel</u> | <u>Directors and key management personnel</u> |
| | <u>30 June 2009</u> | <u>31 December 2008</u> |
| Loans | US\$000 | US\$000 |
| At 31 December | 851 | 661 |
| Advanced during the period 1 January to 30 June/year | 112 | 420 |
| Repayments during the period 1 January to 30 June/year | <u>(709)</u> | <u>(230)</u> |
| | <u>254</u> | <u>851</u> |
| Administration charges for the period 1 January to 30 June/year | <u>3</u> | <u>8</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 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>Audited</u> |
|---|---|---|
| | <u>Directors and key management personnel</u> | <u>Directors and key management personnel</u> |
| | <u>30 June 2009</u> | <u>31 December 2008</u> |
| Deposits | US\$000 | US\$000 |
| At 31 December | 542 | 376 |
| Received during the period 1 January to 30 June/year | 69 | 918 |
| Repaid during the period 1 January to 30 June/year | <u>(165)</u> | <u>(768)</u> |
| Interest capitalised during the period 1 January to 30 June/year | <u>2</u> | <u>16</u> |
| | <u>448</u> | <u>542</u> |
| Interest expense on deposits for the period 1 January to 30 June/year | <u>3</u> | <u>16</u> |

Key management compensation

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

| | <u>Three months ended</u> | | <u>Six months ended</u> | |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
| | <u>30 June 2009</u> | <u>30 June 2008</u> | <u>30 June 2009</u> | <u>30 June 2008</u> |
| | US\$000 | US\$000 | US\$000 | US\$000 |
| Salaries and other short-term employee benefits | 389 | 621 | 816 | 1,082 |
| Termination benefits | <u>16</u> | <u>16</u> | <u>40</u> | <u>62</u> |
| | <u>405</u> | <u>637</u> | <u>856</u> | <u>1,144</u> |
| Directors' fees | <u>11</u> | <u>13</u> | <u>32</u> | <u>31</u> |

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

10 LEGAL CLAIM

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. 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, the Bank may consider further action with regard to the judgement.

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 has been reached, the Ministry of Labour transferred the three cases to the Labour Court. Upon the fixing of dates of the hearings, the Court will notify the parties involved.

11 SEGMENTAL RESULTS

(for the six month period ended 30 June)

| | Trading activity | | Investing activity | | Other activity | | Banking Total banking | | Manufacturing | | Total | |
|---------------------------|------------------|------------|--------------------|--------------|----------------|--------------|-----------------------|--------------|---------------|----------|-----------------|--------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | 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 (loss)/income | <u>1,861</u> | <u>431</u> | <u>(2,490)</u> | <u>7,968</u> | <u>117</u> | <u>603</u> | <u>(512)</u> | <u>9,002</u> | <u>=</u> | <u>=</u> | <u>(512)</u> | <u>9,002</u> |
| <u>RESULT</u> | | | | | | | | | | | | |
| Segmental result | <u>826</u> | <u>42</u> | <u>(19,589)</u> | <u>5,013</u> | <u>(907)</u> | <u>(876)</u> | <u>(19,670)</u> | <u>4,179</u> | <u>=</u> | <u>=</u> | <u>(19,670)</u> | <u>4,179</u> |
| Net (loss)/income | | | | | | | | | <u>=</u> | <u>=</u> | <u>(19,670)</u> | <u>4,179</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 second quarter of 2009, there have been no changes in the segments identified as set out in the Annual Report at 31 December 2008.

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

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2009

12 OPERATING (LOSS)/PROFIT

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

| | <u>Six months ended</u> <u>30 June</u> <u>2009</u> US\$000 | <u>Six months ended</u> <u>30 June</u> <u>2008</u> US\$000 |
|--|---|---|
| Impairment on private equity funds – at fair value | 12,200 | - |
| Impairment on private equity investments – at fair value | 976 | - |
| Impairment on private equity investments – at cost | 340 | - |
| Impairment on other bonds | <u>177</u> | <u>18</u> |
| | <u>13,693</u> | <u>18</u> |