

**Condensed Consolidated Interim Financial Information  
Three Month Period Ended 31 March 2008**



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

**REPORT ON REVIEW OF THE INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS  
AND 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, 2008 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.

*PricewaterhouseCoopers*

26 April 2008

Manama, Kingdom of Bahrain

**BMB INVESTMENT BANK**  
**Condensed Consolidated Interim Financial Information**  
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET  
AT 31 MARCH 2008  
(Expressed in thousands of United States Dollars)

	Reviewed 31 March <u>2008</u>	Audited 31 December <u>2007</u>
<b><u>ASSETS</u></b>		
Cash and deposits with banks	15,941	36,602
Trading equities and funds	10,529	9,279
Government bonds	4,388	4,388
Other equities and funds (Note 3)	73,306	73,264
Other bonds	10,012	9,793
Derivative financial instruments	17	83
Loans and advances	1,116	967
Instalment sale receivable	18,839	18,839
Fixed assets	490	316
Other assets	<u>8,158</u>	<u>27,348</u>
<b>TOTAL ASSETS</b>	<b><u>142,796</u></b>	<b><u>180,879</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b><u>Liabilities</u></b>		
Bank deposits	1,582	10,015
Customer deposits	33,117	36,553
Derivative financial instruments	144	-
Securities sold under repurchase agreements	3,700	3,700
Medium term loan (Note 4)	-	28,500
Revolving loan facility (Note 5)	13,600	13,600
Other liabilities	6,569	7,075
Subordinated loan (Note 6)	<u>10,000</u>	<u>10,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>68,712</u></b>	<b><u>109,443</u></b>
<b><u>Shareholders' equity</u></b>		
Share capital (Note 7)	54,955	52,338
Fair value reserve	9,302	11,249
Other reserves	<u>9,827</u>	<u>7,849</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>74,084</u></b>	<b><u>71,436</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>142,796</u></b>	<b><u>180,879</u></b>

This condensed consolidated interim financial information was approved by the Board of Directors on 26 April 2008 and signed on its behalf by:



Wilson S. Benjamin  
Chairman



Sheikh Abdulla A. K. Al Sabah  
Vice Chairman



Albert I. Kittaneh  
Chief Executive

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

**BMB INVESTMENT BANK**  
**Condensed Consolidated Interim Financial Information**

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT  
 FOR THE PERIOD ENDED 31 MARCH 2008 (Reviewed)  
 (Expressed in thousands of United States Dollars unless otherwise stated)

	<u>Three months ended</u>	
	31 March <u>2008</u>	31 March <u>2007</u>
<u>INCOME FROM OPERATIONS</u>		
Income from investments	6,608	3,140
Foreign exchange translation income	631	170
Fees and commissions income (Note 8)	100	369
Other income/(loss)	<u>17</u>	<u>(22)</u>
	7,356	3,657
Interest income	578	631
Interest expense	<u>(1,153)</u>	<u>(1,824)</u>
NET INTEREST EXPENSE	(575)	(1,193)
TOTAL INCOME FROM OPERATIONS	<u>6,781</u>	<u>2,464</u>
Writebacks	165	-
General and administrative expenses	<u>(2,508)</u>	<u>(1,508)</u>
TOTAL OPERATING EXPENSES	<u>(2,343)</u>	<u>(1,508)</u>
NET INCOME FROM OPERATIONS	4,438	956
NET INCOME FROM ASSETS SOLD	<u>10</u>	<u>45</u>
NET INCOME FOR THE PERIOD	<u>4,448</u>	<u>1,001</u>
EARNINGS PER SHARE		
Basic	US\$ 0.02	US\$ 0.00
Diluted	US\$ 0.02	US\$ 0.00

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**BMB INVESTMENT BANK**  
**Condensed Consolidated Interim Financial Information**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE PERIOD ENDED 31 MARCH 2008 (Reviewed)  
(Expressed in thousands of United States Dollars)

	Share capital	Fixed asset revaluation reserve	Fair value reserve	Retained earnings	Legal reserve	General reserve	Other reserves	Proposed stock dividends reserve	Total other reserves	Total
<b><u>31 March 2007</u></b>										
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 income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,001</u>		<u>1,001</u>
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>-</u>	<u>(15,677)</u>		<u>53,887</u>
<b><u>31 March 2008</u></b>										
At 1 January 2008	52,338	-	11,249	(18,599)	16,310	7,521	2,617	7,849		71,436
Exchange translation adjustment	-	-	1,485	147	-	-	-	147		1,632
Net fair value (loss) on available-for-sale investments	-	-	(1,251)	-	-	-	-	-		(1,251)
Fair value reserve transferred to income statement	-	-	(2,181)	-	-	-	-	-		(2,181)
Stock dividends approved	2,617	-	-	-	-	-	(2,617)	(2,617)		-
Net income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,448</u>		<u>4,448</u>
At 31 March 2008	<u>54,955</u>	<u>-</u>	<u>9,302</u>	<u>(14,004)</u>	<u>16,310</u>	<u>7,521</u>	<u>-</u>	<u>9,827</u>		<u>74,084</u>

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

**BMB INVESTMENT BANK**  
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CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 MARCH 2008 (Reviewed)  
(Expressed in thousands of United States Dollars)

	31 March <u>2008</u>	31 March <u>2007</u>
NET INCOME FROM OPERATIONS	4,438	956
Net cash (used in)/from operating activities	(6,473)	17,692
Net cash from investing activities	17,845	4
Net cash used in financing activities	(36,936)	(4)
Effect of exchange rates on cash and cash equivalents	<u>465</u>	<u>55</u>
Net (decrease)/increase in cash and cash equivalents	<u>(20,661)</u>	<u>18,703</u>
Cash and cash equivalents at the beginning of the period	<u>36,602</u>	<u>12,708</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>15,941</u>	<u>31,411</u>

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

**BMB INVESTMENT BANK**  
**Condensed Consolidated Interim Financial Information**

**Notes to the condensed consolidated interim financial information for the period ended 31 March 2008**

1 **GENERAL INFORMATION**

**INCORPORATION AND PRINCIPAL ACTIVITY**

Bahrain Middle East Bank (B.S.C.) (the "Bank", "BMB" or "BMB Investment Bank") is a Bahraini Shareholding Company with limited liabilities 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.

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 2007.

3 **OTHER EQUITIES AND FUNDS**

Other equities and funds comprise:

	Reviewed <u>31 March 2008</u> US\$000	Audited <u>31 December 2007</u> US\$000
<u>Available-for-sale</u>		
Unquoted equity fund investments – at fair value	65,368	62,190
Unquoted equity investments - at fair value	6,417	9,933
Unquoted equity investments - at cost	<u>1,521</u>	<u>1,141</u>
<b>Total other equities and funds</b>	<b><u>73,306</u></b>	<b><u>73,264</u></b>

The fair values in respect of unquoted equity investments carried at an amount of US\$ 1,521,000 (31 December 2007: US\$ 1,141,000) could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 31 March 2008, the Bank had undrawn investment commitments to private equity funds of US\$ 32,695,000 (31 December 2007: US\$ 31,895,000). 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**  
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**Notes to the condensed consolidated interim financial information for the period ended 31 March 2008**

4 **MEDIUM TERM LOAN**

On 14 December 2004, the Bank and the lenders signed an agreement to refinance this facility. The refinancing agreement became effective as of 28 July 2005, after the fulfilment of certain conditions precedent including a US\$ 5,000,000 principal down payment, a mortgage in favour of the lenders on the Bank's head office land and building and establishment of a pledged account in connection with a mechanism under which 50% of the Bank's excess operating cash flow over a minimum cash balance threshold would be dedicated to debt service.

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 this facility under the Bank's capital restoration plan, 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 instalments of US\$ 9,500,000 (due June 2006) and US\$ 15,200,000 (due June 2007) have been paid on their respective due dates. A refinancing fee of 1% was paid and was being amortized over the life of the loan to maturity.

In late December 2007, the Bank sold its headquarters land and building with payment to be made in first quarter 2008. Accordingly, in order to protect the interests of the lenders under the medium term loan and as per agreement with the buyer, the mortgage in the lenders' favour on the Bank's headquarters land and building remained in place during that period. As agreed, the lenders released the mortgage upon the full prepayment of the loan (US\$ 28,500,000 in February 2008), which was funded by the sale proceeds received in February 2008 and an additional payment by the Bank for the remaining amount.

5 **REVOLVING LOAN FACILITY**

	<u>Reviewed</u> <u>31 March 2008</u> US\$000	<u>Audited</u> <u>31 December 2007</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 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.

In December 2007, an additional amendment agreement was signed, extending the facility to 30 June 2008, with a revised interest rate of floating US\$ Libor plus 80 basis points.

6 **SUBORDINATED LOAN**

On 29 June 2001, the Bank raised a subordinated debt facility of US\$ 10,000,000 repayable on 29 December 2006 which was extended to December 2008. The debt carried interest at 13% per annum, 8% payable annually and the difference payable when realisation of profits on certain private equity investments of the Bank takes place.

On 1 November 2001, the interest payable on the above subordinated facility was amended to 8% per annum, 5% payable annually and the difference payable when realisation of profits on certain private equity investments of the Bank takes place.



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Notes to the condensed consolidated interim financial information for the period ended 31 March 2008

7 **SHARE CAPITAL**

	<u>Reviewed</u>		<u>Audited</u>	
	<u>31 March 2008</u>		<u>31 December 2007</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>
<b>Authorized</b>				
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>
<b>Issued and fully paid</b>				
Ordinary shares of US \$ 0.25 each				
At 1 January	209,352	52,338	209,352	52,338
Stock dividend	<u>10,468</u>	<u>2,617</u>	-	-
At 31 March 2008/31 December 2007	<u>219,820</u>	<u>54,955</u>	<u>209,352</u>	<u>52,338</u>
Treasury shares at 31 March 2008/31 December 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

8 **FEES AND COMMISSIONS INCOME**

(for the three month period ended 31 March 2008 – Reviewed)

	<u>Total</u>	
	<u>2008</u>	<u>2007</u>
	<u>US\$000</u>	<u>US\$000</u>
Fees and commissions income comprises:		
Performance fees	7	200
Management fees	93	135
Placement fees	-	16
Others	<u>-</u>	<u>18</u>
<b>Total fees and commissions income</b>	<u>100</u>	<u>369</u>

9 **RELATED-PARTY TRANSACTIONS**

	<u>Reviewed</u>
	<u>Directors and key management personnel</u>
	<u>31 March 2008</u>
	<u>US\$000</u>
<b>Loans</b>	
At 31 December 2007	661
Advanced during the period 1 January 2008 to 31 March 2008	128
Repayments during the period 1 January 2008 to 31 March 2008	<u>(29)</u>
Loans at 31 March 2008	<u>760</u>
Administration charges for the period 1 January 2008 to 31 March 2008 (31 March 2007: 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 2007: 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. All loans are fully secured and bear an administration charge of 1% per annum (2007: 1% p.a.).

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**Notes to the condensed consolidated interim financial information for the period ended 31 March 2008**

9 **RELATED-PARTY TRANSACTIONS (CONTINUED)**

	<u>Reviewed</u> Directors and key management personnel 31 March 2008 US\$000
<b>Deposits</b>	
At 31 December 2007	376
Received during the period 1 January 2008 to 31 March 2008	38
Repaid during the period 1 January 2008 to 31 March 2008	(61)
Interest capitalised during the period 1 January 2008 to 31 March 2008	<u>1</u>
Deposits at 31 March 2008	<u>354</u>
Interest expense on deposits for the period 1 January 2008 to 31 March 2008 (31 March 2007: US\$ Nil)	<u>1</u>

**Key management compensation**

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

	<u>Three months ended</u> <u>31 March 2008</u> US\$000	<u>Reviewed</u> <u>Three months ended</u> <u>31 March 2007</u> US\$000
Salaries and other short-term employee benefits	461	422
Termination benefits	<u>46</u>	<u>29</u>
	<u>507</u>	<u>451</u>
Directors' remuneration	<u>18</u>	<u>22</u>

10 **LEGAL CLAIM**

**Share issuance – 1982**

The Bank and the Bank of Bahrain and Kuwait were co-defendants in 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 22 April 2008. 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.

**BMB INVESTMENT BANK**  
**Condensed Consolidated Interim Financial Information**

Notes to the condensed consolidated interim financial information for the period ended 31 March 2008

11 **SEGMENTAL RESULTS**

(for the three month period ended 31 March 2008 - Reviewed)

	<u>Trading activity</u>		<u>Investing activity</u>		<u>Other activity</u>		<u>Banking Total banking</u>		<u>Manufacturing</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</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>625</u>	<u>1,619</u>	<u>6,033</u>	<u>498</u>	<u>117</u>	<u>617</u>	<u>6,775</u>	<u>2,734</u>	<u>6</u>	<u>(24)</u>	<u>6,781</u>	<u>2,710</u>
<u>RESULT</u>												
Segmental result	<u>600</u>	<u>1,619</u>	<u>4,503</u>	<u>(657)</u>	<u>(661)</u>	<u>63</u>	<u>4,442</u>	<u>1,025</u>	<u>6</u>	<u>(24)</u>	<u>4,448</u>	<u>1,001</u>
Net income/(loss)							<u>4,442</u>	<u>1,025</u>	<u>6</u>	<u>(24)</u>	<u>4,448</u>	<u>1,001</u>

12 **COMPARATIVE AMOUNTS**

Certain comparative figures have been reclassified to correspond with the presentation in the condensed consolidated interim financial information at 31 March 2008.