

BAHRAIN MIDDLE EAST BANK BSC
INTERIM FINANCIAL INFORMATION
30 SEPTEMBER 2010



The legal name of BMB Investment Bank is Bahrain Middle East Bank BSC.

BAHRAIN MIDDLE EAST BANK BSC

**Interim financial information
for the nine months ended 30 September 2010**

CONTENTS	Page
Independent auditors' report on review of interim financial information	2
Interim financial information	
Condensed consolidated statement of financial position	3
Condensed consolidated income statement	4
Condensed consolidated statement of comprehensive income	5
Condensed consolidated statement of changes in equity	6
Condensed consolidated statement of cash flows	7
Notes to the interim financial information	8-11



KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

Independent auditors' report on review of interim financial information

3 November 2010

The Board of Directors
Bahrain Middle East Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bahrain Middle East Bank BSC (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine month period then ended ("the interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 1 to the interim financial information which discusses material uncertainties relating to the Group's financial position, which may cast significant doubt about the appropriateness of the going concern assumption used in the preparation of the interim financial information. The management's plans to deal with these issues are set out in note 1 to the interim financial information.

BAHRAIN MIDDLE EAST BANK BSC

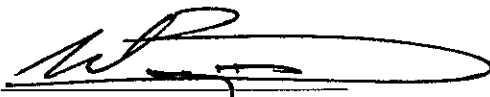
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2010

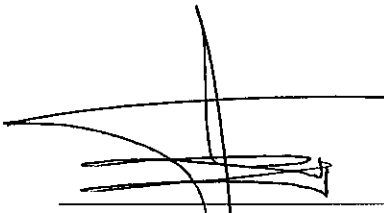
(United States Dollars thousands)

	Notes	30 September 2010 (reviewed)	31 December 2009 (audited)
Assets			
Cash and cash equivalents		12,324	3,425
Trading securities		1,191	1,885
Loans and advances		872	872
Available-for-sale investments	4	34,041	47,066
Instalment sale receivable		13,878	15,682
Held-to-maturity investments		4,618	4,624
Other assets		11,206	2,316
Total assets		78,130	75,870
Liabilities			
Deposits from customers	5	22,228	23,925
Revolving loan facility		10,600	11,600
Other liabilities		5,280	3,447
Unclaimed dividends	6	3,230	3,237
Subordinated loan		10,000	10,000
Total liabilities		51,338	52,209
Equity			
Share capital		54,955	54,955
Legal reserve		16,310	16,310
Accumulated losses		(58,538)	(64,870)
Fair value reserve		6,544	9,745
General reserve		7,521	7,521
Total equity (page 6)		26,792	23,661
Total liabilities and equity		78,130	75,870


This interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 03 November 2010 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 BSC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 30 September 2010

(United States Dollars thousands)

	Nine months ended		Three months ended	
	30 September 2010 (reviewed)	30 September 2009 (reviewed)	30 September 2010 (reviewed)	30 September 2009 (reviewed)
Profit/ (loss) for the period	6,332	(24,801)	2,195	(5,131)
Other comprehensive income:				
Cumulative changes in fair value of available-for-sale investments transferred to income statement	(3,405)	(1,325)	(1,824)	3,671
Net changes in fair value of available-for-sale investments	204	12,283	2,409	275
Foreign currency translation movement	-	(1,095)	-	279
Total other comprehensive income for the period	(3,201)	9,863	585	4,225
Total comprehensive income for the period	3,131	(14,938)	2,780	(906)

The interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the nine months ended 30 September 2010**

(United States Dollars thousands)

2010 (reviewed)	Share capital	Legal reserve	Accumulated losses	Fair value reserve	General reserve	Total equity
Balance at 1 January	54,955	16,310	(64,870)	9,745	7,521	23,661
Total comprehensive income for the period:						
Profit for the period	-	-	6,332	-	-	6,332
Other comprehensive income:						
Net changes transferred to income statement	-	-	-	(2,440)	-	(2,440)
Net changes in fair value of available-for-sale investment	-	-	-	(761)	-	(761)
Total comprehensive income for the period	-	-	6,332	(3,201)	-	3,131
Balance at 30 September	54,955	16,310	(58,538)	6,544	7,521	26,792
2009 (reviewed)	Share capital	Legal reserve	Accumulated losses	Fair value reserve	General reserve	Total equity
Balance at 1 January	54,955	16,310	(30,110)	(5,698)	7,521	42,978
Total comprehensive income for the period:						
Loss for the period	-	-	(24,801)	-	-	(24,801)
Other comprehensive income:						
Net changes transferred to income statement	-	-	-	(1,325)	-	(1,325)
Net changes in fair value on available-for-sale investments	-	-	-	12,283	-	12,283
Foreign currency translation movement	-	-	(1,095)	-	-	(1,095)
Total comprehensive income for the period	-	-	(25,896)	10,958	-	(14,938)
Balance at 30 September	54,955	16,310	(56,006)	5,260	7,521	28,040

The interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2010**

(United States Dollars thousands)

	Nine months ended	
	30 September 2010 (reviewed)	30 September 2009 (reviewed)
Cash flow from operating activities		
Profit/ (loss) for the period	6,332	(24,801)
<u>Adjustments for:</u>		
Impairment provisions on investments	371	16,096
Depreciation	182	156
Profit on sale of equipments	-	(19)
<u>Changes in operating assets and liabilities:</u>		
Trading securities	694	10,969
Available-for-sale investments	9,454	(847)
Derivative financial instruments	-	(1,735)
Loans and advances	-	29
Other assets	(8,981)	2,078
Other liabilities	1,826	(223)
Deposits from customers	(1,697)	(1,034)
Change in exchange rates related to retained earnings of overseas subsidiaries	-	(1,095)
	<u>8,181</u>	<u>(426)</u>
Net cash from operating activities		
Cash flow from investing activities		
Held-to-maturity investments	6	(221)
Purchase of equipment	(92)	(144)
Proceeds from sale of equipment	-	25
	<u>(86)</u>	<u>(340)</u>
Net cash used in investing activities		
Cash flow from financing activities		
Amounts received against instalment sale receivable	1,804	1,617
Amounts paid against revolving loan	(1,000)	-
Net change in securities sold under repurchase agreements	-	(817)
	<u>804</u>	<u>800</u>
Net cash from financing activities		
Net increase in cash and cash equivalents	8,899	34
Cash and cash equivalents at 1 January	3,425	3,688
Cash and cash equivalents at 30 September	<u>12,324</u>	<u>3,722</u>

The interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2010

(United States Dollars thousands)

1. Basis of preparation

The interim financial information comprise the interim financial information of Bahrain Middle East Bank BSC (the "Bank") and its subsidiaries (together the "Group") and has been prepared in a condensed form in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

The accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are consistent with those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2009, except for the changes arising from adoption of relevant revised IFRS, amendments and interpretations issued by IASB that are effective for annual reporting periods beginning 1 January 2010. The adoption of these standards did not have an impact on the interim financial information. The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2009.

Going concern

The Group has accumulated losses as at 30 September 2010 amounting to USD 58,538 thousands (2009: USD 64,870 thousands), which exceeds the Group's issued and paid up share capital by USD 3,583 thousands. This raises significant doubt about the Group's ability to continue as a going concern.

However, the Bank's Board of Directors and management are confident that initiatives and other ongoing activities that will take place during 2010, would address the capital and funding requirements of the Group. Initiatives currently underway include (a) efforts to increase the Bank's share capital through new issue of shares to meet the Central Bank of Bahrain's requirements, and (b) potential access to asset backed lending programmes that are supported by general improvements in liquidity markets and significant improvements in secondary market pricing of Private Equity Fund investments.

Taking into account the above factors, the Group's interim financial information as at 30 September 2010 has been prepared on a going concern basis.

2. The interim financial information is not audited but has been reviewed. The corresponding figures for the condensed consolidated statement of financial position have been extracted from audited consolidated financial statements for the year ended 31 December 2009. The corresponding figures for the condensed consolidated income statement, statements of comprehensive income, changes in equity and cash flows have been extracted from the reviewed interim financial information for the nine months ended 30 September 2009.
3. Due to the nature of the Group's business, the nine months results reported in this interim financial information may not represent a proportionate share of the overall annual results.
4. **Available-for-sale investments**

	30 September 2010 (reviewed)	31 December 2009 (audited)
Unquoted equity fund investments - at fair value	33,164	46,227
Unquoted equity investments - at cost less impairment	877	839
	<u>34,041</u>	<u>47,066</u>

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2010**

(United States Dollars thousands)

4. *Available-for-sale investments (continued)*

Commitments

At 30 September 2010, the Bank had undrawn investment commitments to private equity funds of USD 15.7 million (31 December 2009: USD 35.3 million). Of this, proprietary commitments amounted to USD 11.0 million (31 December 2009: USD 23.2 million) 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 contrary to Shari'ah principles where the Bank is a co-investor with its clients who apply Shari'ah principles to their investment activity.

5. **Deposits from customers**

	30 September 2010 (reviewed)	31 December 2009 (audited)
Customers participating in funds	9,263	11,739
Government entities and corporates	12,965	12,186
	<u>22,228</u>	<u>23,925</u>

Customer participation in funds represents amounts received from customers to be invested in private equity funds marketed by the Bank. 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.

6. Unclaimed dividends include unclaimed dividends of over fifteen years of USD 1.3 million (31 December 2009: USD 1.3 million).

7. **Other income**

	Nine months ended	
	30 September 2010	30 September 2009
Provisions for expenses written back	944	-
Forfeiture of customer's assets*	5,160	-
Others	268	-
	<u>6,372</u>	<u>-</u>

*It includes forfeiture of investor's deposit of USD 1,244 thousands and investments of USD 3,916 thousands in line with the investor's sub-participation agreements due to serious and prolonged default by the investor on committed capital calls and other investment undertakings. By virtue of forfeiture, the Bank also assumes unfunded private equity fund investment commitments of the investor totalling USD 5,380 thousands.

8. **Related party transactions & balances**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank.

- a. The transactions and balances with the related parties included in this interim financial information are as follows:

	30 September 2010 (reviewed)	31 December 2009 (audited)
Statement of financial position		
Loans to key management personnel*	-	20
Participation in funds by key management personnel	266	397

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2010**

(United States Dollars thousands)

8. *Related party transactions & balances (continued)*

*These loans are included in other assets and these 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 (2009: 1% per annum).

	Nine months ended	
	30 September 2010 (reviewed)	30 September 2009 (reviewed)
Income statement		
Administration charge on loans	-	3
Interest expense on deposits from customers	1	3

- b. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the Board of Directors, Chief Executive Officer, Head of Business Development and Chief Financial Officer. The key management personnel compensation is as follows:

	30 September 2010 (reviewed)	30 September 2009 (reviewed)
Income statement		
Directors' remuneration	32	49
Salaries and other short-term benefits	812	1,161
Post employment benefits	25	55

9. **Segment results**

(reviewed)	Trading activity		Investing activity		Other operating segments		Total	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009	30 September 2010	30 September 2009	30 September 2010	30 September 2009
External revenue	<u>71</u>	<u>13</u>	<u>4,563</u>	<u>(2,275)</u>	<u>547</u>	<u>1,287</u>	<u>5,181</u>	<u>(975)</u>
Result	(166)	228	3,605	(22,202)	100	(277)	3,539	(22,251)
Unallocated Other income							6,104	-
Corporate expenses							<u>(3,311)</u>	<u>(2,550)</u>
Profit/ (loss)							<u>6,332</u>	<u>(24,801)</u>

During the nine months period there have been no changes in the segments identified as set out in the audited consolidated financial statements of the Group as at and for the year ended 31 December 2009.

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2010**

(United States Dollars thousands)

10. Off Balance sheet items

The following were the off-balance sheet items as at 30 September 2010:

	30 September 2010 (reviewed)	31 December 2009 (audited)
Undrawn investment commitments in other equities and funds	15,690	35,277
Undrawn loan commitments	-	900
Funds under management	75,355	29,418

11. Appropriations, if any, will be made only at the year end.

12. Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.