

BAHRAIN MIDDLE EAST BANK BSC
INTERIM FINANCIAL INFORMATION
30 JUNE 2010



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

BAHRAIN MIDDLE EAST BANK BSC

**Interim financial information
for the six months ended 30 June 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	8-10



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

9 August 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 June 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six 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

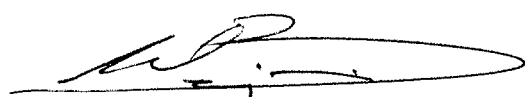
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

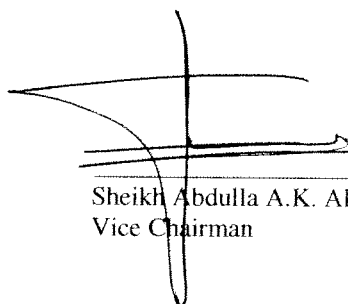
(United States Dollars thousands)

	Notes	30 June 2010 (reviewed)	31 December 2009 (audited)
Assets			
Cash and cash equivalents		8,199	3,425
Trading securities		1,024	1,885
Loans and advances		872	872
Available-for-sale investments	4	44,758	47,066
Instalment sale receivable		13,878	15,682
Held-to-maturity investments		4,605	4,624
Other assets		3,545	2,316
Total assets		76,881	75,870
Liabilities			
Deposits from bank		2,500	-
Deposits from customers	5	20,897	23,925
Revolving loan facility		11,600	11,600
Other liabilities		7,872	6,684
Subordinated loan		10,000	10,000
Total liabilities		52,869	52,209
Equity			
Share capital		54,955	54,955
Legal reserve		16,310	16,310
Accumulated losses		(60,733)	(64,870)
Fair value reserve		5,959	9,745
General reserve		7,521	7,521
Total equity (page 6)		24,012	23,661
Total liabilities and equity		76,881	75,870

This interim financial information, which consists of pages 3 to 10, was approved by the Board of Directors on 9 August 2010 and signed on its behalf by:



Wilson S. Benfamin
Chairman



Sheikh Abdulla A.K. Al Sabah
Vice Chairman



Akbar A. Habib
Chief Executive Officer

BAHRAIN MIDDLE EAST BANK BSC

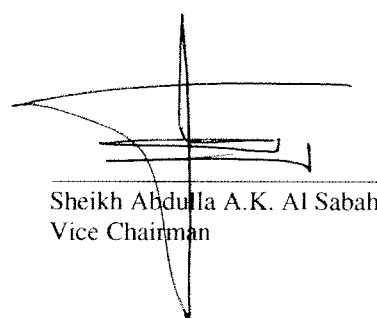
**CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2010**

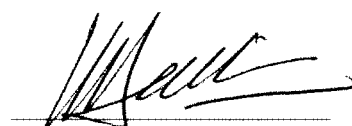
(United States Dollars thousands)

	Notes	Six months ended		Three months ended	
		30 June 2010 (reviewed)	30 June 2009 (reviewed)	30 June 2010 (reviewed)	30 June 2009 (reviewed)
(Loss) / income from trading securities		(36)	(19)	(184)	1,951
Income / (loss) from available-for-sale investments		1,011	(2,243)	(902)	(1,819)
Foreign exchange translation gain		667	1,874	310	1,065
Fees and commission income		75	153	-	76
Interest income		530	735	262	365
Other income	6	6,261	-	5,265	-
Total income		8,508	500	4,751	1,638
Staff expenses		(1,880)	(3,414)	(905)	(1,310)
Premises expenses		(424)	(530)	(216)	(256)
Interest expense		(1,140)	(975)	(601)	(526)
Other expenses		(743)	(1,558)	(388)	(856)
Total expenses		(4,187)	(6,477)	(2,110)	(2,948)
Profit/ (loss) before provisions		4,321	(5,977)	2,641	(1,310)
Impairment provisions on investments		(184)	(13,693)	(156)	(12,657)
Profit/ (loss) for the period		4,137	(19,670)	2,485	(13,967)
Basic and diluted earnings / (loss) per share		USD 0.01	(USD 0.09)	USD 0.02	(USD 0.06)

This interim financial information, which consists of pages 3 to 10, was approved by the Board of Directors on 9 August 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 six months ended 30 June 2010**

(United States Dollars thousands)

	Six months ended		Three months ended	
	30 June 2010 (reviewed)	30 June 2009 (reviewed)	30 June 2010 (reviewed)	30 June 2009 (reviewed)
Profit/ (loss) for the period	4,137	(19,670)	2,485	(13,967)
Other comprehensive income:				
Cumulative changes in fair value of available-for-sale investments transferred to profit or loss	(616)	(4,996)	350	(4,996)
Net changes in fair value of available-for-sale investments	(3,170)	12,008	(2,076)	14,243
Foreign currency translation movement	-	(1,374)	-	(1,204)
Total other comprehensive income for the period	(3,786)	5,638	(1,726)	8,043
Total comprehensive income for the period	351	(14,032)	759	(5,924)

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2010**

(United States Dollars thousands)

2010 (reviewed)	<u>Share capital</u>	<u>Legal reserve</u>	<u>Accumulated losses</u>	<u>Fair value reserve</u>	<u>General reserve</u>	<u>Total equity</u>
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	-	-	4,137	-	-	4,137
Other comprehensive income:						
Net changes in fair value on available-for-sale investments transferred to profit or loss	-	-	-	(616)	-	(616)
Net changes in fair value on available-for-sale investment	-	-	-	(3,170)	-	(3,170)
Total comprehensive income for the period	-	-	4,137	(3,786)	-	351
Balance at 30 June	<u>54,955</u>	<u>16,310</u>	<u>(60,733)</u>	<u>5,959</u>	<u>7,521</u>	<u>24,012</u>
2009 (reviewed)	<u>Share capital</u>	<u>Legal reserve</u>	<u>Accumulated losses</u>	<u>Fair value reserve</u>	<u>General reserve</u>	<u>Total equity</u>
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	-	-	(19,670)	-	-	(19,670)
Other comprehensive income:						
Net changes in fair value on available-for-sale investments transferred to profit or loss	-	-	-	(4,996)	-	(4,996)
Net changes in fair value on available-for-sale investments	-	-	-	12,008	-	12,008
Foreign currency translation movement	-	-	(1,374)	-	-	(1,374)
Total comprehensive income for the period	-	-	(21,044)	7,012	-	(14,032)
Balance at 30 June	<u>54,955</u>	<u>16,310</u>	<u>(51,154)</u>	<u>1,314</u>	<u>7,521</u>	<u>28,946</u>

The interim financial information consists of pages 3 to 10.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2010**

(United States Dollars thousands)

	Six months ended	
	30 June 2010 (reviewed)	30 June 2009 (reviewed)
Cash flow from operating activities		
Profit/ (loss) for the period	4,137	(19,670)
<u>Adjustments for:</u>		
Impairment provisions on investments	184	13,693
Depreciation	121	102
Profit on sale of equipments	-	(19)
<u>Changes in operating assets and liabilities:</u>		
Trading securities	861	11,437
Available-for-sale investments	(5,204)	336
Derivative financial instruments	-	(1,735)
Loans and advances	-	29
Other assets	1,229	1,637
Other liabilities	1,188	504
Deposits from customers	(3,027)	(349)
Change in exchange rates related to retained earnings of overseas subsidiaries	-	(1,373)
Net cash from operating activities	512	4,592
Cash flow from investing activities		
Held-to-maturity investments	19	(168)
Purchase of equipment	(61)	(130)
Proceeds from sale of equipment	-	24
Net cash used in investing activities	(42)	(274)
Cash flow from financing activities		
Amounts received against instalment sale receivable	1,804	1,617
Increase in bank deposits	2,500	-
Net change in securities sold under repurchase agreements	-	(817)
Net cash from financing activities	4,304	800
Net increase in cash and cash equivalents	4,774	5,118
Cash and cash equivalents at 1 January	3,425	3,688
Cash and cash equivalents at 30 June	8,199	8,806

The interim financial information consists of pages 3 to 10.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE INTERIM FINANCIAL INFORMATION for the six months ended 30 June 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 June 2010 amounting to USD 60,733 thousands (2009: USD 64,870 thousands), which exceeds the Group's issued and paid up share capital by USD 5,778 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 June 2010 has been prepared on a going concern basis.

- 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 six months ended 30 June 2009.
- Due to the nature of the Group's business, the six months results reported in this interim financial information may not represent a proportionate share of the overall annual results.
- Available-for-sale investments**

	30 June 2010 (reviewed)	31 December 2009 (audited)
Unquoted equity fund investments - at fair value	43,884	46,227
Unquoted equity investments - at cost less impairment	874	839
	<u>44,758</u>	<u>47,066</u>

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010**

(United States Dollars thousands)

4. Available-for-sale investments (continued)

Commitments

At 30 June 2010, the Bank had undrawn investment commitments to private equity funds of USD 30.5 million (31 December 2009: USD 35.3 million). Of this, proprietary commitments amounted to USD 26 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 June 2010 (reviewed)	31 December 2009 (audited)
Customers participating in funds	8,786	11,739
Government entities and corporates	12,111	12,186
	<u>20,897</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. Other income

	Six months ended	
	30 June 2010	30 June 2009
Provisions written back	927	-
Forfeiture of investor's assets*	5,153	-
Others	181	-
	<u>6,261</u>	<u>-</u>

*It includes forfeiture of investor's deposit of USD 1,382 thousands and investments of USD 3,771 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.

7. 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 June 2010 (reviewed)	31 December 2009 (audited)
Statement of financial position		
Loans to key management personnel*	14	20
Participation in funds by key management personnel	381	397

*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).

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010**

(United States Dollars thousands)

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

	Six months ended	
	30 June 2010 (reviewed)	30 June 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 and Chief Financial Officer. The key management personnel compensation is as follows:

	30 June 2010 (reviewed)	30 June 2009 (reviewed)
Income statement		
Directors' remuneration	22	32
Salaries and other short-term benefits	274	816
Post employment benefits	8	40

8. **Segment results**

(reviewed)	Trading activity		Investing activity		Other operating segments		Total	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
External revenue	(36)	1,861	1,011	(2,490)	260	117	1,235	(512)
Result	(184)	1,835	436	(17,073)	(31)	24	221	(15,214)
Unallocated								
Other income							6,133	-
Corporate expenses							(2,217)	(4,456)
Profit/ (loss)							4,137	(19,670)

During the six 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.

9. Appropriations, if any, will be made only at the year end.
10. 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.