

BAHRAIN MIDDLE EAST BANK BSC
INTERIM FINANCIAL INFORMATION
31 MARCH 2010



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

BAHRAIN MIDDLE EAST BANK BSC

**Interim financial information
for the three months ended 31 March 2010**

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Independent auditors' report on review of interim financial information

12 May 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 31 March 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-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 as at 31 March 2010 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 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.

KPMG

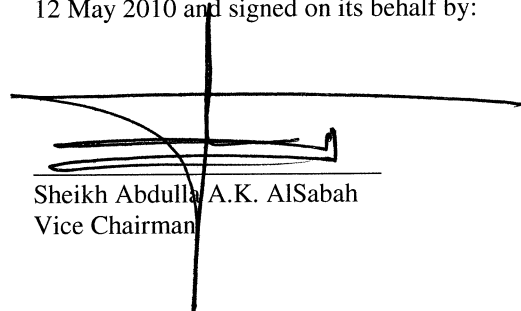
BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2010

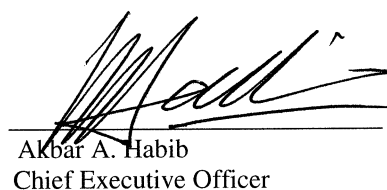
(United States Dollars thousands)

	Notes	31 March 2010 (reviewed)	31 December 2009 (audited)
Assets			
Cash and cash equivalents		4,550	3,425
Trading securities		2,025	1,885
Loans and advances		872	872
Available-for-sale investments	4	44,196	47,066
Instalment sale receivable		15,682	15,682
Held-to-maturity investments		4,608	4,624
Other assets		2,679	2,316
Total assets		<u>74,612</u>	<u>75,870</u>
Liabilities			
Deposits from customers	5	23,688	23,925
Revolving loan facility		11,600	11,600
Other liabilities		6,071	6,684
Subordinated loan		10,000	10,000
Total liabilities		<u>51,359</u>	<u>52,209</u>
Equity			
Share capital		54,955	54,955
Legal reserve		16,310	16,310
Accumulated losses		(63,218)	(64,870)
Fair value reserve		7,685	9,745
General reserve		7,521	7,521
Total equity (page 6)		<u>23,253</u>	<u>23,661</u>
Total liabilities and equity		<u>74,612</u>	<u>75,870</u>

This interim financial information, which consists of pages 3 to 10, was approved by the Board of Directors on 12 May 2010 and signed on its behalf by:



 Sheikh Abdullah A.K. AISabah
 Vice Chairman



 Akbar A. Habib
 Chief Executive Officer

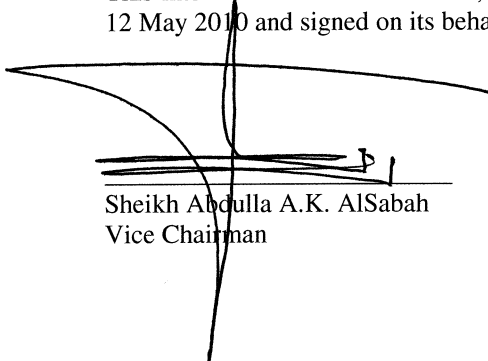
BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2010**


(United States Dollars thousands)

	Notes	Three months ended 31 March 2010 (reviewed)	31 March 2009 (reviewed)
Income/ (loss) from trading securities		148	(1,970)
Income/ (loss) from available-for-sale investments		1,913	(424)
Foreign exchange translation gain		357	809
Fees and commission income		75	77
Interest income		268	370
Other income	6	996	14
Total income/ (loss)		<u>3,757</u>	<u>(1,124)</u>
Staff expenses		(975)	(2,104)
Premises expenses		(208)	(274)
Interest expense		(539)	(449)
Other expenses		(355)	(716)
Total expenses		<u>(2,077)</u>	<u>(3,543)</u>
Profit/(loss) before provisions		<u>1,680</u>	<u>(4,667)</u>
Impairment provisions on investments		<u>(28)</u>	<u>(1,036)</u>
Profit/ (loss) for the period		<u><u>1,652</u></u>	<u><u>(5,703)</u></u>
Basic and diluted earnings per share		USD 0.01	(USD 0.03)

This interim financial information, which consists of pages 3 to 10, was approved by the Board of Directors on 12 May 2010 and signed on its behalf by:



Sheikh Abdulla A.K. AlSabah
Vice Chairman



Akbar A. Habib
Chief Executive Officer

BAHRAIN MIDDLE EAST BANK BSC**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended 31 March 2010**

(United States Dollars thousands)

	Three months ended	
	31 March 2010 (reviewed)	31 March 2009 (reviewed)
Profit/ (loss) for the period	1,652	(5,703)
Other comprehensive income:		
Net changes in fair value on available-for-sale investments transferred to profit or loss	(966)	-
Net changes in fair value on available-for-sale investments	(1,094)	(2,235)
Foreign currency translation movement	-	(170)
Other comprehensive income for the period	<u>(2,060)</u>	<u>(2,405)</u>
Total comprehensive income for the period	<u>(408)</u>	<u>(8,108)</u>

BAHRAIN MIDDLE EAST BANK BSC
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 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	-	-	1,652	-	-	1,652
Other comprehensive income:						
Net changes in fair value on available-for-sale investments transferred to profit or loss	-	-	-	(966)	-	(966)
Net changes in fair value on available-for-sale investment	-	-	-	(1,094)	-	(1,094)
Total comprehensive income for the period	-	-	1,652	(2,060)	-	(408)
Balance at 31 March	<u>54,955</u>	<u>16,310</u>	<u>(63,218)</u>	<u>7,685</u>	<u>7,521</u>	<u>23,253</u>
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	-	-	(5,703)	-	-	(5,703)
Other comprehensive income:						
Net changes in fair value on available-for-sale investments	-	-	-	(2,235)	-	(2,235)
Foreign currency translation movement	-	-	(170)	-	-	(170)
Total comprehensive income for the period	-	-	(5,873)	(2,235)	-	(8,108)
Balance at 31 March	<u>54,955</u>	<u>16,310</u>	<u>(35,983)</u>	<u>(7,933)</u>	<u>7,521</u>	<u>34,870</u>

The interim financial information consists of pages 3 to 10.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2010**

(United States Dollars thousands)

	Three months ended	
	31 March 2010 (reviewed)	31 March 2009 (reviewed)
Cash flow from operating activities		
Profit/ (loss) for the period	1,652	(5,703)
<u>Adjustments for:</u>		
Impairment provisions on investments	28	1,036
Depreciation	60	50
<u>Changes in operating assets and liabilities:</u>		
Trading securities	(140)	5,813
Available-for-sale investments	782	172
Derivative financial instruments	-	(1,337)
Loans and advances	-	29
Other assets	(376)	(71)
Other liabilities	(613)	(1,036)
Deposits from customers	(237)	(1,037)
Change in exchange rates related to retained earnings of overseas subsidiaries	-	(170)
Net cash from/ (used in) operating activities	1,156	(2,254)
Cash flow from investing activities		
Held-to-maturity investments	16	15
Purchase of equipment	(47)	(84)
Net cash used in investing activities	(31)	(69)
Cash flow from financing activities		
Net change in securities sold under repurchase agreements	-	2
Net cash from financing activities	-	2
Net increase/ (decrease) in cash and cash equivalents	1,125	(2,321)
Cash and cash equivalents at 1 January	3,425	3,688
Cash and cash equivalents at 31 March	4,550	1,367

The interim financial information consists of pages 3 to 10.

BAHRAIN MIDDLE EAST BANK BSC**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 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 have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year, set out in the audited consolidated financial statements for the year ended 31 December 2009. 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 31 March 2010 amounting to USD 63,218 thousands (2009: USD 64,870 thousands), which exceeds the Group’s issued share capital by USD 8,263 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 31 March 2010 has been prepared on a going concern basis.

2. The interim financial information is not audited but has been reviewed. The comparatives for the condensed consolidated statement of financial position have been extracted from audited consolidated financial statements for the year ended 31 December 2009. The comparatives 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 three months ended 31 March 2009.
3. Due to the nature of the Group’s business, the three months results reported in this interim financial information may not represent a proportionate share of the overall annual results.

4. Available-for-sale investments

	31 March 2010 (reviewed)	31 December 2009 (audited)
Unquoted equity fund investments - at fair value	43,357	46,227
Unquoted equity investments - at cost less impairment	839	839
	<u>44,196</u>	<u>47,066</u>

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010**

(United States Dollars thousands)

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

Commitments

At 31 March 2010, the Bank had undrawn investment commitments to private equity funds of USD 33.8 million (31 December 2009: USD 35.3 million). Of this, proprietary commitments amounted to USD 22.2 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**

	31 March 2010 (reviewed)	31 December 2009 (audited)
Customers participating in funds	10,695	11,739
Government entities and corporates	12,993	12,186
	<u>23,688</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 includes write back of certain provisions for expenses of USD 927 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:

	31 March 2010 (reviewed)	31 December 2009 (audited)
Statement of financial position		
Loans to key management personnel*	-	20
Participation in funds by key management personnel	384	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).

	Three months ended	
	31 March 2010 (reviewed)	31 March 2009 (reviewed)
Income statement		
Administration charge on loans	-	2
Interest expense on deposits	1	2

BAHRAIN MIDDLE EAST BANK BSC

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010**

(United States Dollars thousands)

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

- 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:

	31 March 2010 (reviewed)	31 March 2009 (reviewed)
Income statement		
Directors' remuneration	15	21
Salaries and other short-term benefits	257	427
Post employment benefits	8	24

8. **Segment results**

(reviewed)	Trading activity		Investing activity		Other operating segments		Total	
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue	148	(1,160)	2,178	(504)	504	91	2,830	(1,573)
Result	142	(1,164)	1,367	(1,926)	476	63	1,985	(3,027)
Unallocated								
Other income							927	-
Corporate expenses							(1,260)	(2,676)
Profit/ (loss)							1,652	(5,703)

During the first quarter of 2010, 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.