

BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION

31 MARCH 2012



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

BAHRAIN MIDDLE EAST BANK BSC

**Condensed consolidated interim financial information
for the three months ended 31 March 2012**

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

23 April 2012

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 2012, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended, and explanatory notes ("the condensed consolidated interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 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 the 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 - *Interim Financial Reporting*.

BAHRAIN MIDDLE EAST BANK BSC

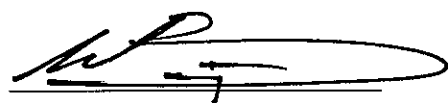
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2012

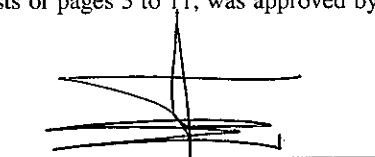
(United States Dollars thousands)

	Note	31 March 2012 (reviewed)	31 December 2011 (audited)
Assets			
Cash and cash equivalents		5,797	7,217
Placement with financial institutions	4	5,200	5,200
Trading securities		1,140	2,035
Available-for-sale investments	5	24,456	27,813
Held-to-maturity investments		4,621	4,613
Loans and advances	6	24,804	20,513
Other assets		2,676	2,287
Total assets		68,694	69,678
Liabilities			
Deposit from financial institutions		9,000	6,000
Deposits from customers	7	7,149	8,752
Securities sold under repurchase agreements		-	1,845
Borrowings		17,389	19,389
Other liabilities		5,371	4,684
Total liabilities		38,909	40,670
Equity			
Share capital		60,501	60,501
Legal reserve		17,326	17,326
Accumulated losses		(49,351)	(51,014)
Fair value reserve		1,309	2,195
Total equity		29,785	29,008
Total liabilities and equity		68,694	69,678

This condensed consolidated interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 23 April 2012 and signed on its behalf by:



Wilson S. Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Akbar A. Habib
Chief Executive Officer and Member of Board

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the three months ended 31 March 2012**

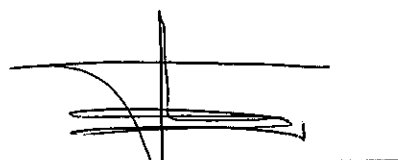
(United States Dollars thousands)

	Note	Three months ended	
		31 March 2012 (reviewed)	31 March 2011 (reviewed)
Net (loss)/ gain from trading securities		(110)	289
Income from available-for-sale investments	5	1,337	1,082
Foreign exchange translation gain		731	537
Fees and commission		1,406	578
Interest income		518	372
Other income		136	102
Total income		4,018	2,960
General and administration expenses	6	(1,863)	(1,551)
Interest expense		(287)	(544)
Total expenses		(2,150)	(2,095)
Profit before provisions		1,868	865
Impairment provision on investment		(205)	-
Profit for the period		1,663	865
Basic and diluted earnings per share - US\$ cents		0.69	0.36

This condensed consolidated interim financial information, which consists of pages 3 to 11, was approved by the Board of Directors on 23 April 2012 and signed on its behalf by:



Wilson S. Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman



Akbar A. Habib
Chief Executive Officer and Member of Board

BAHRAIN MIDDLE EAST BANK BSC**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****for the three months ended 31 March 2012**

(United States Dollars thousands)

	Three months ended	
	31 March 2012 (reviewed)	31 March 2011 (reviewed)
Profit for the period	1,663	865
Other comprehensive income:		
Fair value reserves (available-for-sale investments):		
Net amount transferred to statement of income	(1,023)	(1,082)
Net changes in fair value	137	603
Other comprehensive income for the period	(886)	(479)
Total comprehensive income for the period	777	386

The condensed consolidated interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2012**

(United States Dollars thousands)

2012 (reviewed)	Share capital	Legal reserve	Accumulated losses	Fair value reserve	Total Equity	
Balance at 1 January	60,501	17,326	(51,014)	2,195	29,008	
Total comprehensive income for the period:						
Profit for the period	-	-	1,663	-	1,663	
<i>Other comprehensive income:</i>						
Fair value reserves (available-for-sale investments):						
Net amount transferred to statement of income	-	-	-	(1,023)	(1,023)	
Net changes in fair value	-	-	-	137	137	
Other comprehensive income	-	-	-	(886)	(886)	
Total comprehensive income for the period	-	-	1,663	(886)	777	
Balance as at 31 March	60,501	17,326	(49,351)	1,309	29,785	
2011 (reviewed)	Share capital	Legal reserve	General reserve	Accumulated losses	Fair value reserve	Total equity
Balance at 1 January	54,955	16,954	7,521	(61,884)	7,571	25,117
Total comprehensive income for the period:						
Profit for the period	-	-	-	865	-	865
<i>Other comprehensive income:</i>						
Fair value reserves (available-for-sale investments):						
Net amount transferred to statement of income	-	-	-	-	(1,082)	(1,082)
Net changes in fair value	-	-	-	-	603	603
Other comprehensive income	-	-	-	-	(479)	(479)
Total comprehensive income for the period	-	-	-	865	(479)	386
Balance as at 31 March	54,955	16,954	7,521	(61,019)	7,092	25,503

The condensed consolidated interim financial information consists of pages 3 to 11.

BAHRAIN MIDDLE EAST BANK BSC

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2012**

(United States Dollars thousands)

	Three months ended	
	31 March 2012 (reviewed)	31 March 2011 (reviewed)
Cash flow from operating activities		
Profit for the period	1,663	865
<u>Adjustments for:</u>		
Impairment provisions on investment	205	-
Depreciation	39	55
Foreign exchange movement	(8)	(7)
<u>Changes in operating assets and liabilities:</u>		
Trading securities	895	(626)
Available-for-sale investments	2,266	432
Loans and advances	(4,291)	-
Other assets	(420)	(384)
Other liabilities	687	(1,008)
Securities sold under repurchase agreements	(1,845)	-
Deposits from customers	(1,603)	(2,798)
Deposit from financial institutions	3,000	-
Placement with financial institutions	-	475
Net cash from/ (used in) operating activities	588	(2,996)
Cash flow from investing activities		
Purchase of equipment	(8)	(14)
Net cash used in investing activities	(8)	(14)
Cash flow from financing activities		
Repayment of borrowings	(2,000)	-
Prior years dividends claimed and paid	-	(36)
Net cash used in financing activities	(2,000)	(36)
Net decrease in cash and cash equivalents	(1,420)	(3,046)
Cash and cash equivalents at 1 January	7,217	8,923
Cash and cash equivalents at 31 March	5,797	5,877

1. BASIS OF PREPARATION

The condensed consolidated 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 condensed consolidated interim financial information does not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2011, 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 2012. The adoption of these standards did not have an impact on the condensed consolidated 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 2011.

2. The condensed consolidated 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 2011. 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 condensed consolidated interim financial information for the three months ended 31 March 2011.
3. Due to the nature of the Group’s business, the three months results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

4. PLACEMENT WITH FINANCIAL INSTITUTIONS

Placement with Financial Institutions include US\$ 4,199 thousand (31 December 2011: US\$ 4,421 thousand) placed with a third party retail Bank in the Kingdom of Bahrain - representing amounts held on account of sub-participants in Private Equity Funds and for the purposes of honoring their capital calls to fund managers.

5. AVAILABLE-FOR-SALE INVESTMENTS

	31 March 2012 (reviewed)	31 December 2011 (audited)
Unquoted equity fund investments - at fair value	22,342	25,088
Unquoted equity investments - at cost less impairment	356	495
Quoted equity investments - at fair value	<u>1,758</u>	<u>2,230</u>
	<u>24,456</u>	<u>27,813</u>

Commitments

At 31 March 2012, the Bank had undrawn unfunded investment commitments to private equity funds of USD 5 million (31 December 2011: USD 5.4 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.

Income from available-for-sale investments of US\$ 1,337 thousand (31 March 2011: US\$ 1,082 thousand) represents distributions received from unquoted equity fund investments at higher multiples to the cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the three months ended 31 March 2012

(United States Dollars thousands)

6. GENERAL AND ADMINISTRATION EXPENSES

	31 March 2012 (reviewed)	31 March 2011 (reviewed)
Staff expenses	1,255	880
Premises expenses	139	196
Other operating expenses	469	475
Total expenses	1,863	1,551

7. LOANS AND ADVANCES

	31 March 2012 (reviewed)	31 December 2011 (audited)
Instalment sale receivable	11,261	11,261
Trade finance	12,671	8,380
Other	872	872
	24,804	20,513

8. DEPOSITS FROM CUSTOMERS

	31 March 2012 (reviewed)	31 December 2011 (audited)
Customer participation in funds	4,199	4,421
Quasi government entities, corporate and individuals	2,049	3,582
Others	901	749
	7,149	8,752

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. These amounts have been segregated and placed with a third party retail Bank in the Kingdom of Bahrain.

Deposits from Government institutions, corporate and individuals include a term deposit from a quasi-government depositor - as originally obtained by the Bank during 2004. These over-due amounts outstanding as at 31 December 2008 amounted to US\$ 13.1 million - and was later rescheduled by the Bank in December 2009. Since reschedulement, a total US\$ 12.1 million has been paid with sums outstanding as at 31 March 2012 amounting to US\$ 1.0 million (31 December 2011: US\$ 2,100 thousand). The final instalment of US\$ 1.0 million was paid on 5 April 2012.

9. RELATED PARTY TRANSACTIONS AND 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 condensed consolidated interim financial information are as follows:

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the three months ended 31 March 2012

(United States Dollars thousands)

9. *Related Party transactions and balances (cont.)*

	31 March 2012 (reviewed)	31 December 2011 (audited)
Condensed consolidated statement of financial position		
Deposits from related parties	97	88

- 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:

	31 March 2012 (reviewed)	31 March 2011 (reviewed)
Condensed consolidated statement of income		
Directors' remuneration	24	15
Salaries and other short-term benefits	280	254
Post employment benefits	10	8

10. SEGMENT RESULTS

Three months ended 31 March 2012	Trading activity	Investing activity	Other	Total
(Loss)/ income from investments	(110)	1,337	-	1,227
Foreign exchange translation gain	-	731	-	731
Fees and commission gain	-	-	1,406	1,406
Interest income	71	7	440	518
Other income	-	-	136	136
Interest expense	-	(103)	(184)	(287)
Results from segments	(39)	1,972	1,798	3,731
Impairment provisions	-	(205)	-	(205)
Unallocated corporate expenses	-	-	(1,863)	(1,863)
Net income for the period				<u>1,663</u>

Three months ended 31 March 2011	Trading activity	Investing activity	Other	Total
Income from investments	289	1,082	-	1,371
Foreign exchange translation gain	-	537	-	537
Fees and commission	-	-	703	703
Interest income	149	70	153	372
Other income	-	-	90	90
Interest expense	(4)	(42)	(498)	(544)
Results from segments	434	1,647	448	2,529
Unallocated other income	-	-	-	12
Unallocated corporate expenses	-	-	(1,676)	(1,676)
Net income for the period				<u>865</u>

During the three month 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 2011.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2012 (United States Dollars thousands)

11. CONTINGENT ITEMS AND COMMITMENTS

The outstanding contingent items and commitments as at 31 March 2012 were as follows:

	31 March 2012 (reviewed)	31 December 2011 (audited)
Undrawn investment commitments in other equities and funds	8,869	9,469
Funds under management	80,504	80,283
Letters of credit and guarantee	1,468	1,423
Other commitments	2,736	2,736

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

13. Certain prior period amounts have been regrouped to conform to the presentation in the current period. Such regrouping did not impact on equity or profit of the Group previously reported.