Bahrain Middle East Bank (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2013 (UNAUDITED)

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK (B.S.C.)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Middle East Bank (B.S.C.) ["the Bank"] and its subsidiaries [together "the Group"] as at 30 September 2013, comprising of the interim consolidated statement of financial position as at 30 September 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim consolidated financial statements 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. Consequently, it 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK (B.S.C.) (continued)

Other Matters

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified audit opinion dated 27 February 2013 on those consolidated financial statements. In addition, the interim condensed consolidated financial statements of the Group for the period ended 30 September 2012 were reviewed by another auditor who expressed an unmodified review conclusion dated 6 November 2012 on those interim condensed consolidated financial statements.

Ernst & Young

6 November 2013
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2013 (Unaudited)

	Note	*Unaudited* **30 September 2013 US$ '000**	*Audited 31 December 2012 US$ '000*
ASSETS			
Balances with banks and financial institutions		**11,941**	2,318
Placements with financial institutions		**23,005**	4,000
Trading securities		**420**	437
Loans and advances	1	**106,604**	20,956
Available-for-sale investments		**19,179**	21,544
Held-to-maturity investments		**4,622**	4,624
Other assets		**2,309**	1,386
TOTAL ASSETS		**168,080**	55,265
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial institutions	1	**124,690**	6,000
Deposits from customers		**5,553**	5,089
Borrowings		**8,000**	11,389
Other liabilities		**1,068**	2,342
Total liabilities		**139,311**	24,820
EQUITY			
Share capital		**60,501**	60,501
Legal reserve		**17,545**	17,545
Accumulated losses		**(52,330)**	(49,045)
Fair value reserve		**3,053**	1,444
Total equity		**28,769**	30,445
TOTAL LIABILITIES AND EQUITY		**168,080**	55,265

Wilson S Benjamin
Chairman

Sheikh Abdullah A.K Al Sabah
Vice Chairman

Ritchie Skelding
Chief Executive Officer

The attached notes 1 to 8 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank (B.S.C.)

INTERIM CONSOLIDATED STATEMENT OF INCOME

Nine-month period ended 30 September 2013 (Unaudited)

	Note	Three months ended 30 September 2013 US$ '000	Three months ended 30 September 2012 US$ '000	Nine months ended 30 September 2013 US$ '000	Nine months ended 30 September 2012 US$ '000
OPERATING INCOME					
Interest income		**2,329**	326	**9,994**	1,258
Interest expense		**(295)**	(219)	**(1,521)**	(804)
Net interest income		**2,034**	107	**8,473**	454
Investment banking (loss) income	3	**(543)**	773	**451**	5,130
Other income		**59**	62	**542**	296
Foreign exchange translation gain (loss)		**188**	210	**(130)**	766
Total operating income		**1,738**	1,152	**9,336**	6,646
Impairment provisions - net		**(1,366)**	(116)	**(6,059)**	(335)
NET OPERATING INCOME AFTER PROVISIONS		**372**	1,036	**3,277**	6,311
OPERATING EXPENSES					
Staff expenses		**834**	382	**2,498**	2,564
Premises expenses		**128**	157	**379**	440
Other operating expenses		**471**	465	**3,685**	1,461
Total operating expenses		**1,433**	1,004	**6,562**	4,465
(LOSS) PROFIT FOR THE PERIOD		**(1,061)**	32	**(3,285)**	1,846
BASIC AND DILUTED EARNINGS PER SHARE (IN US$ CENTS)		**(0.44)**	0.01	**(1.36)**	0.76

Wilson S Benjamin
Chairman

Sheikh Abdullah A.K Al Sabah
Vice Chairman

Ritchie Skelding
Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine-month period ended 30 September 2013 (Unaudited)

	Three months ended 30 September		*Nine months ended 30 September*	
	2013	*2012*	***2013***	*2012*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
(LOSS) PROFIT FOR THE PERIOD	**(1,061)**	32	**(3,285)**	1,846
Other comprehensive income:				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Fair value reserves (available-for-sale investments):				
Net amount transferred to statement of income on sale/impairment	**1,612**	133	**3,208**	(1,209)
Net changes in fair value during the period	**289**	964	**(1,599)**	(124)
Total other comprehensive income (loss) for the period	**1,901**	1,097	**1,609**	(1,333)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**840**	1,129	**(1,676)**	513

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
Nine-month period ended 30 September 2013 (Unaudited)

	Nine months ended 30 September	
	2013	*2012*
	US$ '000	*US$ '000*
OPERATING ACTIVITIES		
(Loss) profit for the period	**(3,285)**	1,846
Adjustments for:		
Impairment provisions - net	**6,059**	335
Depreciation and amortisation	**69**	71
Foreign exchange movement	**2**	(10)
Gain on disposal of property, plant, and equipment	**(8)**	-
Changes in operating assets and liabilities:		
Placements with financial institutions	**(6,300)**	1,200
Trading securities	**17**	1,207
Loans and advances	**(86,581)**	1,381
Available-for-sale investments	**(1,152)**	5,177
Other assets	**(943)**	652
Securities sold under repurchase agreements	**-**	(3,013)
Other liabilities	**(1,274)**	(1,396)
Deposits from financial institutions	**118,690**	(3,000)
Deposits from customers	**464**	(2,590)
Net cash from operating activities	**25,758**	1,860
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(97)**	(31)
Proceeds from disposal of property, plant, and equipment	**56**	-
Net cash used in investing activities	**(41)**	(31)
FINANCING ACTIVITY		
Repayment of borrowings	**(3,389)**	(6,000)
Net cash used in financing activity	**(3,389)**	(6,000)
Net change in cash and cash equivalents	**22,328**	(4,171)
Cash and cash equivalents at beginning of the period	**6,318**	8,697
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**28,646**	4,526
CASH AND CASH EQUIVALENTS COMPRISE:		
Balances with banks and financial institutions	**11,941**	4,526
Placements with financial institutions with original maturities less than 90 days	**16,705**	-
	28,646	**4,526**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Nine-month period ended 30 September 2013 (Unaudited)

	Share capital US$ '000	*Legal reserve US$ '000*	*Accumalated losses US$ '000*	*Fair Value reserve US$ '000*	*Total equity US$ '000*
Balance at 31 December 2012	60,501	17,545	(49,045)	1,444	30,445
Loss for the period	-	-	(3,285)	-	(3,285)
Net amount transferred to statement of income on sale/impairment	-	-	-	3,208	3,208
Net changes in fair value during the period	-	-	-	(1,599)	(1,599)
Total comprehensive (loss) income for the period	-	-	(3,285)	1,609	(1,676)
Balance at 30 September 2013	**60,501**	**17,545**	**(52,330)**	**3,053**	**28,769**
Balance at 31 December 2011	60,501	17,326	(51,014)	2,195	29,008
Profit for the period	-	-	1,846	-	1,846
Net amount transferred to statement of income on sale/impairment	-	-	-	(1,209)	(1,209)
Net changes in fair value during the period	-	-	-	(124)	(124)
Total comprehensive income for the period	-	-	1,846	(1,333)	513
Balance at 30 September 2012	60,501	17,326	(49,168)	862	29,521

1 INCORPORATION AND ACTIVITIES

Bahrain Middle East Bank (B.S.C.) (the "Bank", "BMB" or "BMB Investment Bank") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain. On 9 April 2007 the Central Bank of Bahrain issued a Conventional Wholesale Banking license to 'BMB' under Commercial Registration (CR) number 12266. The Bank is listed on the Bahrain Bourse under the ticker BMB. The principal activities of the Bank and its subsidiaries (together "the Group") are asset management, private equity investments, equities and fixed income, corporate advisory and trade finance.

The registered office of the Bank is, BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

Subsequent to the approval of the 31 December 2012 consolidated financial statements (the "consolidated financial statements") by Shareholders on 28 March 2013, the Board and new management team of the Bank have discovered certain transactions and balances which were not reported in the Group's consolidated financial statements. As the Board of Directors was not provided with complete information and documentation relevant to these transactions and balances; based on review of the underlying documentation for the transactions and balances and extensive evaluation, the Bank has concluded that assets and liabilities arising from these transactions, together with certain other similar assets and liabilities which were previously reported and accounted for as customer deposits under discretionary portfolio management program, should now be reported and accounted for as Bank's assets and liabilities. Furthermore, in line with the International Financial Reporting Standards, the Board and new management team of the Bank have concluded that since key information was not available at the date of approval of consolidated financial statements, the corresponding figures are not required to be restated.

As a result, the assets of US$ 138,383 thousand mostly allocated between loans and advances, trading securities (subsequently liquidated to placements with financial institutions), and balances with banks and financial institutions, and liabilities of US$ 143,093 thousand mostly allocated to deposits from financial institutions were reported on the interim consolidated statement of financial position of the Bank as at 31 March 2013.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 6 November 2013.

2 ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group for the nine month period ended 30 September 2013 are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of the new and amended IFRS that have become effective from 1 January 2013 and those which are applicable to the Group:

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not set off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

2 ACCOUNTING POLICIES (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements, IAS 31 Interests in Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the interim condensed consolidated financial statements of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The transition to IAS 19R had no impact on the Group's financial position or performance.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

2 ACCOUNTING POLICIES (continued)

IAS 1 Clarification of the requirement for comparative information (Amendment)

'The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim financial statements do not include a third balance sheet.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2012. In addition, results for the nine-months period ended 30 September 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

3 INVESTMENT BANKING INCOME

	Unaudited 30 September 2013 US$ '000	*Unaudited 30 September 2012 US$ '000*
Net loss from trading securities	**(262)**	(102)
Income from available-for-sale investments	**672**	2,042
Fee and commission	**41**	3,190
	451	5,130

Income from available-for-sale investments of US$ 672 thousand (30 September 2012: US$ 2,042 thousand) represents distributions received from unquoted equity fund investments at exits at higher multiples to cost.

4 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 interim condensed consolidated financial information are as follows:

	Unaudited 30 September 2013 US$ '000	*Audited 31 December 2012 US$ '000*
Interim consolidated statement of financial position		
Loans and advances	**7,876**	7,876
Deposits from related parties	**85**	117

b Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

	Unaudited 30 September 2013 US$ '000	*Unaudited 30 September 2012 US$ '000*
Interim consolidated statement of income		
Directors' remuneration	**77**	66
Salaries and other short-term benefits	**1,080**	1,032
Post employment benefits	**57**	53

5 SEGMENT RESULTS

	Nine months ended 30 September 2013			
	Trading activity US$ '000	***Investing activity US$ '000***	***Other US$ '000***	***Total US$ '000***
Investment banking (loss) income	(262)	672	41	**451**
Foreign exchange translation loss	-	(130)	-	**(130)**
Interest income	215	9,494	285	**9,994**
Other income	-	-	542	**542**
Interest expense	-	(1,514)	(7)	**(1,521)**
Results from segments	(47)	8,522	861	**9,336**
Impairment provisions	-	(6,059)	-	**(6,059)**
Unallocated corporate expenses	-	-	(6,562)	**(6,562)**
Net loss for the period				**(3,285)**
Total assets	420	122,608	45,052	**168,080**
Total liabilities	-	138,243	1,068	**139,311**

5 SEGMENT RESULTS (continued)

	Nine months ended 30 September 2012			
	Trading activity US$ '000	*Investing activity US$ '000*	*Other US$ '000*	*Total US$ '000*
Investment banking income	(102)	2,042	3,190	5,130
Foreign exchange translation gain	-	766	-	766
Interest income	22	866	370	1,258
Other income	-	-	296	296
Interest expense	-	(673)	(131)	(804)
Results from segments	(80)	3,001	3,725	6,646
Impairment provisions	-	(335)	-	(335)
Unallocated corporate expenses	-	-	(4,465)	(4,465)
Net profit for the period				1,846
Total assets	437	26,168	28,660	55,265
Total liabilities	-	16,478	8,342	24,820

During the nine 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 2012.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of available-for-sale investments and trading securities. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

	30 September 2013		
	Carrying value US$ '000	***Fair Value US$ '000***	***Under carrying value US$ '000***
Assets			
Held-to-maturity investments	4,622	3,780	(842)
Net shortfall of fair value over carrying value			**(842)**

The total shortfall in fair value of held-to-maturity investments of US$ 842 thousand is not relevant except in a forced sale situation since the Group has the intention to hold these Held-to-maturity investment securities until maturity when it would recover full nominal amounts. However, in the event these held-to-maturity investment securities are sold, the impact on the consolidated income statement and equity would be US$ 842 thousand.

The total fair value of held-to-maturity investment security is based on quoted market prices at the reporting date.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active market for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	30 September 2013			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Trading Securities	420	-	-	**420**
Available-for-sale investments				
Unquoted equity	-	-	732	**732**
Unquoted equity fund investments	-	-	18,447	**18,447**
Total	**420**	**-**	**19,179**	**19,599**

	31 December 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Trading Securities	437	-	-	437
Available-for-sale investments				
Quoted equity	6	-	-	6
Unquoted equity	-	-	764	764
Unquoted equity fund investments	-	-	20,736	20,736
Total	443	-	21,500	21,943

6 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 of investments classified at fair value:

	Unaudited 30 September 2013 US$ '000	*Audited 31 December 2012 US$ '000*
At 1 January	**21,500**	25,100
Additions	**332**	1,060
Exits (at cost)	**(775)**	(3,189)
Fair value transferred to statement of income on disposals	**(1,346)**	(1,230)
Fair value adjustments	**(532)**	(241)
	19,179	21,500

Level 3 available-for-sale investments represent private equity funds where the underlying fund managers exercise judgements in valuation of investments. There have been no transfers in/out of level 3.

7 CREDIT COMMITMENTS AND CONTINGENT ITEMS

The outstanding contingent items and commitments as at 30 September 2013 were as follows:

	Unaudited 30 September 2013 US$ '000	*Audited 31 December 2012 US$ '000*
Undrawn investment commitments in other equities and funds	**5,715**	6,302
Funds under management	**19,823**	76,495
Letters of credit and guarantee	**-**	1,453
Other commitments	**2,736**	2,736

8 COMPARTIVE FIGURES

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