

BAHRAIN MIDDLE EAST BANK BSC
CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION
31 MARCH 2013



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 2013**

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Independent auditors' report on review of condensed consolidated interim financial information

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

12 June 2013

Introduction

We have reviewed the accompanying 31 March 2013 condensed consolidated interim financial information of Bahrain Middle East Bank BSC ("the Bank") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2013;
- the condensed consolidated income statement for the three month period ended 31 March 2013;
- the condensed consolidated statement of comprehensive income for the three month period ended 31 March 2013;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2013;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2013; and
- notes to 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 31 March 2013 condensed consolidated 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 5 to the condensed consolidated interim financial information which discusses a significant matter arising during the three month period ended 31 March 2013.

BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2013


(United States Dollars thousands)

	Note	31 March 2013 (reviewed)	31 December 2012 (audited)
Assets			
Cash and cash equivalents		27,507	2,318
Placements with a financial institution	7	4,000	4,000
Trading securities		25,718	437
Available-for-sale investments	8	21,547	21,544
Held-to-maturity investments		4,609	4,624
Loans and advances	9	102,606	20,956
Other assets		4,542	1,386
Total assets		190,529	55,265
Liabilities			
Deposits from financial institutions	10	130,078	6,000
Deposits from customers	11	5,738	5,089
Borrowings	12	28,644	11,389
Other liabilities		1,330	2,342
Total liabilities		165,790	24,820
Equity			
Share capital		60,501	60,501
Legal reserve		17,545	17,545
Accumulated losses		(55,071)	(49,045)
Fair value reserve		1,764	1,444
Total equity		24,739	30,445
Total liabilities and equity		190,529	55,265

This condensed consolidated interim financial information, which consists of pages 3 to 14, was approved by the Board of Directors on 12 June 2013 and signed on its behalf by:


Wilson S. Benjamin
Chairman


Ritchie Skelding
Chief Executive Officer


Sheikh Abdullah A.K. Al Sabah
Vice Chairman

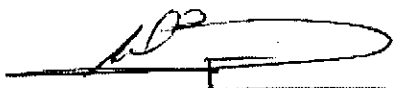
BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the three months ended 31 March 2013

(United States Dollars thousands)

	Note	Three months ended	
		31 March 2013 (reviewed)	31 March 2012 (reviewed)
Investment banking (loss)/ income	13	(44)	1,984
Foreign exchange translation (loss)/ gain		(501)	746
Interest income		1,315	1,611
Other income		71	136
Total income		841	4,477
General and administrative expenses	14	(1,525)	(2,081)
Interest expense		(719)	(528)
Total expenses		(2,244)	(2,609)
(Loss)/ profit before provisions		(1,403)	1,868
Provisions	15	(4,623)	(205)
(Loss)/ profit for the period		(6,026)	1,663
Basic and diluted earnings per share - US\$ cents		(2.49)	0.69

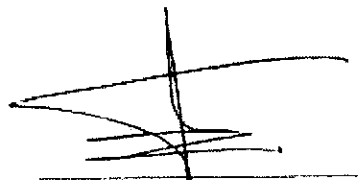
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Wilson S. Benjamin
Chairman



Ritchie Skelding
Chief Executive Officer



Sheikh Abdullah A.K Al Sabah
Vice Chairman

BAHRAIN MIDDLE EAST BANK BSC**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended 31 March 2013**

(United States Dollars thousands)

	Three months ended	
	31 March 2013 (reviewed)	31 March 2012 (reviewed)
(Loss)/ profit for the period	(6,026)	1,663
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Fair value reserves (available-for-sale investments):		
Net amount transferred to statement of income on sale/impairment	1,996	(1,023)
Net changes in fair value during the period	(1,676)	137
Total other comprehensive income for the period	320	(886)
Total comprehensive income for the period	(5,706)	777

The condensed consolidated interim financial information consists of pages 3 to 14.

BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2013

(United States Dollars thousands)

2013 (reviewed)	Share capital	Legal reserve	Accumulated losses	Fair value reserve	Total Equity
Balance at 1 January	60,501	17,545	(49,045)	1,444	30,445
Total comprehensive income for the period:					
Loss for the period	-	-	(6,026)	-	(6,026)
<i>Other comprehensive income:</i>					
Items that may be reclassified subsequently to profit or loss:					
Fair value reserves (available-for-sale investments):					
Net amount transferred to statement of income on sale/impairment	-	-	-	1,996	1,996
Net changes in fair value during the period	-	-	-	(1,676)	(1,676)
Total other comprehensive income	-	-	-	320	320
Total comprehensive income for the period	-	-	(6,026)	320	(5,706)
Balance as at 31 March	60,501	17,545	(55,071)	1,764	24,739
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>					
Items that may be reclassified subsequently to profit or loss:					
Fair value reserves (available-for-sale investments):					
Net amount transferred to statement of income on sale/impairment	-	-	-	(1,023)	(1,023)
Net changes in fair value during the period	-	-	-	137	137
Total 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

The condensed consolidated interim financial information consists of pages 3 to 14.

BAHRAIN MIDDLE EAST BANK BSC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2013

(United States Dollars thousands)

	Three months ended	
	31 March 2013 (reviewed)	31 March 2012 (reviewed)
Cash flow from operating activities		
(Loss)/ profit for the period	(6,026)	1,663
<u>Adjustments for:</u>		
Provisions	4,623	205
Depreciation	24	39
Foreign exchange movement	15	(8)
<u>Changes in operating assets and liabilities:</u>		
Trading securities	(25,281)	895
Available-for-sale investments	(3,482)	2,266
Loans and advances	(82,473)	(4,291)
Other assets	(3,180)	(420)
Other liabilities	(1,012)	687
Securities sold under repurchase agreements	-	(1,845)
Deposits from customers	649	(1,603)
Deposit from financial institutions	124,078	3,000
Net cash generated from operating activities	7,935	588
Cash flow from investing activities		
Purchase of equipment	(1)	(8)
Net cash used in investing activities	(1)	(8)
Cash flow from financing activities		
Borrowings availed, net	17,255	(2,000)
Net cash generated from/ (used in) financing activities	17,255	(2,000)
Net increase/ (decrease) in cash and cash equivalents	25,189	(1,420)
Cash and cash equivalents at 1 January	2,318	7,217
Cash and cash equivalents at 31 March	27,507	5,797

The condensed consolidated interim financial information consists of pages 3 to 14.

1. REPORTING ENTITY

This condensed consolidated interim financial information is the reviewed condensed consolidated interim financial information of Bahrain Middle East Bank BSC (the “Bank”) and its subsidiaries (together the “Group”) for the three month period ended 31 March 2013.

2. BASIS OF PREPARATION

(a) Statement of compliance

The condensed consolidated interim financial information comprise the interim financial information of 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 2012.

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 2012. 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 2012.

(b) Judgements and estimates

Preparing the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, significant judgments made by the management in applying the Bank’s accounting policies and key source of estimation of uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared using the same accounting policies and methods of computation applied in the preparation of the latest audited financial statements for the year ended 31 December 2012, except for the adoption of relevant new IFRSs, amendments and interpretations issued by IASB that are effective for annual periods beginning 1 January 2013. The adoption of these standards did not have a significant impact on the condensed consolidated interim financial information.

4. FINANCIAL RISK MANAGEMENT

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 2012.

5. 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 Bank’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 and liabilities of US\$138,383 thousands and US\$ 143,093 thousands respectively have been reported on the consolidated statement of financial position of the Bank as at 31 March 2013.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the three months ended 31 March 2013

(United States Dollars thousands)

6. 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.

7. PLACEMENTS WITH A FINANCIAL INSTITUTION

Placements with a financial institution include US\$ 3,202 thousand (31 December 2012: US\$ 3,374 thousand) placed with a retail bank in the Kingdom of Bahrain - representing amounts held on account of sub-participants in private equity funds and for the purposes of honouring their capital calls to fund managers.

8. AVAILABLE-FOR-SALE INVESTMENTS

	31 March 2013 (reviewed)	31 December 2012 (audited)
Unquoted equity fund investments - at fair value	20,743	20,736
Unquoted equity investments - at fair value	761	764
Unquoted equity investments - at cost less impairment	38	38
Quoted equity investments - at fair value	5	6
	<u>21,547</u>	<u>21,544</u>

Commitments

At 31 March 2013, the Bank had undrawn investment commitments to private equity funds of US\$ 6 million (31 December 2012: US\$ 6.3 million, Note 19). Of these, the Group's proprietary commitments amounted to US\$ 2.9 million (31 December 2012: US\$ 3.2 million) and the rest were on account of sub-participants for which the Bank has segregated Funds and placed with a retail Bank for the purposes of honouring as and when they fall due.

9. LOANS AND ADVANCES

	31 March 2013 (reviewed)	31 December 2012 (audited)
Trade finance	95,766	13,292
Instalment sale receivable	7,876	7,876
	<u>103,642</u>	<u>21,168</u>
Less: collective provision	(1,036)	(212)
	<u>102,606</u>	<u>20,956</u>

10. DEPOSITS FROM FINANCIAL INSTITUTIONS

Deposits from financial institutions at 31 March 2013, includes US\$ 124,078 of quasi-government interbank placements with original maturities of less than 12 months.

11. DEPOSITS FROM CUSTOMERS

	31 March 2013 (reviewed)	31 December 2012 (audited)
Customer participation in funds	3,202	3,374
Quasi government entities, corporate and individuals	1,678	857
Others	858	858
	<u>5,738</u>	<u>5,089</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. These amounts have been segregated and placed with a third party retail Bank in the Kingdom of Bahrain.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2013

(United States Dollars thousands)

12. BORROWINGS

	31 March 2013 (reviewed)	31 December 2012 (audited)
<i>Secured</i>		
Loan from financial institutions	18,644	-
Loan from Quasi - government entity	10,000	10,000
Loan from Government entity	-	1,389
	<u>28,644</u>	<u>11,389</u>

13. INVESTMENT BANKING (LOSS)/ INCOME

	31 March 2013 (reviewed)	31 March 2012 (reviewed)
Net (loss)/ gain from trading securities	(697)	504
Income from available-for-sale investments	602	1,337
Fee and commission	51	143
	<u>(44)</u>	<u>1,984</u>

14. GENERAL AND ADMINISTRATIVE EXPENSES

	31 March 2013 (reviewed)	31 March 2012 (reviewed)
Staff expenses	833	1,255
Premises expenses	125	139
Other operating expenses	567	687
	<u>1,525</u>	<u>2,081</u>

15. PROVISIONS

	31 March 2013 (reviewed)	31 March 2012 (reviewed)
Impairment provisions on investments	3,799	205
Collective provision on loans and advances	824	-
	<u>4,623</u>	<u>205</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the three months ended 31 March 2013

(United States Dollars thousands)

16. 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:

	31 March 2013 (reviewed)	31 December 2012 (audited)
Condensed consolidated statement of financial position		
Deposits from related parties	75	117

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

	31 March 2013 (reviewed)	31 March 2012 (reviewed)
Condensed consolidated statement of income		
Directors' remuneration	24	24
Salaries and other short-term benefits	406	274
Post employment benefits	33	16

17. SEGMENT RESULTS

Three months ended 31 March 2013	Trading activity	Investing activity	Other	Total
Investment banking income	(697)	602	51	(44)
Foreign exchange translation loss	-	(501)	-	(501)
Interest income	64	5	1,246	1,315
Other income	-	-	71	71
Interest expense	-	(56)	(663)	(719)
Results from segments	(633)	50	705	122
Impairment provisions				(4,623)
Unallocated corporate expenses				(1,525)
Net loss for the period				(6,026)

Three months ended 31 March 2012	Trading activity	Investing activity	Other	Total
Investment banking income	504	1,337	143	1,984
Foreign exchange translation gain	15	731	-	746
Interest income	71	7	1,533	1,611
Other income	-	-	136	136
Interest expense	-	(103)	(425)	(528)
Results from segments	590	1,972	1,387	3,949
Impairment provisions				(205)
Unallocated corporate expenses				(2,081)
Net income for the period				1,663

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2013

(United States Dollars thousands)

17. *Segment results (continued)*

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 2012.

18. **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.

31 March 2013	Carrying value	Fair value	Under carrying value
Assets			
Held-to-maturity investments	4,609	4,092	<u>(517)</u>
Net shortfall of fair value over carrying value			<u>(517)</u>

The total shortfall in fair value of held-to-maturity investments of US\$ 517 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\$ 517 thousand.

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

The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality.

No fair value adjustment is appropriate for off-balance sheet financial instruments with contractual amounts representing credit risk as specific provisions are made in respect of individual transactions where a potential loss, if any, has been identified.

The estimated fair value of the following assets and liabilities is not significantly different from the corresponding book amounts as the items are short term in nature:

- Cash and cash equivalents
- Deposits from financial institutions
- Other assets
- Deposits from customers
- Other liabilities

The estimate fair values of the borrowings are not significantly different from book amounts as these liabilities are primarily re-priced on a periodic basis.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the three months ended 31 March 2013

(United States Dollars thousands)

18. Fair value of financial instruments (continued)

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:

	Level 1	Level 2	Level 3	Total
31 March 2013				
Trading securities	25,718	-	-	25,718
Available-for-sale investments				
- Quoted equity	5	-	-	5
- Unquoted equity	-	-	761	761
- Unquoted equity fund investments	-	-	20,743	20,743
Total	25,723	-	21,504	47,227
	Level 1	Level 2	Level 3	Total
31 December 2012				
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

Movements in level 3 of investments classified at fair value:

	31 March 2013	31 December 2012
At 1 January	21,500	25,100
Net fair value movement on available-for-sale investments	(721)	(241)
Additions	1,674	1,060
Exits (at cost)	(644)	(3,189)
Fair value transferred to statement of income on disposals	(305)	(1,230)
At 31 March/ December	21,504	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.

BAHRAIN MIDDLE EAST BANK BSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2013 (United States Dollars thousands)

19. CONTINGENT ITEMS AND COMMITMENTS

The outstanding contingent items and commitments as at 31 March 2013 were as follows:

	31 March 2013 (reviewed)	31 December 2012 (audited)
Undrawn investment commitments in other equities and funds	6,004	6,302
Funds under management	20,700	76,495
Letters of credit and guarantee	1,415	1,453
Other commitments	2,736	2,736

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

21. 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.