

Arcapita Bank B.S.C.(c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 2010 (UNAUDITED)**

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE DIRECTORS OF ARCAPITA BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Arcapita Bank B.S.C. (c) ('the Bank') and its subsidiaries ('the Group') as at 30 September 2010, comprising of the interim consolidated balance sheet as at 30 September 2010 and the related interim consolidated statements of income, changes in equity, cash flows and sources and uses of charity funds for the three month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with note 2.



7 October 2010
Manama, Kingdom of Bahrain

Arcapita Bank B.S.C.(c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three months ended 30 September 2010 (Unaudited)

		<i>Three month period from</i>	
		<i>1 July to 30 September</i>	
		(Unaudited)	(Unaudited)
		2010	2009
	<i>Note</i>	US\$ '000	US\$ '000
Management fees		27,519	25,319
Recurring and other income		26,941	24,706
Investment banking income		1,429	11,689
OPERATING INCOME	4	55,889	61,714
Net funding cost		(27,438)	(28,782)
NET OPERATING INCOME		28,451	32,932
Staff compensation and benefits		(16,884)	(19,710)
General and administration expenses		(17,980)	(11,355)
Headquarter Ijara rental		(8,750)	-
		(43,614)	(31,065)
NET (LOSS) INCOME BEFORE FAIR VALUE CHANGES, FOREIGN EXCHANGE MOVEMENTS AND ALLOWANCES		(15,163)	1,867
Fair value changes		(7,803)	(12,854)
Net foreign exchange gain		99,333	29,791
Allowance for doubtful receivables		(47,263)	(50,000)
NET INCOME (LOSS) FOR THE PERIOD		29,104	(31,196)


The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED BALANCE SHEET

At 30 September 2010 (Unaudited)

	<i>Unaudited</i> 30 September <i>2010</i>	<i>Audited</i> 30 June <i>2010</i>
Note	US\$ '000	US\$ '000
ASSETS		
Cash and short-term funds	131,927	143,334
Receivables	1,123,200	1,073,959
Investments	5 2,173,439	2,074,420
Other assets	177,062	165,423
TOTAL ASSETS	3,605,628	3,457,136
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Due to financial and other institutions	1,237,681	1,084,104
Medium-term financing	1,095,717	1,094,031
Other liabilities	45,468	36,372
Total liabilities excluding unrestricted investment accounts	2,378,866	2,214,507
Unrestricted investment accounts	148,830	182,469
Total liabilities including unrestricted investment accounts	2,527,696	2,396,976
EQUITY		
Share capital and premium	6 1,067,422	1,077,262
Reserves	10,510	(17,102)
	1,077,932	1,060,160
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	3,605,628	3,457,136



 Atif A. Abdulmalik
 Chief Executive Officer and Director

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C.(c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2010 (Unaudited)

	<i>Share Capital and Premium</i>			<i>Reserves</i>					
	<i>Share capital</i>	<i>Share premium</i>	<i>Unallocated shares under Employee Incentive Program</i>	<i>Total share capital & premium</i>	<i>Statutory</i>	<i>Accumulated deficit / Retained earnings</i>	<i>Total reserves</i>	<i>Share Subscription pending allotment</i>	<i>Total equity</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance at 1 July 2010	311,323	954,175	(188,236)	1,077,262	98,492	(115,594)	(17,102)	-	1,060,160
Net income for the period	-	-	-	-	-	29,104	29,104	-	29,104
Total comprehensive income	-	-	-	-	-	29,104	29,104	-	29,104
Reversal of share-based compensation expense	-	-	-	-	-	(1,492)	(1,492)	-	(1,492)
Repurchase of shares (treasury shares)	(66)	(188)	-	(254)	-	-	-	-	(254)
Net movement in unallocated employee shares	-	-	(9,586)	(9,586)	-	-	-	-	(9,586)
	(66)	(188)	(9,586)	(9,840)	-	(1,492)	(1,492)	-	(11,332)
Balance at 30 September 2010	311,257	953,987	(197,822)	1,067,422	98,492	(87,982)	10,510	-	1,077,932
Balance at 1 July 2009	282,243	765,155	(168,221)	879,177	98,492	435,717	534,209	185,209	1,598,595
Net loss for the period	-	-	-	-	-	(31,196)	(31,196)	-	(31,196)
Total comprehensive loss	-	-	-	-	-	(31,196)	(31,196)	-	(31,196)
Share subscription received	-	-	-	-	-	-	-	32,891	32,891
Issue of shares	28,438	184,848	-	213,286	-	-	-	(213,286)	-
Share-based compensation expense	-	-	-	-	-	2,917	2,917	-	2,917
Net movement in unallocated employee shares	-	-	(5,552)	(5,552)	-	-	-	-	(5,552)
	28,438	184,848	(5,552)	207,734	-	2,917	2,917	(180,395)	30,256
Balance at 30 September 2009	310,681	950,003	(173,773)	1,086,911	98,492	407,438	505,930	4,814	1,597,655

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C.(c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 30 September 2010 (Unaudited)

	<i>Three month period from 1 July to 30 September 2010 (Unaudited) US\$ '000</i>	<i>Three month period from 1 July to 30 September 2009 (Unaudited) US\$ '000</i>
OPERATING ACTIVITIES		
Net income (loss) for the period	29,104	(31,196)
Adjustments for non-cash items:		
(Reversal of) Share-based compensation expense	(1,492)	2,917
Allowance for doubtful receivables	47,263	50,000
Changes in fair value of investments carried at fair value through statement of income	7,803	12,854
Operating profit before changes in operating assets and liabilities	<u>82,678</u>	<u>34,575</u>
Changes in operating assets and liabilities:		
Receivables	(106,090)	70,148
Investments	(106,822)	(40,019)
Due to financial and other institutions	102,688	1,568
Other assets	(11,639)	(1,278)
Other liabilities	10,782	(39,001)
Net cash (used in) from operating activities	<u>(28,403)</u>	<u>25,993</u>
FINANCING ACTIVITIES		
Purchase of treasury shares	(254)	-
Share subscription received	-	32,891
Movement in unrestricted investment accounts	17,250	(60,589)
Net cash from (used in) financing activities	<u>16,996</u>	<u>(27,698)</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(11,407)	(1,705)
Cash and cash equivalents at beginning of the period	<u>143,334</u>	<u>191,199</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>131,927</u>	<u>189,494</u>
Cash and cash equivalents comprise:		
Cash and balances with banks	79,395	27,979
Due from financial institutions	52,532	170
Transitory funds	-	161,345
	<u>131,927</u>	<u>189,494</u>

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

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INTERIM CONSOLIDATED STATEMENT OF SOURCES AND USES OF
CHARITY FUNDS

For the three months ended 30 September 2010 (Unaudited)

	<i>Three month period from 1 July to 30 September 2010 (Unaudited) US\$ '000</i>	<i>Three month period from 1 July to 30 September 2009 (Unaudited) US\$ '000</i>
Undistributed charity funds at beginning of period	1,498	1,498
Funds utilized for charity	-	-
Undistributed charity funds at end of period	1,498	1,498

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

1 INCORPORATION AND ACTIVITIES

a) Incorporation

Arcapita Bank B.S.C. (c) (the "Bank") was incorporated in November 1996 in the Kingdom of Bahrain, where its registered office is based, under commercial registration number 36403. The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ("CBB").

b) Activities

The activities of the Bank and its wholly owned subsidiaries (together referred to as the "Group") include investing on own account and providing investment banking services in conformity with Islamic Shari'ah rules and principles.

2 ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in conformity 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 consolidated financial statements for the year ended 30 June 2010 (with the exception of new accounting Standards adopted after 30 June 2010), which financial statements were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Financial Reporting Standards, and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Group. These interim condensed consolidated financial statements are presented in US dollars, which is the functional currency of the Group. All values are rounded to US dollar thousands unless otherwise indicated.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards or Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions. In addition, results for the three months ended 30 September 2010 are not necessarily indicative of the results that may be expected for the whole of the financial period.

Following are the relevant IFRS and IFRIC interpretations that have been adopted since the date of the last audited financial statements of 30 June 2010.

- IAS 32 - Amendment - classification of rights issue;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments, 1 July 2010;
- IFRS 2 Amendment – Group cash settled share based payment transactions, 1 January 2010; and
- 2009 Annual Improvements to IFRS, 1 January 2010.

The interim condensed consolidated financial statements were approved on 7 October 2010.

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the consolidated financial statements in the period of initial application.

3 CYCLICALITY OF OPERATIONS

Operations of the Group follow the investment cycle, commencing from investment sourcing to acquisition and ultimately exit. Reported results of the Group are affected by the cyclicity of its operations, and hence acquisition, placement and exit income, management fee and some of the staff benefits for the interim period is not indicative of the Group's financial performance for the whole of the financial period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

4 OPERATING INCOME

	<i>(Unaudited)</i> Three months ended 30 September 2010 US\$ '000	<i>(Unaudited)</i> Three months ended 30 September 2009 US\$ '000
Management fees	27,519	25,319
Income from investee companies	16,479	17,822
Yield from investments	10,456	6,878
Acquisition and placement fees	3,423	12,062
Others	(1,988)	(367)
	55,889	61,714

5 INVESTMENTS

	<i>Unaudited</i> 30 September 2010 US\$ '000	<i>Audited</i> 30 June 2010 US\$ '000
Private Equity	669,094	644,150
Real Estate	1,017,515	955,682
Infrastructure	486,830	474,588
	2,173,439	2,074,420

Investment commitments amounted to US\$ 104.5 million (30 June 2010: US\$ 95.6 million). Investment commitments represent contractual commitments to fund certain deals. These commitments may expire without being drawn upon and do not necessarily represent future cash requirements.

IFRS 7 - Financial Instruments: Disclosures, requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three level hierarchy:

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

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). (e.g. quoted prices in an inactive market).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). (e.g. valuation methodology using EV/EBITDA multiples or discounted cash flows).

The following table categorizes the Group's investments using the hierarchy explained in the preceding paragraphs;

	<i>Unaudited</i> 30 September 2010 US\$ '000	<i>Audited</i> 30 June 2010 US\$ '000
Level 1	13,361	12,500
Level 3	2,160,078	2,061,920
	2,173,439	2,074,420

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

5 INVESTMENTS (continued)

The following table categorizes the movements within Level 3 investments from 1 July 2010 to 30 September 2010.

	<i>US\$ '000</i>
As at 1 July 2010	2,061,920
Net funding movements for investments	9,185
Net fair value adjustments	(8,664)
Foreign exchange movements	97,637
As at 30 September 2010	<u>2,160,078</u>

6 SHARE CAPITAL

	<i>Unaudited 30 September 2010 US\$ '000</i>	<i>Audited 30 June 2010 US\$ '000</i>
Authorized :		
800,000,000 (30 June 2009: 800,000,000) ordinary shares of US\$ 1 each	<u>800,000</u>	<u>800,000</u>
Issued and fully paid up :		
At beginning of the period :		
311,323,217 (1 July 2009: 282,243,170) ordinary shares of US\$ 1 each	311,323	282,243
Issued during the period :		
Nil (30 June 2010: 29,080,047) ordinary shares of US\$ 1 each	-	29,080
Less: Treasury Shares:		
66,666 (30 June 2010: Nil) ordinary shares of US\$ 1 each	(66)	-
At end of the period :		
311,256,551 (30 June 2010: 311,323,217) ordinary shares of US\$ 1 each	<u>311,257</u>	<u>311,323</u>

7 RELATED PARTY TRANSACTIONS

Related parties include the Group's major shareholders, directors and key management officers, their immediate families and entities controlled, jointly controlled or significantly influenced by them; and other related parties which comprises shareholders not included under 'Major Shareholders', the Shari'ah supervisory board, investee companies and companies that hold clients' investments.

Income earned from related parties is as follows:

	<i>(Unaudited) Three months ended 30 September 2010 US\$ '000</i>	<i>(Unaudited) Three months ended 30 September 2009 US\$ '000</i>
Management fees	27,519	25,319
Income from investee companies	16,479	17,822
Yield from investments	10,456	6,878
Acquisition and placement income	3,134	10,798
	<u>57,588</u>	<u>60,817</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

7 RELATED PARTY TRANSACTIONS (continued)

Acquisition and placement income was earned on the Group's transactions with such related parties. Management fees and income from investee companies arises from investee companies in respect of the Group's management and administrative services and financing support.

Expenses pertaining to related parties are as follows:

	(Unaudited) Three months ended 30 September 2010 US\$ '000	(Unaudited) Three months ended 30 September 2009 US\$ '000
Net funding cost	11,036	10,423
Headquarters' lease rentals	8,750	-
	19,786	10,423

The related party balances included in these interim condensed consolidated financial statements are as follows:

	30 September 2010 - Unaudited				<i>Audited</i> <i>30 June</i> <i>2010</i> <i>Total</i> <i>US\$ '000</i>
	<i>Major</i> <i>shareholders</i> <i>US\$ '000</i>	<i>Directors</i> <i>and key</i> <i>management</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>	
Assets					
Short-term funds	51,486	-	-	51,486	45,213
Receivables and other assets	10,960	3,995	1,057,898	1,072,853	1,032,808
Liabilities and unrestricted investment accounts					
Due to financial, other and other liabilities	155,166	-	616,678	771,844	729,026
Unrestricted investment accounts	55,025	1,288	63,714	120,027	156,696
Commitments					
Financial guarantees	-	-	279,725	279,725	209,357

The Group's transactions with related parties arise from the ordinary course of business and are on terms and conditions approved by the Group's management. Outstanding balances at period end are unsecured and settled in cash.

Arcapita Bank B.S.C.(c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

8 SEGMENT INFORMATION

The following table presents revenue and segment results information regarding the Group's operating segments for the three month period ended **30 September 2010** and 2009, respectively.

	<i>Private Equity</i> <i>US\$ '000</i>	<i>Real Estate</i> <i>US\$ '000</i>	<i>Infrastructure</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
30 September 2010 (Unaudited)				
Segmental revenue	7,311	26,791	21,531	55,633
Unallocated operating income				256
Total operating income				55,889
Segmental results	(50,164)	19,540	17,751	(12,873)
Unallocated expenses				(57,356)
Net foreign exchange gain				99,333
Net income				29,104
30 September 2009 (Unaudited)				
<i>Segmental revenue</i>	19,860	11,098	30,501	61,459
Unallocated operating income				255
Total operating income				61,714
Segmental results	(46,277)	(2,086)	33,055	(15,308)
Unallocated expenses				(45,679)
Net foreign exchange gain				29,791
Net loss				(31,196)

The following table presents asset and liability information regarding the Group's operating segments as at **30 September 2010** and as at the date of last audited financial statements (30 June 2010).

	<i>Private Equity</i> <i>US\$ '000</i>	<i>Real Estate</i> <i>US\$ '000</i>	<i>Infrastructure</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
As at 30 September 2010				
Segment assets	971,356	1,422,737	807,709	3,201,802
Unallocated assets				403,826
				3,605,628
Segment liabilities	24,119	254,453	90,572	369,144
Unallocated liabilities and URIA				2,158,552
				2,527,696

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

8 SEGMENT INFORMATION (continued)

	<i>Private Equity</i> <i>US\$ '000</i>	<i>Real Estate</i> <i>US\$ '000</i>	<i>Infrastructure</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
As at 30 June 2010				
Segment assets	995,460	1,358,409	789,159	3,143,028
Unallocated assets				314,108
				<u>3,457,136</u>
Segment liabilities	18,861	234,717	119,219	372,797
Unallocated liabilities and URIA				2,024,179
				<u>2,396,976</u>

9 RESTRICTED CASH

As at 30 September 2010, cash and short term funds included US\$ 26.7 million (30 June 2010 : US\$ 25.5 million) of restricted cash.

10 COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the presentation adopted in the current period. Such reclassification did not affect previously reported net income or shareholders' equity.