

**Arcapita Bank B.S.C. (c)**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 MARCH 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 31 March 2010, comprising of the interim consolidated balance sheet as at 31 March 2010 and the related interim consolidated statements of income, changes in equity, cash flows and sources and uses of charity funds for the nine 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.



3 May 2010  
Manama, Kingdom of Bahrain

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine months ended 31 March 2010 (Unaudited)

	Note	<i>Three month period from</i>		<i>Nine month period from</i>	
		<i>1 January to 31 March</i>		<i>1 July to 31 March</i>	
		<b>(Reviewed)</b>	<i>(Reviewed)</i>	<b>(Reviewed)</b>	<i>(Reviewed)</i>
		<b>2010</b>	2009	<b>2010</b>	2009
		<b>US\$ '000</b>	US\$ '000	<b>US\$ '000</b>	US\$ '000
<b>TOTAL INCOME</b>	4	<b>40,671</b>	111,293	<b>134,266</b>	264,811
<b>Net funding cost</b>		<b>(38,347)</b>	(33,195)	<b>(99,659)</b>	(103,272)
<b>NET OPERATING INCOME</b>		<b>2,324</b>	78,098	<b>34,607</b>	161,539
<b>OPERATING EXPENSES</b>					
Staff compensation and benefits		<b>(21,064)</b>	(21,255)	<b>(59,870)</b>	(52,496)
General and administration expenses		<b>(12,496)</b>	(12,092)	<b>(38,998)</b>	(42,262)
		<b>(33,560)</b>	(33,347)	<b>(98,868)</b>	(94,758)
<b>NET (LOSS) INCOME BEFORE FAIR VALUE CHANGES, FOREIGN EXCHANGE MOVEMENTS AND ALLOWANCES</b>		<b>(31,236)</b>	44,751	<b>(64,261)</b>	66,781
Fair value changes		<b>(35,748)</b>	(141,060)	<b>(141,447)</b>	(122,877)
Net foreign exchange (loss) gain		<b>(93,713)</b>	22,667	<b>(83,233)</b>	25,195
Allowance for doubtful receivable		-	-	<b>(62,471)</b>	-
<b>NET LOSS FOR THE PERIOD</b>		<b>(160,697)</b>	(73,642)	<b>(351,412)</b>	(30,901)

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED BALANCE SHEET

At 31 March 2010 (Unaudited)

	<i>Note</i>	<b>Reviewed 31 March 2010 US\$ '000</b>	<i>Audited 30 June 2009 US\$ '000</i>
<b>ASSETS</b>			
Cash and short term funds		127,638	191,199
Receivables		1,105,370	1,562,482
Investments	5	2,466,109	2,562,891
Other assets		80,859	55,716
<b>TOTAL ASSETS</b>		<b>3,779,976</b>	<b>4,372,288</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to financial and other institutions		1,139,747	1,338,937
Medium-term financing facility		1,092,705	1,091,120
Other liabilities		84,992	111,340
Total liabilities excluding unrestricted investment accounts		<b>2,317,444</b>	2,541,397
Unrestricted investment accounts		196,859	232,296
Total liabilities including unrestricted investment accounts		<b>2,514,303</b>	2,773,693
<b>EQUITY</b>			
Share capital and premium		1,072,992	879,177
Reserves		187,867	534,209
Share subscription pending allotment		4,814	185,209
		<b>1,265,673</b>	1,598,595
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>3,779,976</b>	<b>4,372,288</b>



Atif A. Abdulmalik  
Chief Executive Officer and Director

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2010 (Unaudited)

	<i>Share capital &amp; premium</i>			<i>Reserves*</i>	<i>Share subscription pending allotment</i>	<i>Proposed dividend</i>	<i>Total equity</i>	
	<i>Share capital</i>	<i>Share premium</i>	<i>Bank funded employee shares</i>					<i>Total share capital &amp; premium</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 2009	282,243	765,155	(168,221)	879,177	534,209	185,209	-	<b>1,598,595</b>
Net loss for the period	-	-	-	-	(351,412)	-	-	<b>(351,412)</b>
Total comprehensive loss	-	-	-	-	(351,412)	-	-	<b>(351,412)</b>
Share subscription received	-	-	-	-	-	32,891	-	<b>32,891</b>
Issue of shares	28,438	184,848	-	213,286	-	(213,286)	-	<b>-</b>
Share-based compensation expense	-	-	-	-	5,070	-	-	<b>5,070</b>
Net movement in unallocated employee shares	-	-	(19,471)	(19,471)	-	-	-	<b>(19,471)</b>
	28,438	184,848	(19,471)	193,815	5,070	(180,395)	-	<b>18,490</b>
<b>Balance at 31 March 2010</b>	<b>310,681</b>	<b>950,003</b>	<b>(187,692)</b>	<b>1,072,992</b>	<b>187,867</b>	<b>4,814</b>	<b>-</b>	<b>1,265,673</b>
Balance at 1 July 2008	225,474	416,047	(15,967)	625,554	614,063	100,000	90,190	1,429,807
Net loss for the period	-	-	-	-	(30,901)	-	-	(30,901)
Total comprehensive loss	-	-	-	-	(30,901)	-	-	(30,901)
Share subscription received	-	-	-	-	-	82,700	-	82,700
Issue of shares	56,769	349,108	-	405,877	-	(100,000)	-	305,877
Share-based compensation expense	-	-	-	-	5,772	-	-	5,772
Net movement in unallocated employee shares	-	-	(153,466)	(153,466)	-	-	-	(153,466)
Dividends paid	-	-	-	-	-	-	(90,190)	(90,190)
	56,769	349,108	(153,466)	252,411	5,772	(17,300)	(90,190)	150,693
Balance at 31 March 2009	282,243	765,155	(169,433)	877,965	588,934	82,700	-	1,549,599

\* As at 31 March 2010 there were no unrealized net gains (30 June 2009 : US\$53.1 million) on investments which are not available for distribution in accordance with AAOIFI.

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the nine months ended 31 March 2010 (Unaudited)

	<i><b>Nine month period from 1 July to 31 March (Reviewed) 2010 US\$ '000</b></i>	<i><b>Nine month period from 1 July to 31 March (Reviewed) 2009 US\$ '000</b></i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	<b>(351,412)</b>	(30,901)
Adjustments for non-cash items:		
Share-based compensation expense	<b>5,070</b>	5,772
Allowance for doubtful receivable	<b>62,471</b>	-
Changes in fair value of investments carried at fair value through statement of income	<b>141,447</b>	122,877
Operating (loss) profit before changes in operating assets and liabilities	<b>(142,424)</b>	97,748
Changes in operating assets and liabilities:		
Receivables	<b>375,170</b>	(336,722)
Investments	<b>(44,665)</b>	(68,404)
Due to financial and other institutions	<b>(199,190)</b>	(764,524)
Other assets	<b>(25,143)</b>	223,258
Other liabilities	<b>(24,763)</b>	(25,841)
Net cash used in operating activities	<b>(61,015)</b>	(874,485)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	-	(90,190)
Share subscription received	<b>32,891</b>	82,700
Issue of shares	-	16,177
Movement in unrestricted investment accounts	<b>(35,437)</b>	(97,981)
Net cash used in financing activities	<b>(2,546)</b>	(89,294)
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>	<b>(63,561)</b>	(963,779)
Cash and cash equivalents at beginning of the period	<b>191,199</b>	1,304,559
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>127,638</b>	340,780
Cash and cash equivalents comprise:		
Cash and balances with banks	<b>19,753</b>	20,535
Transitory funds	<b>107,877</b>	-
Due from financial institutions	<b>8</b>	320,245
	<b>127,638</b>	340,780

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

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INTERIM CONSOLIDATED STATEMENT OF SOURCES AND USES OF  
CHARITY FUNDS

For the nine months ended 31 March 2010 (Unaudited)

	<b><i>Nine month period from 1 July to 31 March (Reviewed) 2010 US\$ '000</i></b>	<b><i>Nine month period from 1 July to 31 March (Reviewed) 2009 US\$ '000</i></b>
<b>Undistributed charity funds at beginning of period</b>	<b>1,498</b>	7,245
Funds utilized for charity	-	(5,829)
<b>Undistributed charity funds at end of period</b>	<b>1,498</b>	<b>1,416</b>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 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 2009 (with the exception of new accounting Standards adopted after 30 June 2009), 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, 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

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 (IFRS) or Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Following are the relevant IFRS and IFRIC interpretations that have been adopted since the date of the last audited financial statements of 30 June 2009.

- IAS 1 (Revised) - Presentation of financial statements
- IAS 23 (Revised) - Borrowing costs
- IFRS 8 - Operating segments
- IFRS 2 Amendment - Vesting conditions and cancellations
- IAS 27 Amendment - Cost of an investment in a Subsidiary, jointly controlled entity or Associate
- 2008 Annual Improvements to IFRS
- IFRS 7 Amendment - Improving disclosures about financial instruments
- IFRS 3 (Revised) - Business combinations
- IAS 27 Amendment - Consolidated and separate financial statements
- IAS 39 Amendment - Eligible hedged items

The interim condensed consolidated financial statements were approved on 3 May 2010.

**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 31 March 2010 (Unaudited)

**4 TOTAL INCOME**

	<i>(Reviewed) Nine month period from 1 July to 31 March 2010 US\$ '000</i>	<i>(Reviewed) Nine month period from 1 July to 31 March 2009 US\$ '000</i>
Acquisition and placement fees	7,436	60,741
Management fees	57,877	69,587
Income from investee companies	54,813	36,187
Yield from investments	25,117	23,131
Gain on sale of property	-	74,515
Capital loss on exit	(11,244)	-
Others	267	650
	<b>134,266</b>	<b>264,811</b>

**5 INVESTMENTS**

	<i>Reviewed 31 March 2010 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Corporate investments	903,348	949,229
Real estate investments	1,023,838	1,004,674
Asset-based investments	538,923	605,647
Strategic Investments	-	3,341
	<b>2,466,109</b>	<b>2,562,891</b>

Investment commitments amounted to US\$102.5 million (30 June 2009: US\$ 30.7 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.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2010 (Unaudited)

**5 INVESTMENTS (continued)**

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

	<i>Reviewed 31 March 2010 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Level 1	<b>8,505</b>	11,589
Level 3	<b>2,457,604</b>	2,551,302
	<b><u>2,466,109</u></b>	<u>2,562,891</u>

The following table categorizes the movements within Level 3 investments from 30 June 2009 to 31 March 2010.

	<i>US\$ '000</i>
As at 30 June 2009	<b>2,551,302</b>
Net funding movements for investments	<b>115,878</b>
Net fair value adjustments	<b>(142,331)</b>
Foreign exchange movements	<b>(67,245)</b>
<b>As at 31 March 2010</b>	<b><u>2,457,604</u></b>

**6 SHARE CAPITAL**

	<i>Reviewed 31 March 2010 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
<b>Authorized :</b>		
800,000,000 (30 June 2009: 800,000,000) ordinary shares of US\$ 1 each	<b><u>800,000</u></b>	<u>800,000</u>
<b>Issued and fully paid up :</b>		
At beginning of the year :		
282,243,170 (30 June 2009: 225,473,870) ordinary shares of US\$ 1 each	<b>282,243</b>	225,474
Issued during the period :		
28,438,228 (30 June 2009: 56,769,300) ordinary shares of US\$ 1 each	<b><u>28,438</u></b>	<u>56,769</u>
Issued and paid up Share Capital		
310,681,398 (30 June 2009: 282,243,170) ordinary shares of US\$ 1 each	<b><u>310,681</u></b>	<u>282,243</u>

At the extraordinary general meeting held on 20 August 2009, the shareholders approved the rights issue. As at the end of current quarter, 28,438,228 ordinary shares had been issued and allocated in respect of this share issue

**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

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 31 March 2010 (Unaudited)

**7 RELATED PARTY TRANSACTIONS (continued)**

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

	<b>31 March 2010 - Reviewed</b>				<i>Audited</i>
	<i>Major shareholders</i>	<i>Directors and key management</i>	<i>Others</i>	<i>Total</i>	<i>30 June 2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>Total US\$ '000</i>
<b>Assets</b>					
Receivables and other assets	100,281	2,398	988,692	1,091,371	1,532,794
<b>Liabilities and unrestricted investment accounts</b>					
Due to other institutions and other liabilities	349,503	2,352	479,293	831,148	807,645
Unrestricted investment accounts	61,509	11,195	97,275	169,979	125,459
<b>Commitments</b>					
Financial guarantee	-	-	222,710	222,710	176,288

**8 SEGMENT INFORMATION**

The following table presents revenue and segment results information regarding the Group's business segments for the nine month period ended 31 March 2010 and 2009, respectively.

	<i>Corporate US\$ '000</i>	<i>Real Estate US\$ '000</i>	<i>Asset-Based US\$ '000</i>	<i>Total US\$ '000</i>
<b>Nine month period ended 31 March 2010 (Unaudited)</b>				
<b>Segmental income</b>	24,217	37,971	70,538	132,726
Unallocated income				1,540
Total income				134,266
<b>Segmental results</b>	(95,094)	(19,560)	(4,319)	(118,973)
Unallocated expenses				(149,206)
Net foreign exchange loss				(83,233)
Net loss				(351,412)
<b>Nine month period ended 31 March 2009 (Unaudited)</b>				
Segmental income	64,764	77,675	48,410	190,849
Unallocated income				73,962
Total income				264,811
Segmental results	(31,554)	10,088	60,811	39,345
Unallocated expenses				(95,441)
Net foreign exchange gain				25,195
Net loss				(30,901)