

Arcapita Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2009 (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 2009, comprising of the interim consolidated balance sheet as at 30 September 2009 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.



12 November 2009
Manama, Kingdom of Bahrain

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 30 September 2009 (Unaudited)

	<i>Three month period from 1 July to 30 September</i>	
	(Reviewed) 2009	(Reviewed) 2008
	Note	
	US\$ '000	US\$ '000
Acquisition, placement and exit income	11,689	10,807
Management fees	25,319	22,875
Recurring and other income	54,497	20,844
TOTAL INCOME	4	91,505
Net Funding cost		(28,782)
NET OPERATING INCOME		62,723
OPERATING EXPENSES		
Staff compensation and benefits		(19,710)
General and administration expenses		(11,355)
		(31,065)
NET INCOME (LOSS) BEFORE FAIR VALUE CHANGES AND ALLOWANCES		31,658
Fair value changes		(12,854)
Allowance for doubtful receivable		(50,000)
NET (LOSS) INCOME FOR THE PERIOD		(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 2009 (Unaudited)

	<i>Reviewed</i> 30 September 2009 <i>US\$ '000</i>	<i>Audited</i> 30 June 2009 <i>US\$ '000</i>
	<i>Note</i>	
ASSETS		
Cash and short term funds	189,494	191,199
Receivables	1,436,781	1,562,482
Investments	2,590,056	2,562,891
Other assets	56,994	55,716
TOTAL ASSETS	4,273,325	4,372,288
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		
LIABILITIES		
Due to financial and other institutions	1,340,505	1,338,937
Medium-term financing facility	1,091,017	1,091,120
Other liabilities	72,441	111,340
Total liabilities excluding unrestricted investment accounts	2,503,963	2,541,397
Unrestricted investment accounts	171,707	232,296
Total liabilities including unrestricted investment accounts	2,675,670	2,773,693
EQUITY		
Share capital and premium	1,086,911	879,177
Reserves	505,930	534,209
Share subscription pending allotment	4,814	185,209
	1,597,655	1,598,595
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	4,273,325	4,372,288



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 2009 (Unaudited)

	<i>Share Capital & 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>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	-	1,598,595
Net income for the period	-	-	-	-	(31,196)	-	-	(31,196)
Total comprehensive income	-	-	-	-	(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
Net movement in unallocated employee shares	-	-	(5,552)	(5,552)	-	-	-	(5,552)
	28,438	184,848	(5,552)	207,734	2,917	(180,395)	-	30,256
Balance at 30 September 2009	310,681	950,003	(173,773)	1,086,911	505,930	4,814	-	1,597,655
Balance at 1 July 2008	225,474	416,047	(15,967)	625,554	614,063	100,000	90,190	1,429,807
Net income for the period	-	-	-	-	12,142	-	-	12,142
Total comprehensive income	-	-	-	-	12,142	-	-	12,142
Issue of shares	6,769	109,408	-	116,177	-	(100,000)	-	16,177
Share-based compensation expense	-	-	-	-	1,358	-	-	1,358
Dividends paid	-	-	-	-	-	-	(90,190)	(90,190)
	6,769	109,408	-	116,177	1,358	(100,000)	(90,190)	(72,655)
Balance at 30 September 2008	232,243	525,455	(15,967)	741,731	627,563	-	-	1,369,294

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 2009 (Unaudited)

	<i>Three month period from 1 July to 30 September 2009 (Reviewed) US\$ '000</i>	<i>Three month period from 1 July to 30 September 2008 (Reviewed) US\$ '000</i>
OPERATING ACTIVITIES		
Net (loss) income for the period	(31,196)	12,142
Adjustments for non-cash items:		
Share-based compensation expense	2,917	1,358
Allowance for doubtful commodity Murabaha receivables	50,000	-
Changes in fair value of investments carried at fair value through statement of income	12,854	(28,746)
Operating results before changes in operating assets and liabilities	34,575	(15,246)
Changes in operating assets and liabilities:		
Receivables	70,148	146,486
Investments	(40,019)	(375,660)
Due to financial and other institutions	1,568	(321,789)
Other assets	(1,278)	(16,166)
Other liabilities	(39,001)	(84,676)
Net cash from (used) in operating activities	25,993	(667,051)
FINANCING ACTIVITIES		
Dividends paid	-	(90,190)
Issue of shares	-	16,177
Share subscription received	32,891	-
Movement in unrestricted investment accounts	(60,589)	(28,356)
Net cash used in financing activities	(27,698)	(102,369)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(1,705)	(769,420)
Cash and cash equivalents at beginning of the period	191,199	1,304,559
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	189,494	535,139
Cash and cash equivalents comprise:		
Cash and balances with banks	27,979	49,657
Transitory funds	161,345	-
Due from financial institutions	170	485,482
	189,494	535,139

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 SOURCES AND USES OF
CHARITY FUNDS

For the three months ended 30 September 2009 (Unaudited)

	Three month period from 1 July to 30 September 2009 (Reviewed) US\$ '000	Three month period from 1 July to 30 September 2008 (Reviewed) US\$ '000
Undistributed charity funds at beginning of period	1,498	7,245
Funds utilized for charity	-	(5,520)
Undistributed charity funds at end of period	1,498	1,725

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 2009 (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 and issued with an un qualified audit opinion. 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 2009 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 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 12 November 2009.

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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

4 TOTAL REVENUE	<i>(Reviewed)</i> Three months ended 30 September 2009 US\$ '000	<i>(Reviewed)</i> Three months ended 30 September 2008 US\$ '000
Acquisition and placement fees	11,689	10,807
Management fees	25,319	22,875
Income from investee companies	17,822	11,490
Yield from investments	6,878	7,745
Foreign exchange gains and others	29,797	1,609
	91,505	54,526

5 SHARE CAPITAL	<i>Reviewed</i> 30 September 2009 US\$ '000	<i>Audited</i> 30 June 2008 US\$ '000
Authorized :		
800,000,000 (30 June 2008: 800,000,000) ordinary shares of US\$ 1 each	800,000	800,000
Issued and fully paid up :		
At beginning of the year :		
282,243,170 (30 June 2009: 225,473,870) ordinary shares of US\$ 1 each	282,243	225,474
Issued during the period :		
28,438,228 (30 June 2009: 56,769,300) ordinary shares of US\$ 1 each	28,438	56,769
Issued and paid up Share Capital 310,681,398 (30 June 2008: 282,243,170) ordinary shares of US\$ 1 each	310,681	282,243

At the extraordinary general meeting held on 20 August 2009, the shareholders approved the rights issue. As at 30 September 2009, 28,438,228 ordinary shares had been issued and allocated in respect of this share issue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2009 (Unaudited)

6 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.

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

	30 September 2009 - Reviewed				<i>Audited</i>
	<i>Major shareholders</i>	<i>Directors and key management</i>	<i>Others</i>	<i>Total</i>	<i>30 June 2009 Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Assets					
Receivables and other assets	264,071	5,908	1,100,424	1,370,403	1,532,794
Liabilities and unrestricted investment accounts					
Due to other institutions and other liabilities	335,787	-	467,637	803,424	807,645
Unrestricted investment account	64,342	1,234	49,151	114,727	125,459
Commitments					
Financial guarantee	-	-	182,713	182,713	176,288

Arcapita Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

At 30 September 2009 (Unaudited)

7 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 2009** and 2008, respectively.

	<i>Corporate</i> <i>US\$ '000</i>	<i>Real Estate</i> <i>US\$ '000</i>	<i>Asset-Based</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Three month period ended 30 September 2009 (Unaudited)				
Segmental revenue	19,860	11,098	30,501	61,459
Unallocated revenue				30,046
Total revenue				<u>91,505</u>
Segmental results	(46,277)	(2,086)	33,055	(15,308)
Unallocated operating expenses				(15,888)
Net loss for the period				<u>(31,196)</u>
Three month period ended 30 September 2008 (Unaudited)				
Segmental revenue	17,838	15,364	19,743	52,945
Unallocated revenue				1,581
Total revenue				<u>54,526</u>
Segmental results	(2,336)	12,463	60,295	70,422
Unallocated operating expenses				(58,280)
Net income for the period				<u>12,142</u>

The following table presents asset and liability information regarding the Group's operating segments as at **30 September 2009** and as at the date of last audited financial statements (30 June 2009).

	<i>Corporate</i> <i>US\$ '000</i>	<i>Real Estate</i> <i>US\$ '000</i>	<i>Asset-Based</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
As at 30 September 2009				
Segment assets	1,444,917	1,489,289	1,003,048	3,937,254
Unallocated assets				336,071
				<u>4,273,325</u>
Segment liabilities	56,832	269,831	143,514	470,177
Unallocated liabilities and URIA				2,205,493
				<u>2,675,670</u>