

Arcapita Bank B.S.C. (c)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2009 (UNAUDITED)

Ernst & Young

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 December 2009, comprising of the interim consolidated balance sheet as at 31 December 2009 and the related interim consolidated statements of income, changes in equity, cash flows and sources and uses of charity funds for the six 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.



10 February 2010
Manama, Kingdom of Bahrain

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six months ended 31 December 2009 (Unaudited)

	Note	<i>Three month period</i>		<i>Six month period from</i>	
		<i>from 1 October to 31</i>	<i>from 1 October to 31</i>	<i>1 July to 31 December</i>	<i>1 July to 31 December</i>
		(Reviewed)	<i>(Reviewed)</i>	(Reviewed)	<i>(Reviewed)</i>
		2009	2008	2009	2008
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
TOTAL INCOME	4	12,570	101,806	104,075	156,332
Net Funding cost		(32,530)	(40,631)	(61,312)	(70,077)
NET OPERATING (LOSS) INCOME		(19,960)	61,175	42,763	86,255
OPERATING EXPENSES					
Staff compensation and benefits		(19,096)	(9,753)	(38,806)	(31,241)
General and administration expenses		(15,147)	(9,974)	(26,502)	(30,170)
		(34,243)	(19,727)	(65,308)	(61,411)
NET (LOSS) INCOME BEFORE FAIR VALUE CHANGES AND ALLOWANCES		(54,203)	41,448	(22,545)	24,844
Fair value changes		(92,845)	(10,849)	(105,699)	17,897
Allowance for doubtful commodity Murabaha receivable		(12,471)	-	(62,471)	-
NET (LOSS) INCOME FOR THE PERIOD		(159,519)	30,599	(190,715)	42,741


The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED BALANCE SHEET

At 31 December 2009 (Unaudited)

	<i>Note</i>	<i>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
ASSETS			
Cash and short term funds		134,044	191,199
Receivables	5	1,289,456	1,562,482
Investments	6	2,504,182	2,562,891
Other assets		82,288	55,716
TOTAL ASSETS		4,009,970	4,372,288
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Due to financial and other institutions		1,197,085	1,338,937
Medium-term financing facility		1,091,682	1,091,120
Other liabilities		86,233	111,340
Total liabilities excluding unrestricted investment accounts		2,375,000	2,541,397
Unrestricted investment accounts		205,702	232,296
Total liabilities including unrestricted investment accounts		2,580,702	2,773,693
EQUITY			
Share capital and premium		1,077,429	879,177
Reserves		347,025	534,209
Share subscription pending allotment		4,814	185,209
		1,429,268	1,598,595
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		4,009,970	4,372,288



 Atif A. Abdulmalik
 Chief Executive Officer and Director

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 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>Total share capital & 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>	<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 loss for the period	-	-	-	-	(190,715)	-	-	(190,715)
Total comprehensive loss	-	-	-	-	(190,715)	-	-	(190,715)
Share subscription received	-	-	-	-	-	32,891	-	32,891
Issue of shares	28,438	184,848	-	213,286	-	(213,286)	-	-
Share-based compensation expense	-	-	-	-	3,531	-	-	3,531
Net movement in unallocated employee shares	-	-	(15,034)	(15,034)	-	-	-	(15,034)
	28,438	184,848	(15,034)	198,252	3,531	(180,395)	-	21,388
Balance at 31 December 2009	310,681	950,003	(183,255)	1,077,429	347,025	4,814	-	1,429,268
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	-	-	-	-	42,741	-	-	42,741
Total comprehensive income	-	-	-	-	42,741	-	-	42,741
Issue of shares	56,769	349,108	-	405,877	-	(100,000)	-	305,877
Share-based compensation expense	-	-	-	-	2,790	-	-	2,790
Net movement in unallocated employee shares	-	-	(289,700)	(289,700)	-	-	-	(289,700)
Dividends paid	-	-	-	-	-	-	(90,190)	(90,190)
	56,769	349,108	(289,700)	116,177	2,790	(100,000)	(90,190)	(71,223)
Balance at 31 December 2008	282,243	765,155	(305,667)	741,731	659,594	-	-	1,401,325

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

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Arcapita Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2009 (Unaudited)

	<i>Six month period from 1 July to 31 December (Reviewed) 2009 US\$ '000</i>	<i>Six month period from 1 July to 31 December (Reviewed) 2008 US\$ '000</i>
OPERATING ACTIVITIES		
Net (loss) income for the period	(190,715)	42,741
Adjustments for non-cash items:		
Share-based compensation expense	3,531	2,790
Allowance for doubtful commodity Murabaha receivable	62,471	-
Changes in fair value of investments carried at fair value through statement of income	105,699	(17,897)
Operating (loss) profit before changes in operating assets and liabilities	(19,014)	27,634
Changes in operating assets and liabilities:		
Receivables	195,521	17,163
Investments	(46,990)	(172,742)
Due to financial and other institutions	(141,852)	(485,141)
Other assets	(26,572)	(20,398)
Other liabilities	(24,545)	(95,656)
Net cash used in operating activities	(63,452)	(729,140)
FINANCING ACTIVITIES		
Dividends paid	-	(90,190)
Share subscription received	32,891	-
Issue of shares	-	16,177
Movement in unrestricted investment accounts	(26,594)	(71,551)
Net cash from (used in) financing activities	6,297	(145,564)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(57,155)	(874,704)
Cash and cash equivalents at beginning of the period	191,199	1,304,559
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	134,044	429,855
Cash and cash equivalents comprise:		
Cash and balances with banks	89,603	47,044
Transitory funds	44,365	-
Due from financial institutions	76	382,811
	134,044	429,855

The attached notes 1 to 15 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 six months ended 31 December 2009 (Unaudited)

	<i>Six month period from 1 July to 31 December (Reviewed) 2009 US\$ '000</i>	<i>Six month period from 1 July to 31 December (Reviewed) 2008 US\$ '000</i>
Undistributed charity funds at beginning of period	1,498	7,245
Funds utilized for charity	(247)	(5,829)
Undistributed charity funds at end of period	1,251	1,416

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 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. 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 (IFRS) or Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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 10 February 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 December 2009 (Unaudited)

4 TOTAL INCOME	<i>(Reviewed)</i> Six month period from 1 July to 31 December 2009 US\$ '000	<i>(Reviewed)</i> Six month period from 1 July to 31 December 2008 US\$ '000
Acquisition and placement fees	7,389	66,817
Management fees	48,091	46,890
Income from investee companies	36,912	24,787
Yield from investments	15,095	15,170
Capital loss on exit and distribution	(13,905)	-
Foreign exchange gain (loss) and others	10,493	2,668
	<u>104,075</u>	<u>156,332</u>
5 RECEIVABLES	<i>Reviewed</i> 31 December 2009 US\$ '000	<i>Audited</i> 30 June 2009 US\$ '000
Receivables and prepayments (Note 5(a))	474,468	701,558
Notes receivable (Note 5(b))	316,123	323,586
Due from investee companies (Note 5(c))	498,865	537,338
	<u>1,289,456</u>	<u>1,562,482</u>
a) Receivables and prepayments	<i>Reviewed</i> 31 December 2009 US\$ '000	<i>Audited</i> 30 June 2009 US\$ '000
Receivables from sale of building	85,000	360,000
Subscriptions receivable	84,820	72,758
Yield and management fee receivable	146,257	114,751
Receivable from investee companies	92,400	80,855
Prepayments and other receivable	65,991	73,194
	<u>474,468</u>	<u>701,558</u>
b) Notes receivable	<i>Reviewed</i> 31 December 2009 US\$ '000	<i>Audited</i> 30 June 2009 US\$ '000
Employee Stock Purchase Plan	145,402	160,899
Investment Participation Plan	170,721	162,687
	<u>316,123</u>	<u>323,586</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

5 RECEIVABLES (continued)

c) Due from investee companies

	<i>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Commodity Murabaha receivable	552,545	602,283
Less: Deferred profits	(23,680)	(19,945)
	<u>528,865</u>	<u>582,338</u>
Allowance for doubtful commodity Murabaha receivable (Note 5 (c) (i))	(30,000)	(45,000)
	<u>498,865</u>	<u>537,338</u>

c) (i) Allowance for doubtful Commodity Murabaha receivable

	<i>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Balance as at the beginning of period	45,000	35,000
Allowance made during the period	62,471	10,000
Provision written off	(77,471)	-
Balance as at the end period	<u>30,000</u>	<u>45,000</u>

6 INVESTMENTS

	<i>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Corporate investments	883,971	949,229
Real estate investments	1,039,476	1,004,674
Asset-based investments	576,879	605,647
Strategic Investments	3,856	3,341
	<u>2,504,182</u>	<u>2,562,891</u>
Planned retention	1,299,607	1,389,653
Available for placement with investors	1,204,575	1,173,238
	<u>2,504,182</u>	<u>2,562,891</u>
Average investment exposure (Daily average)	<u>2,614,432</u>	<u>2,749,211</u>

Investment commitments amounted to US\$109.9 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

6 INVESTMENTS (continued)

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>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Level 1	13,774	11,589
Level 3	2,490,408	2,551,302
	2,504,182	2,562,891

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

	<i>US\$ '000</i>
As at 30 June 2009	2,551,302
Net funding movements for investments	34,466
Net fair value adjustments	(107,996)
Foreign exchange movements	12,636
As at 31 December 2009	2,490,408

7 SHARE CAPITAL

	<i>Reviewed 31 December 2009 US\$ '000</i>	<i>Audited 30 June 2009 US\$ '000</i>
Authorized :		
800,000,000 (30 June 2009: 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 2009: 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 31 December 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 31 December 2009 (Unaudited)

8 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts ("URIA") are funds of investors held by the Bank which it can invest as it deems appropriate without restriction as to where, how and for what purposes the funds are invested. These funds are payable on demand and the account holder has the right to withdraw or transfer funds without penalty.

The Bank provides these accounts as an added service to investors who participate in the placement of investments and does not market these accounts as a product. Therefore, it is not the practice of the Bank to guarantee the preservation of capital or competitive rate of return through the creation of profit equalization reserves or investment risk reserves. As a result the Bank has minimal displaced commercial risk.

URIA funds have been allocated in full to a pool of Murabaha and Mudaraba assets with financial institutions and investee companies. This allocation of assets has not changed since the last financial period. The funds are invested and managed in accordance with Shari'ah principles.

Profit paid to the URIA holder is based on the rate of return earned by the pool of profit-bearing assets in which the URIA funds have been allocated. The Bank does not charge management (Mudarib) fees or other expenses to URIA holders and the account holder participates in the profit earned in full. As a result the share of profits earned by the URIA holders is equal to the share of profits paid to them. The profits paid to URIA and the rate of return earned over the last five annual financial periods and for the six months ended 31 December 2009 are disclosed in the following table:

	<i>Profits earned and paid to URIA US\$'000</i>	<i>Rate of return</i>
31 December 2004	1,671	1.40%
31 December 2005	4,938	4.45%
30 June 2007	15,258	6.38%
30 June 2008	14,088	4.53%
30 June 2009	5,447	4.34%
Six months ended 31 December 2009 (Annualized)	5,599	6.39%

9 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

9 RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2009 - Reviewed				<i>Audited 30 June 2009 Total US\$ '000</i>
	<i>Major shareholders US\$ '000</i>	<i>Directors and key management US\$ '000</i>	<i>Others US\$ '000</i>	<i>Total US\$ '000</i>	
Assets					
Receivables and other assets	97,310	4,356	1,172,149	1,273,815	1,532,794
Liabilities and unrestricted investment accounts					
Due to other institutions and other liabilities	321,393	-	493,654	815,047	807,645
Unrestricted investment accounts	61,754	11,168	104,745	177,667	125,459
Commitments					
Financial guarantee	-	-	179,638	179,638	176,288

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

10 SEGMENT INFORMATION

The following table presents revenue and segment results information regarding the Group's business segments for the six month period ended 31 December 2009 and 2008, respectively.

	<i>Corporate US\$ '000</i>	<i>Real Estate US\$ '000</i>	<i>Asset-Based US\$ '000</i>	<i>Total US\$ '000</i>
Six month period ended 31 December 2009 (Unaudited)				
Segmental revenue	22,800	20,699	49,584	93,083
Unallocated revenue				10,992
Total revenue				104,075
Segmental results	(109,543)	(11,781)	17,803	(103,521)
Unallocated expenses				(87,194)
Net loss				(190,715)
Six month period ended 31 December 2008 (Unaudited)				
<i>Segmental revenue</i>	50,551	67,911	33,800	152,262
Unallocated revenue				4,070
Total revenue				156,332
<i>Segmental results</i>	31,674	41,684	78,829	152,187
Unallocated expenses				(109,446)
Net income				42,741

The following table presents certain asset and liability information regarding the Group's business segments as at 31 December 2009 and as at the date of last audited financial statements (30 June 2009).

	<i>Corporate US\$ '000</i>	<i>Real Estate US\$ '000</i>	<i>Asset-Based US\$ '000</i>	<i>Total US\$ '000</i>
As at 31 December 2009				
Segment assets	1,290,887	1,290,190	975,100	3,556,177
Unallocated assets				453,793
				4,009,970
Segment liabilities	69,871	266,821	93,289	429,981
Unallocated liabilities and URIA				2,150,721
				2,580,702

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

10 SEGMENT INFORMATION (continued)

	<i>Corporate US\$ '000</i>	<i>Real Estate US\$ '000</i>	<i>Asset-Based US\$ '000</i>	<i>Total US\$ '000</i>
As at 30 June 2009				
Segment assets	1,490,077	1,621,067	925,830	4,036,974
Unallocated assets				335,314
				<u>4,372,288</u>
Segment liabilities	49,564	259,803	67,491	376,858
Unallocated liabilities and URIA				2,396,835
				<u>2,773,693</u>

11 OFFSETTING ARRANGEMENTS

The Group enters into certain offsetting arrangements in different major currencies with financial institutions in order to mitigate foreign currency risk. These arrangements are short term in nature. For financial statement presentation purposes, each arrangement is set off against the respective reverse Murabaha and the net position is classified either as an asset or liability in the consolidated balance sheet. As of 31 December 2009 and 30 June 2009 the Group did not have any offsetting arrangements. Similarly the profits paid and received relating to these arrangements are netted off and the net are included under funding costs as appropriate. For the six months ended 31 December 2009, the Group did not incur net funding costs on these arrangements (Six months period ended 31 December 2008: \$8.9 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT**a) Liquidity risk****a) (i) Maturity analysis of assets and liabilities**

The table below summarizes the maturity profile of the Group's assets and liabilities based on expected repayment arrangements.

The maturity profile of assets and liabilities as at **31 December 2009** is as follows:

	<i>Up to 1 month US\$ '000</i>	<i>1 to 3 months US\$ '000</i>	<i>3 to 6 months US\$ '000</i>	<i>6 months to 1 year US\$ '000</i>	<i>Less than 1 year US\$ '000</i>	<i>1 to 3 years US\$ '000</i>	<i>Over 3 years US\$ '000</i>	<i>More than 1 year US\$ '000</i>	<i>Total US\$ '000</i>
ASSETS									
Cash and short term funds	134,044	-	-	-	134,044	-	-	-	134,044
Receivables	101,707	516,145	171,465	150,868	940,185	181,898	167,373	349,271	1,289,456
Investments	-	361,373	602,287	458,219	1,421,879	729,205	353,098	1,082,303	2,504,182
Other assets	-	24,464	-	-	24,464	-	57,824	57,824	82,288
Total assets	<u>235,751</u>	<u>901,982</u>	<u>773,752</u>	<u>609,087</u>	<u>2,520,572</u>	<u>911,103</u>	<u>578,295</u>	<u>1,489,398</u>	<u>4,009,970</u>
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to financial and other institutions	68,267	396,416	25,669	394,209	884,561	312,454	70	312,524	1,197,085
Medium-term financing	2,495	-	-	-	2,495	1,089,187	-	1,089,187	1,091,682
Other liabilities	-	46,253	-	-	46,253	39,980	-	39,980	86,233
Unrestricted investment accounts (URIA)	-	205,702	-	-	205,702	-	-	-	205,702
Total liabilities and URIA	<u>70,762</u>	<u>648,371</u>	<u>25,669</u>	<u>394,209</u>	<u>1,139,011</u>	<u>1,441,621</u>	<u>70</u>	<u>1,441,691</u>	<u>2,580,702</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)**a) Liquidity risk (continued)****a) (i) Maturity analysis of assets and liabilities (continued)**

The maturity profile of assets and liabilities as at 30 June 2009 is as follows:

	<i>Up to 1 month US\$ '000</i>	<i>1 to 3 months US\$ '000</i>	<i>3 to 6 months US\$ '000</i>	<i>6 months to 1 year US\$ '000</i>	<i>Less than 1 year US\$ '000</i>	<i>1 to 3 years US\$ '000</i>	<i>Over 3 years US\$ '000</i>	<i>More than 1 year US\$ '000</i>	<i>Total US\$ '000</i>
ASSETS									
Cash and short term funds	191,199	-	-	-	191,199	-	-	-	191,199
Receivables	164,544	830,282	98,418	120,039	1,213,283	171,319	177,880	349,199	1,562,482
Investments	-	351,971	586,619	269,029	1,207,619	769,491	585,781	1,355,272	2,562,891
Other assets	-	23,294	-	-	23,294	-	32,422	32,422	55,716
Total assets	355,743	1,205,547	685,037	389,068	2,635,395	940,810	796,083	1,736,893	4,372,288
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to financial and other institutions	266,685	286,155	208,693	110,825	872,358	466,579	-	466,579	1,338,937
Medium-term financing	4,305	-	-	-	4,305	-	1,086,815	1,086,815	1,091,120
Other liabilities	-	82,176	-	-	82,176	29,164	-	29,164	111,340
Unrestricted investment accounts (URIA)	-	232,296	-	-	232,296	-	-	-	232,296
Total liabilities and URIA	270,990	600,627	208,693	110,825	1,191,135	495,743	1,086,815	1,582,558	2,773,693

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)**a) Liquidity risk (continued)****a) (ii) Contractual undiscounted repayment obligations**The contractual undiscounted repayment obligations as at **31 December 2009**:

FINANCIAL LIABILITIES	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 6 months US\$ '000	6 months to 1 year US\$ '000	Less than 1 year US\$ '000	1 to 3 years US\$ '000	Over 3 years US\$ '000	More than 1 year US\$ '000	Total US\$ '000
Due to financial and other institutions	731,278	57,606	25,500	197,654	1,012,038	194,329	-	194,329	1,206,367
Medium-term financing	3,188	-	3,188	6,376	12,752	1,125,504	-	1,125,504	1,138,256
Other liabilities	-	82,288	-	-	82,288	-	-	-	82,288
Unrestricted investment accounts (URIA)	-	205,702	-	-	205,702	-	-	-	205,702
Total liabilities and URIA	734,466	345,596	28,688	204,030	1,312,780	1,319,833	-	1,319,833	2,632,613

The contractual undiscounted repayment obligations as at 30 June 2009:

FINANCIAL LIABILITIES	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 6 months US\$ '000	6 months to 1 year US\$ '000	Less than 1 year US\$ '000	1 to 3 years US\$ '000	Over 3 years US\$ '000	More than 1 year US\$ '000	Total US\$ '000
Due to financial and other institutions	542,783	296,827	219,154	16,466	1,075,230	311,658	-	311,658	1,386,888
Medium-term financing	5,441	-	5,441	10,882	21,764	1,143,530	-	1,143,530	1,165,294
Other liabilities	-	111,340	-	-	111,340	-	-	-	111,340
Unrestricted investment accounts (URIA)	-	232,296	-	-	232,296	-	-	-	232,296
Total liabilities and URIA	548,224	640,463	224,595	27,348	1,440,630	1,455,188	-	1,455,188	2,895,818

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)

b) Credit risk

The Group does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of short term funds on murabaha contracts (Due from financial institutions) and receivables and notes receivable.

b) (i) Maximum exposure to credit risk

The following table analyzes the maximum exposure to credit risk and the average balance outstanding. The average balance is calculated on a daily basis.

	<u>31 December 2009</u>		<u>30 June 2009</u>	
	<i>Outstanding</i> <i>US\$ '000</i>	<i>Average</i> <i>US\$ '000</i>	<i>Outstanding</i> <i>US\$ '000</i>	<i>Average</i> <i>US\$ '000</i>
Receivables (Note 5)	1,289,456	1,510,819	1,562,482	1,167,289
Balances with banks	133,968	80,557	190,960	64,241
Due from financial institutions	76	86	239	392,150
Total credit risk exposure	1,423,500	1,591,462	1,753,681	1,623,680

b) (ii) Risk concentrations of the maximum exposure to credit risk.

Concentration of risk is managed by counterparty. The maximum credit exposure to any single counterparty as of 31 December 2009 was US\$ 129.5 million (30 June 2009: US\$ 360.0 million).

The following table analyzes the geographical and industrial sector concentrations of the Group's maximum exposure to credit risk.

	<u>31 December</u> <u>2009</u> <i>US\$ '000</i>	<u>30 June</u> <u>2009</u> <i>US\$ '000</i>
Geographic region:		
North America	613,873	754,571
Middle East & Asia	590,562	806,755
Europe	219,065	192,355
	1,423,500	1,753,681
Industry sector:		
Utilities and others	837,364	1,042,048
Manufacturing	196,270	278,698
Real estate	187,004	136,765
Banking and financial institutions	135,926	211,063
Technology	36,347	35,680
Services	30,589	49,427
	1,423,500	1,753,681

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)

b) (iii) Analysis of exposure to credit risk by external credit ratings

The table below analyses the group's maximum credit exposure by the external credit ratings of counterparties. The CBB has recognized certain External Credit Risk Assessment Institutions ("ECAIs"). The Group considers the credit risk ratings that the counter party obtains from ECAIs recognized by the CBB. The Group follows the CBB mapping notation and equates all ratings to its equivalent Standard & Poor's rating for standardisation and comparison purposes.

The table below analyses the group's maximum credit exposures which are neither past due or impaired by its equivalent Standard & Poors Rating. The majority of exposures which are not rated relate to receivables (Note 5).

	31 December 2009 US\$ '000	30 June 2009 US\$ '000
Standard & Poor's rating or equivalent		
AAA to AA-	736	186,390
A+ to A-	88,139	3,116
BBB+ to BBB-	720	1,586
Unrated	1,257,676	1,439,394
	1,347,271	1,630,486

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)

c) Concentration risk

	31 December 2009		30 June 2009	
	Assets US\$ '000	Liabilities and URIA US\$ '000	Assets US\$ '000	Liabilities and URIA US\$ '000
Geographic region:				
Europe	1,395,682	716,269	1,337,457	772,522
Middle East & Asia	1,294,800	1,577,832	1,470,094	1,694,429
North America	1,319,488	286,601	1,564,737	306,742
	4,009,970	2,580,702	4,372,288	2,773,693
Industry sector:				
Utilities and others	1,480,113	569,118	1,705,021	649,278
Banking and financial institutions	135,979	1,677,960	211,117	1,793,880
Real estate	1,279,036	266,200	1,163,048	290,656
Manufacturing	460,267	13,853	579,439	16,100
Services	564,743	31,541	606,918	22,616
Technology	89,832	22,030	106,745	1,163
	4,009,970	2,580,702	4,372,288	2,773,693

d) Profit rate risk

The Group is not exposed to interest rate risk on its financial assets as no interest is charged. However, the fair value of financial instruments may be affected by current market forces including interest rates.

The following table indicates the effective profit rates on such financial instruments:

	Profit rate	
	Six months ended 31 December 2009	Six months ended 31 December 2008
Due from financial institutions	0.30%	2.74%
Due from investee companies	13.77%	14.19%
Due to financial and other institutions	9.99%	4.99%
Medium-term financing	1.80%	4.89%
Unrestricted investment accounts	6.39%	3.48%

(Profit rates for six months have been annualized)

	Sensitivity		Sensitivity of	
	Basis change in rates (+/-)	net funding costs (+/-) 31 December 2009 US\$ '000	Basis point change in rates (+/-)	net funding costs (+/-) 31 December 2008 US\$ '000
Currency:				
USD	40	6,405	75	285
GBP	25	48	40	1,710
EURO	25	41	60	5,736
Others	5	34	5	91
On all profit bearing assets and liabilities	200	33,424	200	32,077

(Sensitivity to net funding costs have been calculated on an annual basis)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

12 RISK MANAGEMENT (continued)

d) Profit rate risk (continued)

The Group currently does not hold fixed rate available for sale financial assets or associated hedges and swaps, whose value would be impacted by changes in profit rates. Therefore, changes in profit rates would not have any impact recognized directly in equity.

e) Currency risk

The majority of the Group's business is conducted in US dollars. However, certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk. In order to mitigate currency risk, liabilities in various relevant currencies are used to match asset exposure through the use of offsetting arrangements as described in note 11.

The Group has investments in foreign subsidiaries the majority of whom prepare financial statements in United States Dollars. The translation effect of those subsidiaries preparing their financial statements in currencies other than United States Dollars is negligible. Currency exposures resulting from its subsidiaries are managed on a consolidated basis as described above.

The Group had the following significant foreign currency exposures at the balance sheet date:

	31 December 2009			30 June 2009		
	Assets US\$ '000	Liabilities and URIA US\$ '000	Net US\$ '000	Assets US\$ '000	Liabilities and URIA US\$ '000	Net US\$ '000
Euro	1,136,365	(37,324)	1,099,041	544,865	(84,002)	460,863
Pounds sterling	333,639	(26,494)	307,145	320,429	(40,272)	280,157
Singapore Dollar	121,917	(26,386)	95,531	121,403	(32,118)	89,285
Other currencies	46,079	(117,430)	(71,351)	38,471	(4,953)	33,518
	1,638,000	(207,634)	1,430,366	1,025,168	(161,345)	863,823

The table below indicates the result of the VaR model, over a one day time horizon with a confidence level of 98.5 percent (30 June 2009: 99.5 percent) in relation to currency positions.

	31 December 2009 US\$ '000	30 June 2009 US\$ '000
Closing VaR	30,640	28,968
Average VaR	34,373	7,619
Highest VaR	42,432	28,968
Lowest VaR	28,301	270

f) Equity price risk

The table below indicates the result of the Investment VaR model in relation to the Group's investment portfolio. The model measures unexpected losses over a one year time horizon with a confidence level of 99.5 percent (30 June 2009 : 99.5 percent).

	31 December 2009 US\$ '000	30 June 2009 US\$ '000
Closing VaR	1,033,895	1,351,593
Average VaR	1,206,815	1,099,495
Highest VaR	1,370,145	1,351,593
Lowest VaR	1,032,141	917,385

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

13 CAPITAL MANAGEMENT

	<i>Reviewed</i> 31 December 2009 <i>US\$ '000</i>	<i>Audited</i> 30 June 2009 <i>US\$ '000</i>
Tier I Capital (Note (a))	1,228,916	1,202,756
Tier II Capital (Note (b))	-	-
Total regulatory capital	1,228,916	1,202,756
Risk Weighted assets (Note (c))	7,984,792	7,026,952
Capital ratio	15%	17%
Minimum regulatory capital ratio	12%	12%

a) Tier I Capital

	<i>Reviewed</i> 31 December 2009 <i>US\$ '000</i>	<i>Audited</i> 30 June 2009 <i>US\$ '000</i>
Share capital	310,681	282,243
Share premium	950,003	765,155
Share subscription pending allotment	4,814	185,209
Statutory reserves	98,492	98,492
Retained earnings	248,533	435,719
Bank funded shares	(328,657)	(329,120)
Core Tier I capital	1,283,866	1,437,698
Deductions	(54,950)	(234,942)
Tier I capital	1,228,916	1,202,756

Deductions from Tier I capital represent exposures in excess of regulatory limits.

b) Tier II Capital

The Bank did not have Tier II capital as at 31 December 2009 and 30 June 2009. Under current rules set by the CBB only unaudited retained earnings and un audited unrealized gains on equity investments can form part of Tier II capital for the Bank. Any interim losses are categorized as part of Tier I capital.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009 (Unaudited)

13 CAPITAL MANAGEMENT (continued)

c) Risk weighted assets and allocated regulatory capital

	<i>31 December 2009</i>		<i>30 June 2009</i>	
	<i>Risk Weighted Assets</i>	<i>Allocated Regulatory Capital</i>	<i>Risk Weighted Assets</i>	<i>Allocated Regulatory Capital</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Investment exposures	4,329,992	519,599	4,203,414	504,410
Receivables	1,107,481	132,898	948,941	113,873
Claims from Banks	17,904	2,148	38,170	4,580
Other assets	64,364	7,724	41,287	4,954
	5,519,741	662,369	5,231,812	627,817
Attributable to self financed assets				
Attributable to assets financed by URIA	61,704	7,404	69,667	8,360
Credit risk weighted assets	5,581,445	669,773	5,301,479	636,177
Operational risk weighted assets	861,487	103,378	861,487	103,378
Market risk weighted assets	1,541,860	185,023	863,986	103,678
Total	7,984,792	958,174	7,026,952	843,234

14 EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Bank receives interest from incidental deposits. These earnings are prohibited by Shari'ah, hence utilized exclusively for charitable purposes and amount to US\$ 125,411 for the six months ended 31 December 2009 (Six months ended 31 December 2008: US\$2,729).

15 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.

Public Disclosures as at 31 December 2009

DISCLOSURES NOT COVERED IN THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF 31 DECEMBER 2009

The following disclosures are additional public disclosures required by the Central Bank of Bahrain (“CBB”). These disclosures are made in terms of the Public Disclosure Requirements Module (“PD Module”) issued by the CBB. These additional disclosures should be read in conjunction with the Interim Consolidated Financial Statements of 31 December 2009 which together represent Arcapita Bank B.S.C.(c)’s compliance with the requirements of the PD Module.

CONCENTRATION OF RISK

CONCENTRATION OF RISK - EXPOSURES IN EXCESS OF 15% LIMIT		
Counterparties	Self Financed	URIA Financed [Ⓜ]
Counterparty #1	33.6%	-
Counterparty #2	18.9%	-

[Ⓜ] Unrestricted Investment Accounts (‘URIA’)

QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE FOR THE PAST FIVE YEARS.

KEY FINANCIAL INDICATORS FY2009 TO FY2004					
	2009	2008	2007 [Ⓜ]	2005	2004
Net income/(loss) (\$ millions)	(87.9)	362.2	285.7	104.3	70.5
Total assets (\$ millions)	4,372.3	5,137.4	3,805.5	1,865.2	1,228.3
Total equity (\$ millions)	1,598.6	1,339.6	955.0	393.7	324.5
Return on average equity (%)	(6.1)	31.6	28.2	29.1	27.5
Return on average paid-in capital (%)	(34.6)	161.1	91.3	67.7	52.9
Return on average assets (%)	(1.8)	8.1	6.7	6.7	6.9
Net book value per share (\$) ^{ⓂⓂ}	5.81	5.79	4.26	2.55	2.11
Dividend as a percentage of paid-in capital (%)	n.a	40.0	50.0	20.0	20.0
Number of employees	337	306	253	171	142

[Ⓜ] 18-month period ended June 30, 2007. As a result the net income of \$285.7 million equates to \$190.5 million on an annualized basis.

^{ⓂⓂ} Net book value per share of prior years adjusted to reflect share split of 1 to 10.