

INVESTCORP BANK B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2012 (UNAUDITED)**

INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF INVESTCORP BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Investcorp Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2012, comprising of the interim consolidated balance sheet as at 31 December 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (IAS 34). 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 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. Consequently, it 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 IAS 34.

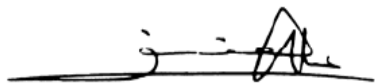
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29 January 2013
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

INTERIM CONSOLIDATED BALANCE SHEET DECEMBER 31, 2012 (UNAUDITED)

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>	<i>Notes</i>	<i>Page</i>
ASSETS				
Cash and short-term funds	38,916	156,252		
Placements with financial institutions and other liquid assets	374,142	194,567		
Positive fair value of derivatives	79,453	81,250	17	26
Receivables and prepayments	268,186	284,337	5	13
Advances	179,564	188,853	6	14
Co-investments				
Hedge funds	378,581	414,098	7	15
Corporate investment	1,117,582	1,221,790	8	16
Real estate investment	208,701	154,460	9	19
Total co-investments	1,704,864	1,790,348		
Premises, equipment and other assets	53,730	54,072		
TOTAL ASSETS	2,698,855	2,749,679		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	21,286	10,111		
Deposits from clients - short-term	464,429	195,245	11	20
Negative fair value of derivatives	94,564	39,160	17	26
Payables and accrued expenses	55,783	214,432	12	21
Deposits from clients - medium-term	95,713	119,241	11	20
Medium-term debt	475,970	567,256	13	22
Long-term debt	491,700	560,491	14	23
TOTAL LIABILITIES	1,699,445	1,705,936		
EQUITY				
Preference share capital	511,465	511,465	15	24
Ordinary shares at par value	200,000	200,000	15	24
Reserves	230,611	233,046		
Treasury shares	(168,593)	(163,575)		
Retained earnings	222,862	183,538		
<i>Ordinary shareholders' equity excluding proposed appropriations, unrealized fair value changes recognized directly in equity and revaluation reserve</i>	484,880	453,009		
Proposed appropriations	-	66,096		
Unrealized fair value changes recognized directly in equity and revaluation reserve	3,065	13,173		
TOTAL EQUITY	999,410	1,043,743		
TOTAL LIABILITIES AND EQUITY	2,698,855	2,749,679		



Abdul-Rahman Salim Al-Ateeqi
Chairman



Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 22 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

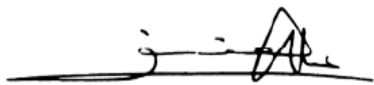
INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD ENDED DECEMBER 31, 2012 (UNAUDITED)

INTERIM CONSOLIDATED STATEMENT OF INCOME

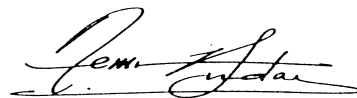
<i>\$000s</i>	<i>6 months July - December 2012</i>	<i>6 months July - December 2011</i>	<i>Notes</i>	<i>Page</i>
FEE INCOME				
AUM fees	45,349	51,788		
Deal fees	102,245	30,218	2	7
<i>Fee income (a)</i>	<u>147,594</u>	<u>82,006</u>		
ASSET BASED INCOME				
Hedge funds	6,947	(58,595)		
Corporate investment	24	65,449		
Real estate investment	(3,827)	2,153		
Treasury and other asset based income	2,197	1,504		
<i>Asset based income (b)</i>	<u>5,341</u>	<u>10,511</u>	2	7
Gross operating income (a) + (b)	152,935	92,517	2	7
Provisions for impairment	(3,390)	(355)	10	19
Interest expense	(33,886)	(22,866)	2	7
Operating expenses	(76,450)	(64,038)	2	7
NET INCOME	<u>39,209</u>	<u>5,258</u>		
Basic earnings per ordinary share (\$)	<u>66</u>	<u>9</u>	16	25
Fully diluted earnings per ordinary share (\$)	<u>62</u>	<u>9</u>	16	25

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>\$000s</i>	<i>6 months July - December 2012</i>	<i>6 months July - December 2011</i>	<i>Notes</i>	<i>Page</i>
NET INCOME (AS ABOVE)	<u>39,209</u>	<u>5,258</u>		
Other comprehensive income				
Fair value movements - available for sale investments	(61)	-		
Fair value movements - cashflow hedges	(9,932)	(8,122)	17	26
Other comprehensive loss	<u>(9,993)</u>	<u>(8,122)</u>		
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>29,216</u>	<u>(2,864)</u>		



Abdul-Rahman Salim Al-Ateeqi
Chairman



Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 22 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED DECEMBER 31, 2012 (UNAUDITED)

\$000s	Reserves									Unrealized fair value changes and revaluation reserve recognized directly in equity				
	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total	Treasury shares	Retained earnings	Proposed appropriations	Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	Total equity
Balance at July 1, 2011	511,465	200,000	142,880	100,000	-	242,880	(181,287)	181,922	74,682	4,713	19,908	6,054	30,675	1,060,337
Total comprehensive income / (loss)	-	-	-	-	-	-	-	5,258	-	-	(8,122)	-	(8,122)	(2,864)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	115	-	-	-	(115)	(115)	-
Treasury shares purchased during the period - net	-	-	-	-	-	-	(6,364)	-	-	-	-	-	-	(6,364)
Treasury shares sold during the period	-	-	-	-	-	-	13,006	-	-	-	-	-	-	13,006
Loss on sale of treasury shares	-	-	(7,706)	-	-	(7,706)	7,706	-	-	-	-	-	-	-
Approved appropriations paid:														
Preference share dividend	-	-	-	-	-	-	-	-	(61,306)	-	-	-	-	(61,306)
Ordinary share dividend	-	-	-	-	-	-	-	-	(9,306)	-	-	-	-	(9,306)
Charitable contributions by shareholders	-	-	-	-	-	-	-	-	(4,000)	-	-	-	-	(4,000)
Preference share dividend forfeited	-	-	-	-	-	-	-	70	(70)	-	-	-	-	-
Balance at December 31, 2011	511,465	200,000	135,174	100,000	-	235,174	(166,939)	187,365	-	4,713	11,786	5,939	22,438	989,503
Balance at July 1, 2012	511,465	200,000	133,046	100,000	-	233,046	(163,575)	183,538	66,096	2,727	4,622	5,824	13,173	1,043,743
Total comprehensive income / (loss)	-	-	-	-	-	-	-	39,209	-	(61)	(9,932)	-	(9,993)	29,216
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	115	-	-	-	(115)	(115)	-
Treasury shares purchased/ vested during the period - net	-	-	-	-	-	-	(7,453)	-	-	-	-	-	-	(7,453)
Loss on sale and vesting of treasury shares	-	-	(2,435)	-	-	(2,435)	2,435	-	-	-	-	-	-	-
Approved appropriations paid:														
Preference share dividend	-	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	-	(4,720)	-	-	-	-	(4,720)
Balance at December 31, 2012	511,465	200,000	130,611	100,000	-	230,611	(168,593)	222,862	-	2,666	(5,310)	5,709	3,065	999,410

The attached notes 1 to 22 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED DECEMBER 31, 2012 (UNAUDITED)

<i>\$000s</i>	<i>6 months July - December 2012</i>	<i>6 months July - December 2011</i>	<i>Notes</i>	<i>Page</i>
OPERATING ACTIVITIES				
Net income	39,209	5,258		
Adjustments for non-cash items in net income				
Depreciation	3,409	3,023		
Provisions for impairment	3,390	355	10	19
Amortization of transaction costs of borrowings	3,957	3,517		
Net income adjusted for non-cash items	49,965	12,153		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	-	10,000		
Receivables and prepayments	13,237	48,132	5	13
Advances	8,813	(33,510)	6	14
Deposits from clients - short-term	269,184	(16,129)	11	20
Payables and accrued expenses	(158,649)	(138,205)	12	21
Co-investments				
Hedge funds	35,517	(16,034)	7	15
Corporate investment	104,147	85,543	8	16
Real estate investment	(54,241)	(38,533)	9	19
Fair value of derivatives	1,466	8,785		
Other assets	-	(475)		
NET CASH FROM (USED IN) OPERATING ACTIVITIES	269,439	(78,273)		
FINANCING ACTIVITIES				
Deposits from financial institutions	11,175	-		
Deposits from clients - medium-term	(23,528)	(12,585)	11	20
Medium-term revolvers drawn	1,261	123,250		
Medium-term revolvers repaid and available for drawdown	(75,250)	-	13	22
Medium-term debt issued (net of transaction costs)	257,461	-	13	22
Medium-term debt repaid	(281,703)	(50,000)	13	22
Long-term debt repaid	(20,000)	(20,000)	14	23
Treasury shares (purchased) sold - net	(7,453)	6,642		
Dividends and charitable contributions paid	(66,096)	(74,612)		
NET CASH USED IN FINANCING ACTIVITIES	(204,133)	(27,305)		
INVESTING ACTIVITY				
Investment in premises and equipment	(3,067)	(772)		
NET CASH USED IN INVESTING ACTIVITY	(3,067)	(772)		
Net increase (decrease) in cash and cash equivalents	62,239	(106,350)		
Cash and cash equivalents at beginning of the period	347,819	353,044		
Cash and cash equivalents at end of the period	410,058	246,694		
Cash and cash equivalents comprise:				
Cash and short-term funds	38,916	21,681		
Cash in transit	-	25,627		
Placements with financial institutions and other liquid assets	371,142	199,386		
	410,058	246,694		
Additional cash flow information				
<i>\$000s</i>	<i>6 months July - December 2012</i>	<i>6 months July - December 2011</i>		
Interest paid	(27,500)	(22,249)		
Interest received	10,632	5,152		

The attached notes 1 to 22 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

Investcorp Bank B.S.C. (the "Bank") operates under a Wholesale Banking License issued by the Central Bank of Bahrain ("CBB").

The Bank is a holding company owning various subsidiaries (together the "Group" or "Investcorp"). The activities of the Bank are substantially transacted through its subsidiaries.

The Bank is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability. The Bank is listed on the Bahrain Bourse. The ultimate parent of the Group is SIPCO Holdings Limited incorporated in the Cayman Islands.

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The interim condensed consolidated financial statements for the six month period ended December 31, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated January 29, 2013.

INVESTCORP BANK B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group are prepared in conformity with International Accounting Standard 34 applicable to interim financial reporting. The significant accounting policies adopted in the preparation of these interim condensed consolidated financial statements are those followed in the preparation of the audited consolidated financial statements for the year ended June 30, 2012.

The interim condensed consolidated financial statements are prepared in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands (\$000s) unless otherwise stated.

2. SEGMENT REPORTING

As at December 31, 2012, the business segments have remained the same as for the year ended June 30, 2012. However the basis of allocation to business segments have changed in the current period as explained below. As a result of the change in the basis of allocation the segmental information for the comparative period has been reclassified.

A. REVENUE GENERATION

i) *Fee income*

There are several components of fees that are earned from providing intermediary services to clients and investee companies.

AUM fees

AUM fee consists of all management and performance fees earned on hedge fund assets under management and other management fees earned on Corporate Investments ('CI') and Real Estate ('RE') assets under management from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments.

Deal fees

Deal fee comprises of activity fee and performance fee earned, other than hedge funds.

Activity fees comprise acquisition fees earned by the Group from investee companies on new corporate investment or real estate investment acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from Gulf clients at the time of placing new corporate investment or real estate investment with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing advisory services for ancillary transactional activity, including refinancing, recapitalizations, restructuring and disposal.

Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle performance/rate.

INVESTCORP BANK B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

2. SEGMENT REPORTING (continued)

A. REVENUE GENERATION

ii) *Asset based income*

This includes realized as well as unrealized gains and losses over previously reported values of FVTPL co-investments in corporate investment and real estate investment, value appreciation on the Group's co-investment in hedge funds, cash or pay-in-kind interest from various debt investments in corporate investment or real estate investment and rental income distributions from real estate investment.

All other income that is common to the Group (such as income arising from the deployment of the Group's excess liquidity) is treated as treasury and other asset based income and recorded under Corporate Support.

B. ALLOCATION OF OPERATING EXPENSES

Operating expenses for each reporting segment comprise the respective lines of businesses' employee compensation and benefits and costs of its technology and communications infrastructure and resources, including professional fees for external advisors, travel and business development costs and premises costs.

C. SEGREGATION OF ASSETS

Assets directly attributable to the CI, RE and HF investment reporting segments are primarily in the form of proprietary co-investments by the Group in investments arranged by the respective lines of businesses, classified as FVTPL investments in the interim consolidated balance sheet, receivables from operating and client holding companies and advances relating to the reporting segment. All other assets that are common to the Group are recorded under Corporate Support.

D. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a variety of risk based methodologies including Value-at-Risk (VaR) to determine the required amount of total economic capital that is needed to support growth objectives under normal and extreme stress conditions for each business line. Economic capital is allocated to each business line based on the current amount of capital required to cover potential losses over a one year horizon. This capital allocation is then stressed by developing a five year projection plan which takes into account the current size of the business, expected growth and the associated capital required to support the risks within each reporting segment over the five year term.

Having determined the assets directly attributable to each reporting segment, and the economic capital requirements, the Group allocates liabilities (debt funding) to each segment based on the relative maturity profile of the segment's assets. Longer-dated liabilities are generally allocated to the corporate investment and real estate investment reporting segments, considering their medium-long term investment horizon.

The allocation of liabilities determined above, in turn, drives the allocation of interest expense for each reporting segment.

INVESTCORP BANK B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

2. SEGMENT REPORTING (continued)

E. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

The interim consolidated balance sheets as at December 31, 2012 and June 30, 2012 by reporting segment are as follows:

<i>December 31, 2012</i> <i>\$000s</i>	<i>Corporate investment</i>	<i>Hedge funds</i>	<i>Real estate investment</i>	<i>Corporate support</i>	<i>Total</i>
Assets					
Cash and short-term funds	-	-	-	38,916	38,916
Placements with financial institutions and other liquid assets	-	-	-	374,142	374,142
Positive fair value of derivatives	-	-	-	79,453	79,453
Receivables and prepayments	156,697	20,251	41,899	49,339	268,186
Advances	59,710	1,476	13,667	104,711	179,564
Co-investments - retention	996,384	378,581	162,616	-	1,537,581
Co-investments - underwriting	121,198	-	46,085	-	167,283
Premises, equipment and other assets	-	-	-	53,730	53,730
Total assets	1,333,989	400,308	264,267	700,291	2,698,855
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	-	-	21,286	21,286
Deposits from clients - short-term	121,198	14,096	44,119	285,016	464,429
Negative fair value of derivatives	-	-	-	94,564	94,564
Payables and accrued expenses	3,652	2,846	1,690	47,595	55,783
Deposits from clients - medium term	35,986	2,135	4,906	52,686	95,713
Medium-term debt	131,199	227,189	77,309	40,273	475,970
Long-term debt	422,711	-	68,989	-	491,700
Total liabilities	714,746	246,266	197,013	541,420	1,699,445
Total equity	619,243	154,042	67,254	158,871	999,410
Total liabilities and equity	1,333,989	400,308	264,267	700,291	2,698,855

<i>June 30, 2012</i> <i>\$000s</i>	<i>Corporate investment</i>	<i>Hedge funds</i>	<i>Real estate investment</i>	<i>Corporate support</i>	<i>Total</i>
Assets					
Cash and short-term funds	-	-	-	156,252	156,252
Placements with financial institutions and other liquid assets	-	-	-	194,567	194,567
Positive fair value of derivatives	-	-	-	81,250	81,250
Receivables and prepayments	140,410	29,490	62,027	52,410	284,337
Advances	77,074	447	12,680	98,652	188,853
Co-investments - retention	1,076,626	414,098	154,460	-	1,645,184
Co-investments - underwriting	145,164	-	-	-	145,164
Premises, equipment and other assets	-	-	-	54,072	54,072
Total assets	1,439,274	444,035	229,167	637,203	2,749,679
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	-	-	10,111	10,111
Deposits from clients - short-term	39,523	-	-	155,722	195,245
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	165,783	408	92	48,149	214,432
Deposits from clients - medium term	899	14,399	16,331	87,612	119,241
Medium-term debt	194,972	214,114	19,703	138,467	567,256
Long-term debt	441,430	-	119,061	-	560,491
Total liabilities	842,607	228,921	155,187	479,221	1,705,936
Total equity	596,667	215,114	73,980	157,982	1,043,743
Total liabilities and equity	1,439,274	444,035	229,167	637,203	2,749,679

INVESTCORP BANK B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

2. SEGMENT REPORTING (continued)

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS (continued)

The interim consolidated statements of income for the six months ended December 31, 2012 and December 31, 2011 by reporting segments are as follows:

<i>July 2012 - December 2012 \$000s</i>	<i>Corporate investment</i>	<i>Hedge funds</i>	<i>Real estate investment</i>	<i>Corporate support</i>	<i>Total</i>
Fee income					
AUM fees	25,867	16,334	3,148	-	45,349
Deal fees ¹	92,171	(291)	10,365	-	102,245
Gross fee income (a)	118,038	16,043	13,513	-	147,594
Operating expenses attributable to fee generating business (c)	(26,708)	(13,782)	(7,143)	-	(47,633)
Net fee income	91,330	2,261	6,370	-	99,961
Gross asset based income (loss) (b)²	24	6,947	(3,827)	2,197	5,341
Provisions for impairment	(3,115)	-	-	(275)	(3,390)
Interest expense	(18,050)	(6,038)	(4,983)	(4,815)	(33,886)
Other operating expenses (d)	-	-	-	(28,817)	(28,817)
Net income (loss)	70,189	3,170	(2,440)	(31,710)	39,209
Gross operating income (a) + (b)	118,062	22,990	9,686	2,197	152,935
Operating expense (c) + (d)	(26,708)	(13,782)	(7,143)	(28,817)	(76,450)

¹ \$86.6 million in deal fees relates to activity fee and \$15.6 million represents performance fees.
² \$8.8 million in gross asset based income relates to interest income earned. This comprises of Corporate Investment \$3.5 million, real estate investment \$2.2 million and corporate support \$3.1 million.

<i>July 2011 - December 2011 \$000s</i>	<i>Corporate investment</i>	<i>Hedge funds</i>	<i>Real estate investment</i>	<i>Corporate support</i>	<i>Total</i>
Fee income					
AUM fees	27,930	19,088	4,770	-	51,788
Deal fees ¹	26,460	(357)	4,115	-	30,218
Gross fee income (a)	54,390	18,731	8,885	-	82,006
Operating expenses attributable to fee generating business (c)	(19,822)	(12,651)	(6,081)	-	(38,554)
Net fee income	34,568	6,080	2,804	-	43,452
Gross asset based income (loss) (b)²	65,449	(58,595)	2,153	1,504	10,511
Provisions for impairment	(251)	-	(104)	-	(355)
Interest expense	(9,449)	(7,575)	(2,331)	(3,511)	(22,866)
Other operating expenses (d)	-	-	-	(25,484)	(25,484)
Net income (loss)	90,317	(60,090)	2,522	(27,491)	5,258
Gross operating income (a) + (b)	119,839	(39,864)	11,038	1,504	92,517
Operating expense (c) + (d)	(19,822)	(12,651)	(6,081)	(25,484)	(64,038)

¹ \$29.7 million in deal fees relates to activity fee and \$0.5 million represents performance fees.
² \$5.0 million in gross asset based income relates to interest income earned. This comprises of Corporate Investment \$0.5 million, real estate investment \$2.3 million and corporate support \$2.2 million.

All of the revenue reported above represents revenue generated from external customers and there were no inter-segmental revenues in the period.

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3. ASSETS UNDER MANAGEMENT

The Group's clients participate in products offered under its three alternative investment asset classes. Total assets under management ("AUM") in each of the reporting segments at the interim consolidated balance sheet date are as follows:

<i>\$millions</i>	December 31, 2012				June 30, 2012			
	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate Investment ("CI")								
<i>Closed-end Committed Funds</i>								
CI - NA & Europe	476	206	64	746	476	206	64	746
CI - Technology	424	61	15	500	424	61	15	500
CI - MENA	853	70	6	929	853	70	6	929
Sub total	1,753	337	85	2,175	1,753	337	85	2,175
<i>Closed-end Invested Funds</i>								
CI - Technology	213	31	10	254	213	31	10	254
<i>Deal-by-deal investments</i>								
CI - NA & Europe	1,994	735	257	2,986	2,112	876	319	3,307
<i>Strategic and other investments</i>	-	86	-	86	-	88	-	88
Total corporate investment	3,960	1,189	352	5,501	4,078	1,332	414	5,824
Hedge Funds*								
<i>Fund of hedge funds</i>	2,070	43	-	2,113	2,090	86	1	2,177
<i>Single managers</i>	1,672	221	4	1,897	1,351	254	4	1,609
<i>Structured products</i>	104	364	-	468	107	371	4	482
Total hedge funds	3,846	628	4	4,478	3,548	711	9	4,268
Real Estate Investment								
<i>Closed-end Committed Funds</i>	75	25	-	100	75	25	-	100
<i>Closed-end Invested Funds</i>	98	19	2	119	98	15	2	115
<i>Deal-by-deal investments</i>	907	173	28	1,108	844	124	28	996
<i>Strategic and other investments</i>	-	9	-	9	-	8	-	8
Total real estate investment	1,080	226	30	1,336	1,017	172	30	1,219
Corporate Support								
<i>Client call accounts held in trust</i>	220	-	-	220	179	-	-	179
Total	9,106	2,043	386	11,535	8,822	2,215	453	11,490
Summary by category:								
<i>Closed-end Committed Funds</i>	1,828	362	85	2,275	1,828	362	85	2,275
<i>Closed-end Invested Funds</i>	311	50	12	373	311	46	12	369
<i>Hedge Funds</i>	3,846	628	4	4,478	3,548	711	9	4,268
<i>Deal-by-deal investments</i>	3,121	1,003	285	4,409	3,135	1,096	347	4,578
Total	9,106	2,043	386	11,535	8,822	2,215	453	11,490
Summary by segments:								
<i>Corporate investment</i>								
CI - NA & Europe	2,470	941	321	3,732	2,588	1,082	383	4,053
CI - Technology	637	92	25	754	637	92	25	754
CI - MENA	853	70	6	929	853	70	6	929
<i>Strategic and other investments</i>	-	86	-	86	-	88	-	88
<i>Hedge Funds</i>	3,846	628	4	4,478	3,548	711	9	4,268
<i>Real Estate Investment</i>	1,080	226	30	1,336	1,017	172	30	1,219
<i>Corporate Support</i>	220	-	-	220	179	-	-	179
Total	9,106	2,043	386	11,535	8,822	2,215	453	11,490

* Stated at gross value of the underlying exposure, including non-recourse third party leverage.

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for corporate investment and real estate are stated at fair values while the other categories are stated at their carrying cost.

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4. LIQUIDITY

The following table illustrates the Group's liquidity position as viewed by management of the Group:

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Cash and short term funds	38,916	156,252
Placements with financial institutions and other liquid assets	371,142	191,567
<i>Cash and cash equivalents</i>	410,058	347,819
Placements with financial institutions and other liquid assets (non cash equivalent)	3,000	3,000
<i>Total accessible liquidity</i>	413,058	350,819
Less: medium and long-term debt maturing within three months*	(167,750)	-
Add: undrawn medium term revolvers	-	292,750
Add: forward start medium-term facility available within three months (refer note 13)	514,000	-
<i>Total short term accessible liquidity</i>	759,308	643,569
Co-investments in hedge funds	378,581	414,098
<i>Total liquidity</i>	1,137,889	1,057,667

*This represents the balances drawn of the 5 year Eurodollar facility with the contractual maturity in April 2013, but payable prior to drawdown of the forward start facility available up to March 2013 (refer note 13)

The above table does not include \$3.4 million (June 30, 2012: \$4.7 million) of secured undrawn revolvers.

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5. RECEIVABLES AND PREPAYMENTS

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Subscriptions receivable	32,915	44,363
Receivables from investee and holding companies	117,421	148,822
Investment disposal proceeds receivable	5,222	6,910
Hedge funds related receivables	20,251	29,491
Accrued interest receivable	3,059	4,912
Prepaid expenses	49,708	42,571
Other receivables	49,510	14,254
	278,086	291,323
Provisions for impairment (see Note 10)	(9,900)	(6,986)
Total	268,186	284,337

Receivables arise largely from subscriptions by clients to the Group's investment products, fees earned in respect of the Group's investment management, other transactional services, investment performance, interest accruals on loans and advances and proceeds due from investment disposals.

Subscriptions receivable represent amounts due from clients for participation in the Group's deal by deal investment products. These arise in the normal course of the Group's placement activities and are recorded when a client signs a binding agreement confirming his or her participation in an investment offering. These are typically collected over the short-term, and, in the interim period prior to receipt of cash, are collateralized by the underlying investment assets.

Receivables from investee and holding companies include management fee, performance fee accrued on client assets under management and other receivables, which are due from investee companies.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of corporate investment and real estate investment. They also include redemption proceeds receivable from underlying hedge fund managers relating to the Group's co-investment in HF through internal parallel vehicles.

Hedge funds related receivables represent amounts due for management and administrative services and performance fees from hedge funds and single manager funds.

Accrued interest receivable represents interest receivable on placements with banks and other financial institutions, from investee companies on investment debt and from investment holding companies on working capital advances.

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6. ADVANCES

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Advances to investment holding companies	75,978	79,835
Advances to Employee Investment Programs	96,419	94,667
Advances to Gulf Opportunity Fund and Technology Funds	704	11,939
Other advances	18,791	14,264
	191,892	200,705
Provisions for impairment (see Note 10)	(12,328)	(11,852)
Total	179,564	188,853

Advances arise largely as a result of the Group extending working capital advances to investment holding companies and include advances for employee investment programs.

Advances to investment holding companies arise largely as a result of the Group extending working capital advances to companies established for client participation in the Group's investment products. These advances carry interest at market rates.

Advances to Employee Investment Programs represent the amounts advanced by the Group on behalf of employees in connection with their co-investment in the Group's investment products. These advances carry interest at LIBOR plus a margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

Advances to the Gulf Opportunity and technology funds represent amounts invested on behalf of the Group's clients in the acquisitions and expenses of the funds in the interim period prior to receipt of the associated capital call from clients. These advances carry interest at market rates. The advances, in management's opinion, represent a low risk to the Group.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

7. HEDGE FUNDS CO-INVESTMENTS

Co-investments in hedge funds, classified as FVTPL, comprise a portion of the Group's liquidity deployed alongside clients in the various fund of hedge funds and single manager hedge funds products offered by the Group, and similar internal vehicles. The Group currently manages several funds of hedge funds and structured fund products. Further, the Group seeds investments in several emerging hedge fund managers on its single manager platform.

The Group's investments in hedge funds comprise the following:

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Direct fund investments	72,002	116,052
Structured and leveraged products	306,579	298,046
Total balance sheet co-investments	<u>378,581</u>	<u>414,098</u>

Out of the total co-investment in hedge funds, \$26.4 million (June 30, 2012: \$29 million) comprise funds which are not immediately available for redemption due to gating clauses imposed by the underlying fund managers.

A portion of the Group's co-investment in hedge funds is utilized to secure a structured revolving facility (see note 13).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

8. CORPORATE CO-INVESTMENTS

\$000s	December 31, 2012	June 30, 2012 (Audited)
Corporate Investment - North America & Europe [See Note 8 (a)]	911,723	1,027,179
Corporate Investment - Technology [See Note 8 (b)]	89,865	83,073
Corporate Investment - MENA [See Note 8 (c)]	29,747	23,977
Strategic and other investments [See Note 8 (d)]	86,247	87,561
Total corporate co-investments	1,117,582	1,221,790

8 (a) CORPORATE INVESTMENT-NORTH AMERICA & EUROPE

The Group's co-investments in CI-North America & Europe ('CI-NA & Europe') are classified as FVTPL investments and carrying values of the Group's co-investments in CI-NA & Europe are:

\$000s	December 31, 2012	June 30, 2012 (Audited)
VINTAGE *		
Vintage 1997 (1997 - 2000)	142,146	165,601
Vintage 2001 (2001 - 2004)	7,924	10,686
Vintage 2005 (2005 - 2008)	443,870	514,461
Vintage 2009 (2009 - 2012)	317,783	336,431
Total	911,723	1,027,179

* Each vintage covers a period of four calendar years starting that year, for example, vintage 1997 covers deals acquired between 1997 and 2000.

Summary by sector and location:

\$000s	December 31, 2012			June 30, 2012 (Audited)		
	North America	Europe	Total	North America	Europe	Total
Consumer Products	13,664	49,716	63,380	12,656	-	12,656
Industrial Products	-	308,120	308,120	-	344,005	344,005
Technology and Telecom	191,351	-	191,351	165,786	-	165,786
Industrial Services	120,737	58,187	178,924	238,338	62,231	300,569
Distribution	127,610	42,338	169,948	164,769	39,394	204,163
Total	453,362	458,361	911,723	581,549	445,630	1,027,179

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

8. CORPORATE CO-INVESTMENTS (continued)

8 (b) CORPORATE INVESTMENT-TECHNOLOGY

The Group's co-investments in CI-Technology are classified as FVTPL investments and carrying values of Group's co-investments in CI-Technology deals at December 31, 2012 and June 30, 2012 are:

<i>\$000s</i>	<i>Communication Infrastructure</i>	<i>Wireless Data</i>	<i>Digital Content</i>	<i>Enterprise Software</i>	<i>Other</i>	<i>December 31, 2012 Total</i>
Technology Fund I						
North America	762	1,523	-	2,536	173	4,994
<i>Sub-Total</i>	762	1,523	-	2,536	173	4,994
Technology Fund II						
North America	3,060	99	3,101	1,200	-	7,460
Europe	-	-	18,466	-	-	18,466
<i>Sub-Total</i>	3,060	99	21,567	1,200	-	25,926
Technology Fund III						
North America	-	31,212	3,424	6,865	-	41,501
Europe	-	-	-	17,444	-	17,444
<i>Sub-Total</i>	-	31,212	3,424	24,309	-	58,945
Total	3,822	32,834	24,991	28,045	173	89,865

<i>\$000s</i>	<i>Communication Infrastructure</i>	<i>Wireless Data</i>	<i>Digital Content</i>	<i>Enterprise Software</i>	<i>Other</i>	<i>June 30, 2012 (Audited) Total</i>
Technology Fund I						
North America	762	1,574	-	1,956	172	4,464
<i>Sub-Total</i>	762	1,574	-	1,956	172	4,464
Technology Fund II						
North America	3,244	99	3,101	1,339	-	7,783
Europe	-	-	18,704	-	-	18,704
<i>Sub-Total</i>	3,244	99	21,805	1,339	-	26,487
Technology Fund III						
North America	-	27,489	3,424	4,368	-	35,281
Europe	-	-	-	16,841	-	16,841
<i>Sub-Total</i>	-	27,489	3,424	21,209	-	52,122
Total	4,006	29,162	25,229	24,504	172	83,073

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

8. CORPORATE CO-INVESTMENTS (continued)

8 (c) CORPORATE INVESTMENT –MENA

This represents the Group's co-investments through Gulf Opportunity Fund I. The Group's co-investments in CI-MENA are classified as FVTPL investments and carrying values of Group's co-investments in CI-MENA deals at December 31, 2012 and June 30, 2012 are:

\$000s	Sector		December 31, 2012 Total
	Distribution	Consumer Products/Services	
Gulf Opportunity Fund I			
<i>Kingdom of Saudi Arabia</i>	-	9,942	9,942
<i>Kuwait</i>	6,533	2,447	8,980
<i>Turkey</i>	-	10,825	10,825
Total	6,533	23,214	29,747

\$000s	Sector		June 30, 2012 (Audited) Total
	Distribution	Consumer Products	
Gulf Opportunity Fund I			
<i>Kingdom of Saudi Arabia</i>	-	9,445	9,445
<i>Kuwait</i>	6,537	-	6,537
<i>Turkey</i>	-	7,995	7,995
Total	6,537	17,440	23,977

8 (d) STRATEGIC AND OTHER INVESTMENTS

Strategic and other investments represent the following types of investments of the Group:

1. Investments made for strategic reasons;
2. Investments made for relationship reasons e.g. an opportunity introduced by an employee or a counterparty relationship; and
3. Instruments obtained on disposal of exited corporate investments and real estate deals or portfolios.

These are held as AFS investments and debt instruments at amortized cost, except for investments amounting to \$32.4 million (June 30, 2012: \$36.3 million) that are classified as FVTPL.

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9. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate investment are mainly classified as FVTPL investments. Certain of the debt investments forming part of the Core Plus and Debt portfolios, in real estate properties are classified as held-to-maturity ("HTM") investments amounting to \$44.7 million (June 30, 2012: \$43.4 million).

The carrying values of the Group's co-investments in real estate investment portfolios in the United States at December 31, 2012 and at June 30, 2012 are:

\$000s

PORTFOLIO TYPE	December 31, 2012	June 30, 2012 (Audited)
Core Plus	132,201	83,438
Debt	37,031	26,927
Opportunistic	30,052	35,878
Strategic and other	9,417	8,217
Total	208,701	154,460

10. PROVISIONS FOR IMPAIRMENT

Specific impairment provisions for receivables, and loans and advances are as follows:

\$000s				
6 months to December 31, 2012				
Categories	At beginning	Charge	Written-off	At end
Receivables (Note 5)	6,986	2,914	-	9,900
Advances (Note 6)	11,852	476	-	12,328
Total	18,838	3,390	-	22,228
6 months to December 31, 2011	93,001	355	-	93,356

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11. DEPOSITS FROM CLIENTS

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
<u>SHORT-TERM:</u>		
Call accounts	124,680	191,207
Short-term deposits	64,754	4,038
Transitory balances	274,995	-
Total deposits from clients - short-term	464,429	195,245
<u>MEDIUM-TERM:</u>		
Medium-term deposits	-	37,438
Investment holding companies' deposits	80,713	66,605
Discretionary and other deposits	15,000	15,198
Total deposits from clients - medium-term	95,713	119,241
Total	560,142	314,486

Contractual deposits from clients that mature within one year from the balance sheet date are classified under short-term deposits, while those with a maturity of greater than one year are grouped under medium-term deposits.

Call accounts comprise amounts left on deposit by clients and deposits by the trust with the Bank for future participation in the Group's investment products.

Transitory balances comprise subscription amounts paid in by clients towards participation in specific investment products currently being placed by the Group. These also include investment realization proceeds held on behalf of investment holding companies by the Group in the interim period prior to distribution to or withdrawal by clients.

Investment holding companies' deposits represent excess cash deposited by the investment holding companies in the interim period prior to utilization or onward distribution.

Discretionary and other deposits represent deposits held on behalf of various affiliates, including strategic shareholders and employees.

All deposits bear interest at market rates.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

12. PAYABLES AND ACCRUED EXPENSES

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Accrued expenses - employee compensation	15,810	16,785
Vendor and other trade payables	20,903	31,342
Unfunded deal acquisitions	-	153,104
Investment related payables	3,658	3,658
Deferred income	5,900	6,417
Accrued interest payable	9,512	3,126
Total	<u>55,783</u>	<u>214,432</u>

Accrued expenses for employee compensation include the incentive and retention component of the Group's overall employee related costs.

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions the agreements for which are signed as of the balance sheet date that have not been funded.

Investment related payables represent amounts contractually due in respect of exit proceeds that are held in escrow accounts and reserves pending onward distribution.

Deferred income represents amounts received by the Group from its investment activities, the recognition of which is deferred to future periods concurrent with the services to be rendered.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

13. MEDIUM-TERM DEBT

Amounts outstanding represent the drawn portion of the following medium-term revolvers and funded facilities:

\$000s	Maturity	Tranche Type	December 31, 2012			June 30, 2012 (Audited)		
			Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year Eurodollar facility	December 2011	Revolver	-	-	-	-	115,164	-
5-year Floating rate medium-term note	June 2012	Funded	-	-	-	-	18,429	-
3-year Multi-currency facility	March 2013	Funded	281,703	268,690	-	281,703	281,703	281,703
3-year Multi-currency facility	March 2013	Revolver	246,500	15,333	-	292,750	55,737	-
5-year Eurodollar facility	April 2013	Revolver	107,500	58,163	32,250	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	135,500	135,180	135,500	135,500	135,500	135,500
2-year Structured facility	February 2014	Revolver	55,000	52,430	51,607	55,000	12,598	50,346
3-year Multi-currency facility	September 2015	Funded	15,106	12,147	15,106	-	-	-
5-year fixed rate bonds	November 2017	Funded	250,000	82,845	250,000	-	-	-
Total			1,091,309	624,788	484,463	872,453	726,631	575,049
Foreign exchange translation adjustments					(1)			(2,747)
Fair value adjustments					382			-
Transaction costs of borrowings					(8,874)			(5,046)
					<u>475,970</u>			<u>567,256</u>

All medium-term facilities, except for the 5 year fixed rate bonds, carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year Multi-currency amortizing facility and the 5 year fixed rate bond are subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity ratio and operating below a maximum leverage ratio.

The 2-year structured revolving facility of \$55 million (June 30, 2012: \$55 million) is secured by an equivalent amount of the Group's co-investments in hedge funds.

Forward Start Facility

During the year ended June 30, 2012, the Group entered into a \$504 million equivalent, multi-currency senior unsecured forward start facility. Further, during July 2012 the facility was further increased by \$25 million during the expansion period. This facility is split into various tranches available at various dates upto March 2013 and with contractual amortizations in September 2013 of 15%, in September 2014 of 20%, and final maturity in September 2015 of the remaining balance of 65%. As of December 31, 2012, \$15.1 million of this facility has been drawn down and the remaining balance of \$514 million is available for drawdown in the next three months.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

14. LONG-TERM DEBT

\$000s	Final Maturity	December 31, 2012		June 30, 2012 (Audited)	
		Average outstanding	Current outstanding	Average outstanding	Current outstanding
<u>PRIVATE NOTES</u>					
\$20 Million Private Placement	November 2011	-	-	6,776	-
\$20 Million Private Placement	April 2012	-	-	19,945	-
\$71.5 Million Private Placement	May 2012	-	-	17,826	-
\$75 Million Bi-lateral Placement	March 2013	5,913	-	20,000	20,000
\$35 Million Private Placement	December 2013	26,250	26,250	26,250	26,250
JPY 37 Billion Private Placement	March 2030	332,328	332,328	332,328	332,328
\$50 Million Private Placement	July 2032	50,000	50,000	50,000	50,000
		414,491	408,578	473,125	428,578
Foreign exchange translation adjustments			97,205		133,604
Fair value adjustments			(11,401)		1,131
Transaction costs of borrowings			(2,682)		(2,822)
Total			491,700		560,491

Long-term debt issuances by the Group predominantly contractually carry fixed rates of interest and are governed by covenants contained in the relevant agreements. Such covenants include maintaining certain minimum levels of net worth and liquidity, and operating below a maximum leverage ratio.

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15. SHARE CAPITAL AND RESERVES

The Bank's share capital at the balance sheet date is as follows:

	December 31, 2012			June 30, 2012 (Audited)		
	No. of shares	Par value \$	\$000	No. of shares	Par value \$	\$000
Authorized share capital						
- Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
- Preference and other shares	1,000,000	1,000	1,000,000	1,000,000	1,000	1,000,000
			<u>2,000,000</u>			<u>2,000,000</u>
Issued share capital						
- Ordinary shares	800,000	250	200,000	800,000	250	200,000
- Preference shares	515,132	1,000	515,132	515,132	1,000	515,132
			<u>715,132</u>			<u>715,132</u>

Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Bahrain.

Preference share capital

The preference shares are non-cumulative, non-convertible, non-voting, non-participating and perpetual in nature and carry a dividend of 12% per annum up to their respective first call dates and 12-months USD LIBOR + 9.75% per annum thereafter, if not called.

These preference shares are callable in part or in whole at the Bank's option any time on or after their first call dates at par plus dividend due up to the call date. The earliest call date for these preference shares is June 30, 2014.

The payment of dividends on preference shares is subject to recommendation by the Board of Directors, and approval by the CBB and ordinary shareholders. The preference shares take priority over the Bank's ordinary shares for payment of dividends and distribution of assets in the event of a liquidation or dissolution.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

16. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

The Group's basic and fully diluted earnings per share for the period are as follows:

<i>\$000s</i>	<i>6 months July - December 2012</i>	<i>6 months July - December 2011</i>
Net income attributable to ordinary shareholders	39,209	5,258
Weighted average ordinary shares for basic earnings per share	594,316	554,221
Basic earnings per ordinary share - on weighted average shares(\$)	66	9
Weighted average ordinary shares for fully diluted earnings per share	629,028	610,917
Fully diluted earnings per ordinary share - on weighted average shares(\$)	62	9

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17. DERIVATIVE FINANCIAL INSTRUMENTS

The table below summarizes the Group's derivative financial instruments outstanding at December 31, 2012 and June 30, 2012:

\$000s	Description	December 31, 2012			June 30, 2012 (Audited)		
		Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value*	Negative fair value
A) HEDGING DERIVATIVES							
<i>Currency risk being hedged using forward foreign exchange contracts</i>							
<i>i) Fair value hedges</i>							
	On balance sheet exposures	475,178	15	(43,775)	455,855	19,603	(85)
<i>ii) Cashflow hedges</i>							
	Forecasted transactions	1,040	-	(18)	2,578	50	-
	Coupon on long-term debt	89,813	-	(8,487)	84,674	3,573	-
	Total forward foreign exchange contracts	566,031	15	(52,280)	543,107	23,226	(85)
Interest rate risk being hedged using Interest rate swaps							
<i>i) Fair value hedges - fixed rate debt</i>							
		719,737	63,011	(162)	550,585	37,790	-
<i>ii) Cashflow hedges - floating rate debt</i>							
		300,000	-	(19,689)	650,000	-	(16,938)
	Total interest rate hedging contracts	1,019,737	63,011	(19,851)	1,200,585	37,790	(16,938)
	Total – Hedging Derivatives	1,585,768	63,026	(72,131)	1,743,692	61,016	(17,023)
B) DERIVATIVES ON BEHALF OF CLIENTS							
	Forward foreign exchange contracts	4,802	34	(18)	27,698	1,650	(1,690)
	Total - Derivatives on behalf of clients	4,802	34	(18)	27,698	1,650	(1,690)
C) OTHER DERIVATIVES							
	Interest rate swaps	50,000	14,469	(14,470)	50,000	15,327	(15,328)
	Forward foreign exchange contracts	572,700	1,922	(4,140)	374,701	2,988	(4,586)
	Currency options	2,251	2	(2)	2,251	20	(20)
	Cross currency swaps	232,578	-	(3,405)	250,680	249	(513)
	Interest rate options	75,000	-	(398)	-	-	-
	Total – Other Derivatives	932,529	16,393	(22,415)	677,632	18,584	(20,447)
	TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	2,523,099	79,453	(94,564)	2,449,022	81,250	(39,160)

*In December 31, 2012 the collateral with the Bank amount to Nil. In June 30, 2012, collateral amounting to \$39.3 million with the Bank was offset against the underlying derivatives positive fair value.

*In December 31, 2012 the collateral with the Bank amount to Nil. In June 30, 2012, collateral amounting to \$39.3 million with the Bank was offset against the underlying derivatives positive fair value.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

18. COMMITMENTS AND CONTINGENT LIABILITIES

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Investment commitments to closed-end funds	107,931	146,843
Other investment commitments	2,370	2,860
Total investment commitments	110,301	149,703
Non-cancelable operating leases	47,478	49,591
Guarantees and letters of credit issued to third parties	63,766	63,993

Investment related commitments include future funding of acquisitions that were contracted but not funded at the balance sheet date, and the Group's unfunded co-investment commitments to various corporate investment and real estate investment funds.

Non-cancelable operating leases relate to the Group's commitments in respect of its New York and London office premises.

Guarantees and letters of credit issued to third parties include financial guarantees provided to facilitate investee companies' on-going operations and leasing of equipment and facilities.

In addition, the Group has also issued indemnification letters and back stop guarantees in support of performance obligations of operating partners and investee companies in relation to real estate investments, which are covered under the Group's Errors and Omissions insurance policy.

The Group is engaged in litigation cases in various jurisdictions. The litigation cases involve claims made by and against the Group which have arisen in the ordinary course of business. The management of the Group, after reviewing the claims pending against the Group companies and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

19. REGULATORY CAPITAL ADEQUACY

The Group applies the Basel II framework regulations, as adopted by the CBB, on a consolidated basis to Investcorp Bank B.S.C. which is the entity licensed and regulated by the CBB.

For the assessment of the adequacy of regulatory capital, the Group has chosen the following approaches:

- standardized approach for credit risk and market risk
- basic indicator approach for operational risk

The following table outlines the corresponding Basel II Risk Weights by Asset class

Asset class segment	Basel II Methodology December 31, 2012	Basel II risk weight December 31, 2012
Corporate Investments	Standardized approach ('STA')	150%
Real Estate	Standardized approach ('STA')	200%
Hedge Funds	Standardized approach ('STA')	150%
CI and RE underwriting	Standardized approach ('STA')	100%
Operational risk	Basic indicator approach ('BIA')	15%

The table below summarizes the regulatory capital and the risk asset ratio calculation in line with the rules set out above. Following CBB guidelines, all co-investment activities are subject to a Banking Book credit risk framework, whereas foreign exchange risk comprises most of the Trading Book market risk.

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19. REGULATORY CAPITAL ADEQUACY (continued)

<i>\$000s</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>
Gross Tier 1 capital	955,823	1,035,192
Less: regulatory deductions	-	(44,367)
Tier 1 capital - net (a)	955,823	990,825
Gross Tier 2 capital	43,587	8,551
Less: regulatory deductions	(5,351)	(8,551)
Tier 2 capital - net (b)	38,236	-
Regulatory capital base under Basel II (a) + (b)	994,059	990,825

	<i>Principal / Notional amounts</i>	<i>Risk weighted equivalents</i>	<i>Principal / Notional amounts</i>	<i>Risk weighted equivalents</i>
<i>Risk weighted exposure \$000s</i>	<i>December 31, 2012</i>	<i>December 31, 2012</i>	<i>June 30, 2012 (Audited)</i>	<i>June 30, 2012 (Audited)</i>
Credit risk				
Claims on sovereigns	67	-	67	-
Claims on non-central government public sector entities	6,000	-	8,375	-
Claims on banks	288,266	57,653	262,562	53,412
Claims on corporates	467,517	365,465	494,060	422,244
Co-investments (including hedge funds)	1,704,864	2,495,119	1,790,348	2,540,593
Other assets	101,081	100,975	68,201	68,201
<u>Off-balance sheet items</u>				
Commitments and contingent liabilities	221,545	111,981	263,287	152,377
Derivative financial instruments	2,523,099	48,067	2,449,022	57,256
Credit risk weighted exposure		3,179,260		3,294,083
Market risk				
Market risk weighted exposure		2,878		1,738
Operational risk				
Operational risk weighted exposure		392,601		392,601
Total risk weighted exposure (b)		3,574,739		3,688,422
Risk asset ratio (a)/(b)		27.8%		26.9%
Minimum required as per CBB regulatory guidelines under Basel II		12.0%		12.0%
Capital cushion over minimum required as per CBB guidelines		565,090		548,214

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value adjustments arise from re-measurement to fair value of investments, derivatives and liabilities which are hedged. Nonetheless the actual amount that is realized in a future realization transaction may differ from the current estimate of fair value as determined, given the inherent uncertainty surrounding valuations of unquoted investments.

The fair values of the Group's financial assets and liabilities on the interim consolidated balance sheet are not materially different to their carrying value except for fixed rate liabilities effectively carried at amortized cost. The fair value of medium and long term debt amounts to \$674.3 million (June 30, 2012: \$813.0 million) as compared to carrying value of \$967.7 million (June 30, 2012: \$1,135.6 million).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: input 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); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>December 31, 2012</i> <i>\$000s</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Placements with financial institutions and other liquid assets	-	3,000	-	3,000
Positive fair value of derivatives	-	79,453	-	79,453
<u>Co-investments</u>				
Hedge funds	-	378,581	-	378,581
Corporate investment	31,252	-	1,026,274	1,057,526
Real estate investment	-	-	163,956	163,956
Total financial assets	31,252	461,034	1,190,230	1,682,516
Financial liabilities				
Negative fair value of derivatives	-	94,564	-	94,564
Total financial liabilities	-	94,564	-	94,564

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20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>June 30, 2012</i>				
<i>\$000s</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Placements with financial institutions and other liquid assets	-	3,000	-	3,000
Positive fair value of derivatives	-	81,250	-	81,250
<u>Co-investments</u>				
Hedge funds	-	414,098	-	414,098
Corporate investment	6,258	-	1,158,681	1,164,939
Real estate investment	-	-	111,016	111,016
Total financial assets	<u>6,258</u>	<u>498,348</u>	<u>1,269,697</u>	<u>1,774,303</u>
Financial liabilities				
Negative fair value of derivatives	-	39,160	-	39,160
Total financial liabilities	<u>-</u>	<u>39,160</u>	<u>-</u>	<u>39,160</u>

During the period there was a transfer of \$25.2 million (June 30, 2012: Nil) from level 3 to level 1 under corporate investment. This represents the listing of a previously unquoted investment on a stock exchange.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 (UNAUDITED)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A reconciliation of the opening and closing amounts of co-investment in corporate investment and real estate investment (including those measured using Level 1 input and assets at amortized cost) is given below:

<i>December 31, 2012</i>						
<i>\$000s</i>						
	<i>At beginning</i>	<i>Net new acquisitions</i>	<i>Fair value movements*</i>	<i>Movements relating to realizations / placements</i>	<i>Other movements**</i>	<i>At end</i>
CI - NA & Europe						
Level 3	1,006,019	98,831	(17,814)	(213,074)	15,535	889,497
Others	21,160	-	-	-	1,066	22,226
Sub-total	1,027,179	98,831	(17,814)	(213,074)	16,601	911,723
CI - Technology						
Level 3	76,815	2,497	(640)	-	(20,059)	58,613
Others	6,258	-	5,515	-	19,479	31,252
Sub-total	83,073	2,497	4,875	-	(580)	89,865
CI - MENA¹						
Level 3	23,977	5,273	497	-	-	29,747
Sub-total	23,977	5,273	497	-	-	29,747
Strategic investments and other						
Level 3	51,870	-	9,793	-	(13,246)	48,417
Others	35,691	-	-	-	2,139	37,830
Sub-total	87,561	-	9,793	-	(11,107)	86,247
Real Estate Investment						
Level 3	111,016	50,123	(11,620)	(5,923)	20,360	163,956
Others	43,444	1,307	-	(6)	-	44,745
Sub-total	154,460	51,430	(11,620)	(5,929)	20,360	208,701
Total	1,376,250	158,031	(14,269)	(219,003)	25,274	1,326,283
* Includes \$0.1 million fair value loss in available for sale investments.						
**Other movements include add-on funding and foreign currency translation adjustments						
<i>June 30, 2012 (Audited)</i>						
<i>\$000s</i>						
	<i>At beginning</i>	<i>Net new acquisitions</i>	<i>Fair value movements*</i>	<i>Movements relating to realizations / placements</i>	<i>Other movements**</i>	<i>At end</i>
CI - NA & Europe						
Level 3	938,345	185,143	4,874	(67,321)	(55,022)	1,006,019
Others	6,500	16,132	-	-	(1,472)	21,160
Sub-total	944,845	201,275	4,874	(67,321)	(56,494)	1,027,179
CI - Technology						
Level 3	66,248	3,424	11,404	-	(4,261)	76,815
Others	13,758	-	(2,563)	(10,187)	5,250	6,258
Sub-total	80,006	3,424	8,841	(10,187)	989	83,073
CI - MENA¹						
Level 3	23,711	-	5,051	(6,975)	2,190	23,977
Sub-total	23,711	-	5,051	(6,975)	2,190	23,977
Strategic investments and other						
Level 3	52,357	-	(1,583)	-	1,096	51,870
Others	20,816	-	-	-	14,875	35,691
Sub-total	73,173	-	(1,583)	-	15,971	87,561
Real Estate Investment						
Level 3	153,392	2,894	(3,455)	(41,815)	-	111,016
Others	35,446	7,729	-	(5,671)	5,940	43,444
Sub-total	188,838	10,623	(3,455)	(47,486)	5,940	154,460
Total	1,310,573	215,322	13,728	(131,969)	(31,404)	1,376,250
* Includes \$2 million fair value loss in available for sale investments.						
**Other movements include add-on funding and foreign currency translation adjustments						

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21. RELATED PARTY TRANSACTIONS

For the Group, related parties include its investee companies, companies that hold clients' investments (clients' investment holding companies), client fund companies associated with hedge funds and the parent company through which the employees invest in beneficial ownership of the Bank's ordinary shares.

It also includes major shareholders, directors and senior management of the Bank, their immediate families and entities controlled, jointly controlled or significantly influenced by such parties. Income is earned or expense is incurred in the Group's transactions with such related parties in the ordinary course of business. The Group's management approves the terms and conditions of all related party transactions.

Although these companies are being classified as related parties, the Group administers and manages the companies that hold clients' investments on a fiduciary basis on behalf of its clients who are third parties and are the beneficiaries of a majority of the economic interest from the underlying investments of these companies. As a result, the true nature of the Group's transactions with these companies is effectively at commercial terms as specified under pre-determined management agreements.

The income earned and expenses incurred in connection with related party transactions included in these interim condensed consolidated financial statements are as follows:

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21. RELATED PARTY TRANSACTIONS (continued)

<i>\$000s</i>		6 months July - December 2012	6 months July - December 2011
AUM fees	Investee companies	7,541	8,139
	Client companies	21,954	18,281
	Client companies associated with the HFP	17,504	20,780
Deal fees	Investee companies	43,325	8,845
	Client companies	15,634	487
Asset based income	Investee companies	11,431	11,054
	Client companies	986	941
Interest expense	Client companies	(63)	(127)
Provisions	Employee investment programs	(275)	-

In addition to the above the Group accounts for employee end of service benefits on an accrual basis. The charge during the current period, in respect of these benefits, amounts to \$8.7 million (July to December 2011: \$0.2 million).

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

<i>\$000s</i>	December 31, 2012			June 30, 2012		
	Assets	Liabilities	Off-balance Sheet	Assets	Liabilities	Off-balance Sheet
<u>Outstanding balances</u>						
Strategic shareholders	4,825	12,937	-	4,806	12,507	-
Investee companies	67,546	-	-	95,776	-	-
Investment holding companies	114,327	80,713	107,931	157,560	66,610	146,843
Client fund companies associated with HFP	20,251	-	-	29,491	-	-
Directors and senior management	1,105	412	-	1,096	630	-
	208,053	94,062	107,931	288,730	79,748	146,843

In addition to the above the aggregate remaining amount of financing provided to or on behalf of employees as of December 31, 2012 is \$96.4 million (June 30, 2012: \$94.7 million).

22. CYCLICALITY OF ACTIVITIES

The Group's income is comprised predominantly of revenues generated from direct investment and advisory services relating to investment activities. The main components of this revenue arise during the acquisition, placement and exit processes of corporate and real estate investments which may not be earned evenly during the fiscal period. Furthermore, the value development cycle for a given investment usually occurs over a longer time period and the revenues generated from that process are not spread evenly over the period. Consequently, the short-term operating result may not necessarily be indicative of the long-term operating result.