INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 (UNAUDITED)

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ERNST & YOUNG

P.O. Box 140
14th Floor - The Tower
Bahrain Commercial Complex
Manama, Kingdom of Bahrain
Tel: +973 1753 5455 Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/me
C.R. No. 6700

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 balance sheet of Investcorp Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2009, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows 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 in accordance with International Accounting Standard [IAS 34] Interim Financial Reporting. 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 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 IAS 34.

Ernst & Young

26 January 2010
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2009 (UNAUDITED)

$000s	***December 31, 2009***	*June 30, 2009 (Audited)*	*Note*	*Page*
ASSETS				
Cash and short-term funds	120,815	416,088	4	22
Deposits with financial institutions	652,828	713,217	4	22
Positive fair value of derivatives	40,763	56,150	17	37
Receivables and prepayments	265,142	335,741	5	23
Loans and advances	242,036	224,103	6	24
Co-investments				
Hedge funds	577,574	614,481	7	25
Private equity	1,010,755	903,391	8	26
Real estate	233,184	283,207	9	30
Total co-investments	1,821,513	1,801,079		
Premises, equipment and other assets	71,270	73,986		
TOTAL ASSETS	3,214,367	3,620,364		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	-	15,000		
Deposits from clients - short term	320,975	289,873	11	31
Negative fair value of derivatives	40,860	33,287	17	37
Payables and accrued expenses	98,315	90,361	12	32
Deposits from clients - medium term	78,405	83,212	11	31
Medium-term debt	1,145,492	1,635,515	13	32
Long-term debt	570,344	578,370	14	34
TOTAL LIABILITIES	2,254,391	2,725,618		
EQUITY				
Preference share capital	504,733	500,000	15	35
Ordinary shares par value	200,000	200,000	15	35
Reserves	603,362	604,995		
Treasury shares	(153,285)	(150,507)		
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	82,414	16,926		
Ordinary shareholders' equity other than unrealized fair value changes and revaluation reserve	732,491	671,414		
Unrealized fair value changes and revaluation reserve	(277,248)	(276,668)		
TOTAL EQUITY	959,976	894,746		
TOTAL LIABILITIES AND EQUITY	3,214,367	3,620,364		

Abdul-Rahman Salim Al-Ateeqi
Chairman

Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 20 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2009 (UNAUDITED)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

$000s	***6 months Jul - Dec 2009***	*6 months Jul - Dec 2008*	*Note*	*Page*
FEE INCOME				
Management fees	48,955	61,986		
Activity fees	17,725	26,111		
Performance fees	13,009	(2,127)		
Fee income ***(a)***	79,689	85,970	2	19
ASSET BASED INCOME				
Private equity	8,186	21,760		
Hedge funds	96,388	(398,099)		
Real estate	8,427	12,032		
Treasury and other asset based income	181	63,262		
Asset based income (loss) ***(b)***	113,182	(301,045)	2	19
Gross operating income (loss) (a) + (b)	192,871	(215,075)		
Provision for impairment	(5,989)	(2,594)	10	31
Interest expense	(28,801)	(62,070)	2	19
Operating expenses	(100,683)	(89,483)	3	21
Net operating income (loss) before fair value changes of private equity and real estate co-investments	57,398	(369,222)		
Fair value changes of private equity and real estate co-investments **(c)**	2,795	(141,888)		
NET INCOME (LOSS)	60,193	(511,110)		
Basic and fully diluted earnings (loss) per ordinary share ($)	84	(729)		
TOTAL REVENUE (a)+(b)+(c)	195,666	(356,963)		

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***6 months Jul - Dec 2009***	*6 months Jul - Dec 2008*	*Note*	*Page*
NET INCOME (LOSS) (AS ABOVE)	60,193	(511,110)		
Other comprehensive income				
Fair value movements - cashflow hedges				
Net realized loss recycled to statement of income	1,941	4,599		
Net unrealized gains for the period	2,774	10,214		
	4,715	14,813		
Revaluation surplus on premises and equipment	-	11,240		
Other comprehensive income	4,715	26,053		
TOTAL COMPREHENSIVE INCOME (LOSS)	64,908	(485,057)		

The attached notes 1 to 20 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2009 (UNAUDITED)

			Reserves							Fair value changes and revaluation reserve					
										Fair value changes			Revaluation reserve on premises and equipment	Total fair value changes and revaluation reserve	
$000s	**Preference share capital**	**Ordinary share capital**	**Share premium**	**Statutory reserve**	**General reserve**	**Total reserves**	**Treasury shares**	**Retained * earnings**	**Proposed dividend**	**Private equity and real estate**	**Available for sale investments**	**Cash flow hedges**			**Total equity**
Balance at July 1, 2009	**500,000**	**200,000**	**454,995**	**100,000**	**50,000**	**604,995**	**(150,507)**	**16,926**	**-**	**(297,031)**	**6,573**	**3,025**	**10,765**	**(276,668)**	**894,746**
Total comprehensive income	-	-	-	-	-	-	-	60,193	-	-	-	4,715	-	4,715	64,908
Transfer of realized gains to retained earnings	-	-	-	-	-	-	-	7,852	-	(7,852)	-	-	-	(7,852)	-
Transfer of unrealized gains to fair value changes	-	-	-	-	-	-	-	(2,795)	-	2,795	-	-	-	2,795	-
Depreciation transferred to retained earnings	-	-	-	-	-	-	-	238	-	-	-	-	(238)	(238)	-
Purchased during the period	-	-	-	-	-	-	(6,776)	-	-	-	-	-	-	-	(6,776)
Sold during the period	-	-	-	-	-	-	3,090	-	-	-	-	-	-	-	3,090
Loss on sale of treasury shares	-	-	(908)	-	-	(908)	908	-	-	-	-	-	-	-	-
Preference share issuance proceeds	15,146	-	-	-	-	-	-	-	-	-	-	-	-	-	15,146
Share issue expenses	-	-	(725)	-	-	(725)	-	-	-	-	-	-	-	-	(725)
Non-vested preference shares issued to employees	(12,148)	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,148)
Vesting during the period	1,735	-	-	-	-	-	-	-	-	-	-	-	-	-	1,735
Balance at December 31, 2009	**504,733**	**200,000**	**453,362**	**100,000**	**50,000**	**603,362**	**(153,285)**	**82,414**	**-**	**(302,088)**	**6,573**	**7,740**	**10,527**	**(277,248)**	**959,976**
Balance at July 1, 2008	**-**	**200,000**	**503,971**	**100,000**	**50,000**	**653,971**	**(177,602)**	**542,563**	**63,278**	**(42,516)**	**6,573**	**(9,097)**	**-**	**(45,040)**	**1,237,170**
Total comprehensive loss	-	-	-	-	-	-	-	(511,110)	-	-	-	14,813	11,240	26,053	(485,057)
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(67,498)	-	67,498	-	-	-	67,498	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	141,888	-	(141,888)	-	-	-	(141,888)	-
Purchased during the period	-	-	-	-	-	-	(17,630)	-	-	-	-	-	-	-	(17,630)
Sold during the period	-	-	-	-	-	-	10,991	-	-	-	-	-	-	-	10,991
Gain on sale of treasury shares	-	-	2,374	-	-	2,374	(2,374)	-	-	-	-	-	-	-	-
Preference share issuance proceeds	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	26,000
Dividends paid	-	-	-	-	-	-	-	-	(63,278)	-	-	-	-	-	(63,278)
Balance at December 31, 2008	**26,000**	**200,000**	**506,345**	**100,000**	**50,000**	**656,345**	**(186,615)**	**105,843**	**-**	**(116,906)**	**6,573**	**5,716**	**11,240**	**(93,377)**	**708,196**

* Retained earnings other than unrealized fair value changes of private equity and real estate co-investments

The attached notes 1 to 20 are an integral part of these interim condensed consolidated financial statements.

INVESTCORP BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2009 (UNAUDITED)

$000s	***6 months Jul - Dec 2009***	*6 months Jul - Dec 2008*
OPERATING ACTIVITIES		
Net income (loss)	60,193	(511,110)
Adjustments to reconcile net income to net cash:		
Fair value changes	(2,795)	141,888
Depreciation	3,666	3,398
Provisions for receivables and loans and advances	5,989	2,594
Amortization of transaction costs of borrowings	2,185	2,350
Net income (loss) adjusted for non-cash items	69,238	(360,880)
Changes in:		
Operating capital		
Receivables and prepayments	70,503	116,009
Loans and advances	(23,826)	158,413
Deposits from clients - short-term	31,102	(159,137)
Payables and accrued expenses	7,954	(298,145)
Co-investments		
Hedge funds	36,907	1,073,304
Private equity	(62,771)	(149,356)
Real estate	8,225	(26,498)
Fair value of derivatives	29,441	7,194
Other assets	(114)	397
NET CASH FROM OPERATING ACTIVITIES	166,659	361,301
FINANCING ACTIVITIES		
Deposits from financial institutions	(15,000)	(331,919)
Deposits from clients - medium-term	(4,807)	(23,298)
Medium-term revolvers drawn	-	557,500
Medium-term debt repaid	(492,000)	(22,000)
Long-term debt repaid	(10,000)	(376,247)
Treasury shares purchased - net	(3,686)	(6,639)
Share issue expenses	(725)	-
Preference share issuance proceeds	4,733	26,000
Dividends paid	-	(63,278)
NET CASH (USED IN) FINANCING ACTIVITIES	(521,485)	(239,881)
INVESTING ACTIVITY		
Investment in premises and equipment	(836)	(3,507)
Net (decrease) increase in cash and cash equivalents	(355,662)	117,913
Cash and cash equivalents at beginning	1,129,305	451,570
Cash and cash equivalents at end	773,643	569,483
Cash and cash equivalents comprise:		
Cash balances with banks	29,123	93,970
Cash in transit	91,692	264,000
Deposits with financial institutions	652,828	211,513
	773,643	569,483

Additional cash flow information

$000s	***6 months Jul - Dec 2009***	*6 months Jul - Dec 2008*
Interest paid	(30,702)	(68,022)
Interest received	1,212	9,783

The attached notes 1 to 20 are an integral part of these interim condensed consolidated financial statements.

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 has a primary listing on the Bahrain Stock Exchange ('BSE') and a secondary listing through Global Depositary Receipts (the 'GDRs') on the London Stock Exchange ('LSE'). Every 100 GDRs represent a beneficial interest in one underlying ordinary share of the Bank. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

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, 2009 were authorized for issue in accordance with a resolution of the Board of Directors dated January 26, 2010.

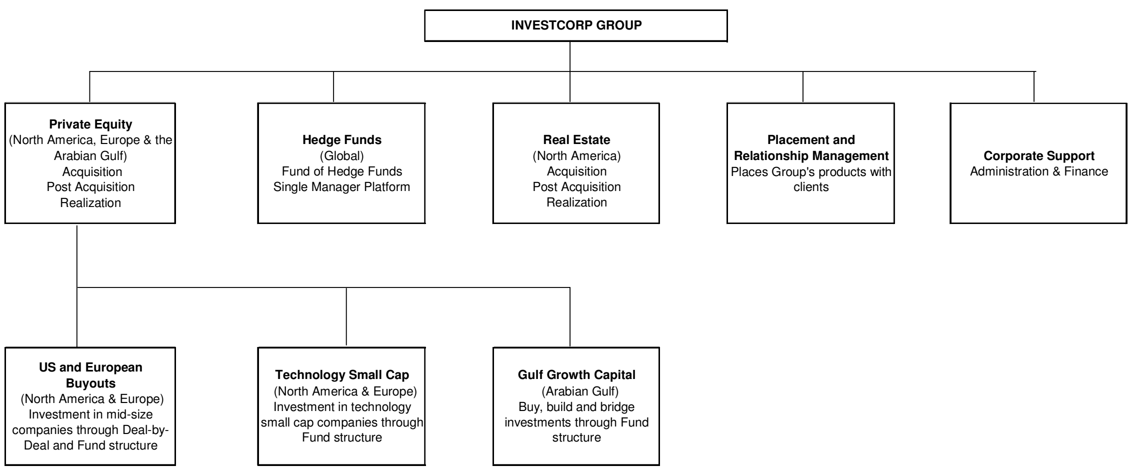
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(ii) Activities

The Group's principal activity is providing products in three broad alternative investment asset classes to its client base and co-investing in these together with its clients. The alternative investment asset classes in which the Group specializes are private equity, hedge funds and real estate. Within the private equity asset class the Group offers three products namely, (a) US and European buyouts, (b) technology small-cap investments and (c) Gulf growth capital.

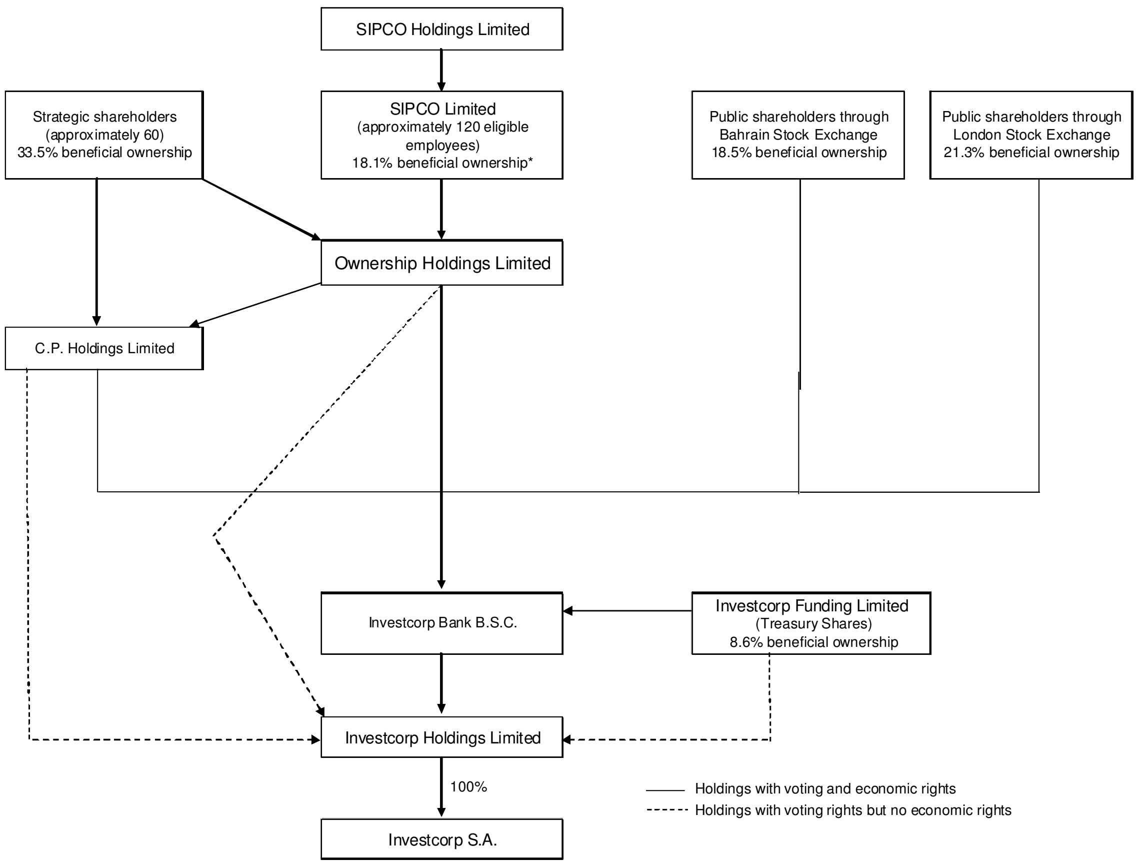
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Includes 2.1% in shares that are held for future sale to management under the SIP Plan. The Group has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of shares for the SIP Plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

The Bank is controlled by Ownership Holdings Limited ('OHL'), through its shareholding directly, and through C.P. Holdings Limited ('CPHL'), of the issued ordinary shares of the Bank. OHL is, in turn, ultimately controlled by SIPCO Holdings Limited ('SHL'). SIPCO Limited ('SIPCO'), an SHL subsidiary, is the entity through which employees participate in ownership of the Bank's ordinary shares. The Bank is, therefore, controlled by its employees through their beneficial ownership as a group via SHL, SIPCO, OHL and CPHL.

SHL, SIPCO, OHL and CPHL are companies incorporated in the Cayman Islands.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies

The interim condensed consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity.

The Bank has a 100% economic interest in Investcorp Holdings Limited ('IHL', incorporated in the Cayman Islands) through Series A preference shares issued by IHL. These preference shares have the right to 100% of all dividends declared by IHL and 100% of IHL's net assets in the event of liquidation. CPHL, OHL and Investcorp Funding Limited ('IFL') own ordinary shares of IHL in the same proportion to their shareholding of Investcorp ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

IHL in turn has a 100% economic and voting interest in Investcorp S.A. ('ISA'), a financial holding company incorporated in Luxembourg. ISA is the principal asset-holding operating entity within the Group and, consistent with covenants contained in the Group's medium and long-term debt, the Group holds at least 95% of its assets through ISA or subsidiaries that are owned directly or indirectly by ISA.

INVESTCORP BANK B.S.C.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure is illustrated below:

Parent	Wholly owned significant subsidiaries			Description of principal activities
Investcorp Bank B.S.C. (Bahrain)				Bahrain-based parent company of the Group
Investcorp Holdings Limited (Cayman Islands)				Holding company that provides *force majeure* investment protection to shareholders and lenders
	Investcorp S.A. (Luxembourg)			Financial holding company that is the principal operating and asset owning arm of the Group
		Investcorp Capital Limited (Cayman Islands)		Company that issues the Group's long-term notes and other capital market financings
		Invifin S.A. (Luxembourg)		Company through which the Group retains its investment in debt instruments across its product classes
		Investcorp Investment Holdings Limited (Cayman Islands)		Company through which the Group retains its equity investments across its product classes
		Investcorp Management Services Limited (Cayman Islands)		Company that provides investment management and advisory services to client investment holding companies for private equity and real estate investments
		Investcorp Investment Adviser Limited (Cayman Islands)		Company that provides investment management and advisory services to the hedge funds program (HFP) and is a SEC registered investment advisor
		Investcorp Funding Limited (Cayman Islands)		Company that provides short-term funding to investee and client investment holding companies
		Investcorp Trading Limited (Cayman Islands)		Company that executes the Group's money market, foreign exchange and derivative financial contracts and invests in single manager funds
		Investcorp AMP Limited (Cayman Islands)		Company through which the Group co-invests in the hedge funds program (HFP)
		CIP AMP Limited (Cayman Islands)		Company through which the Group co-invests in the hedge funds program (HFP)
		Investcorp Financial and Investment Services S.A. (Switzerland)		Company that provides M & A advisory services for deal execution in Western Europe
		Investcorp International Limited (UK)		The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) provides M&A advisory services in the UK
		Investcorp International Holdings Inc. (USA)		The Group's principal operating subsidiary in the United States of America
			Investcorp International Inc. (USA)	Company that provides M&A advisory services for deal execution in North America
			N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and is a SEC registered broker dealer
			Investcorp Investment Adviser LLC (USA)	Company that provides investment management services in the United States for the HFP and is a SEC registered investment advisor
	Investcorp Saudi Arabia Financial Investments Co (Saudi Arabia)			Company that acts as principal agent of the Bank in Saudi Arabia for placements of the products offered by the Group..

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, 2009 except as mentioned in Note 1 (C) below.

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.

C. CHANGE IN ACCOUNTING POLICY

Of all the applicable changes in IFRS, management has adopted IFRS 7 amendments, as in its view, this was the only significant change that impacts the Group's interim condensed consolidated financial statements.

Adoption of amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity risk disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 19, and the liquidity risk exposures are not significantly impacted by the amendments.

2. SEGMENT REPORTING

A) ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging and managing alternative investment assets for institutional and high net worth clients through operating centers in the Kingdom of Bahrain, London and New York. Fee income is earned throughout the life cycle of investments by providing these intermediary services to clients. The Group's clients are primarily based in the Arabian Gulf states, however the Group has been expanding its franchise globally, targeting institutional investors in the United States and Europe.

ii) As a principal

The Group co-invests along with clients in all the alternative investment asset products it offers to its clients. Income from these proprietary co-investments in private equity, hedge funds and real estate investments is classified as asset-based income.

2. SEGMENT REPORTING (contined)

B) ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

The Group classifies its reporting segments on the basis of its three product asset classes and the individual lines of business within these that are responsible for each distinct product category. The following table shows the relationship between the Group's reporting segments, asset classes, lines of business and products.

Reporting Segments	Asset Classes	Lines of Business (Product Categories)	Products
1) Private equity	1) Private equity	1) US and European buyouts	- Deal by deal offerings - Closed end fund(s)
		2) Technology small-cap investments	- Closed-end fund(s)
		3) Gulf growth capital	- Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	- Fund of hedge funds - Single managers
3) Real estate	3) Real estate	5) Real estate	- Equity investments - Mezzanine debt investments
4) Corporate support			- Liquidity / working capital / funding

Each of the five lines of business comprises its team of investment professionals and is supported by a common placement and relationship management team. The lines of business, together with their related product offerings and the reporting segments are described in further detail below:

i) ***US and European buyouts ('buyouts')***

The buyouts team, based in London and New York, arranges private equity buyout investments in mid-size companies in North America and Western Europe with a strong track record and potential for growth. These investments are placed primarily on a deal-by-deal basis with the Group's investor base in the Arabian Gulf states, and also offered through conventional fund structures to international institutional investors. The Group retains a small portion as a co-investment on its consolidated balance sheet. These investments are managed by the team on behalf of investors for value optimization until realization.

2. SEGMENT REPORTING (continued)

B) ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS (continued)

ii) ***Technology small-cap investments ('TSI')***

The TSI team, based in London and New York, arranges and manages investments in technology small cap companies in North America and Western Europe, with a high potential for growth. Given their relatively higher risk-return profile, these investments are offered to clients through fund structures that ensure diversification across several investments. The Group also has co-investments alongside its clients in the Technology Funds.

iii) ***Gulf growth capital ('GGC')***

The GGC team, based in Bahrain, targets buy, build ('greenfield') and bridge investment opportunities primarily in the Arabian Gulf states. The team also considers, on a selective basis, similar investment opportunities in the Middle East and North Africa (MENA) region. Given their risk-return profile, and the need for multiple follow-on rounds of funding, these investments are being offered to clients through a fund structure that ensures diversification across several investments. The Group also co-invests alongside its clients in the GGC Fund(s).

iv) ***Hedge funds ('HF')***

The HF team operating from New York and London manages Investcorp's Fund of Hedge Funds business (referred to as the Hedge Funds Program, 'HFP') and Single Managers business (referred to as the Single Manager Platform, 'SMP') including proprietary co-investment as well as client assets. The program aims to achieve attractive returns on a risk-adjusted basis over a medium-term period with low correlation to traditional and other alternative asset classes, through a diversified portfolio of investments in hedge funds.

v) ***Real estate ('RE')***

The RE team, based in New York, arranges investments in US-based properties with strong cash flows and/or potential for attractive capital gains over a three to five year holding period. Several properties are assembled into diversified portfolios that are then placed individually with the Group's investor base in the Gulf, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. Further the Group also provides its investor base with mezzanine investment opportunities through fund structures, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. The property investments are managed by the RE team on behalf of investors for value optimization up until realization.

vi) ***Corporate support***

Corporate support comprises the Group's administration, finance and management functions, which are collectively responsible for supporting the five lines of business through services including risk management and treasury, accounting, legal and compliance, corporate communications, back office and internal controls, technology and general administration.

2. SEGMENT REPORTING (continued)

C) REVENUE GENERATION

i) Fee income

There are several components of fees that are earned from providing intermediary services to clients and investee companies. Activity fees comprise acquisition fees earned by the Group from investee companies on new private equity or real estate 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 private equity or real estate transactions 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 refinancings, recapitalizations, restructuring and disposal. Management fees are earned from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments. Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle rate.

ii) Asset based income and unrealized fair value changes

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

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.

D) 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. These are allocated between intermediary and principal co-investing activities.

The operating expenses associated with principal co-investing activities are determined to be:

a) a fee calculated at 1.2% of average proprietary co-invested assets of each reporting segment from the Group's balance sheet, placements with banks and other financial institutions; plus
b) a 20% carry on excess asset based income, which is calculated as gross asset based income after provisions less interest expense less the 1.2% fee in (a) above.

The remaining operating expenses after allocation to principal co-investing activities represent the costs relating to intermediary activities.

2. SEGMENT REPORTING (continued)

E) SEGREGATION OF ASSETS

Assets directly attributable to the private equity and real estate 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 consolidated balance sheet. Assets directly attributable to the hedge funds reporting segment are primarily in the form of the Group's proprietary co-investment in hedge funds. All other assets that are common to the Group are recorded under Corporate Support.

F) ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a Value-at-Risk (VaR) methodology to determine the amount of economic risk capital that is needed to support each reporting segment in its business growth objectives and also in conditions of extreme stress, and allocates equity to each reporting segment on this basis. Equity is allocated to each unit based on both the current amount of capital and an ex-ante assessment, before the beginning of each fiscal year, that takes into account the current size of the business, expected growth over the medium-term and the associated equity required to support the risks within each reporting segment through the VaR methodology. Having determined the assets directly attributable to each reporting segment, and the equity 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 private equity and real estate 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.

2. SEGMENT REPORTING (continued)

G) 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 balance sheet date are as follows:

$millions	December 31, 2009 Clients	Investcorp	Affiliates and co-investors	Total	June 30, 2009 (Audited) Clients	Investcorp	Affiliates and co-investors	Total
Private Equity								
Closed-end Committed Funds								
- US and European buyouts	476	199	71	746	476	199	71	746
- Technology small cap investments	419	67	14	500	419	67	14	500
- Gulf Growth Capital	864	70	6	940	875	70	6	951
Sub total	1,759	336	91	2,186	1,770	336	91	2,197
Closed-end Invested Funds								
- Technology small cap investments	225	25	10	260	223	30	10	263
Deal-by-deal investments								
- US and European buyouts	2,696	820	447	3,963	2,540	714	443	3,697
Strategic and other investments	-	72	-	72	-	74	-	74
Total private equity	**4,680**	**1,253**	**548**	**6,481**	**4,533**	**1,154**	**544**	**6,231**
Hedge Funds								
Fund of hedge funds	1,726	76	2	1,804	1,566	132	3	1,701
Single managers	1,319	286	5	1,610	980	380	10	1,370
Structured and levered products	372	607	7	986	548	333	-	881
Total hedge funds	**3,417**	**969**	**14**	**4,400**	**3,094**	**845**	**13**	**3,952**
Real Estate								
Closed-end Committed Funds	253	27	4	284	253	27	4	284
Deal-by-deal investments	902	198	42	1,142	903	247	42	1,192
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate	**1,155**	**233**	**46**	**1,434**	**1,156**	**282**	**46**	**1,484**
Corporate Support								
Client call accounts held in trust	52	-	-	52	67	-	-	67
Total	**9,304**	**2,455**	**608**	**12,367**	**8,850**	**2,281**	**603**	**11,734**
Summary by category:								
Closed-end Committed Funds	2,012	363	95	2,470	2,023	363	95	2,481
Closed-end Invested Funds	225	25	10	260	223	30	10	263
Hedge Funds	3,417	969	14	4,400	3,094	845	13	3,952
Deal-by-deal investments	3,650	1,098	489	5,237	3,510	1,043	485	5,038
Total	**9,304**	**2,455**	**608**	**12,367**	**8,850**	**2,281**	**603**	**11,734**
Summary by segments:								
Private Equity								
- US and European buyouts	3,172	1,019	518	4,709	3,016	913	514	4,443
- Technology small cap investments	644	92	24	760	642	97	24	763
- Gulf Growth Capital	864	70	6	940	875	70	6	951
- Strategic and other investments	-	72	-	72	-	74	-	74
Hedge Funds	3,417	969	14	4,400	3,094	845	13	3,952
Real Estate	1,155	233	46	1,434	1,156	282	46	1,484
Corporate Support	52	-	-	52	67	-	-	67
Total	**9,304**	**2,455**	**608**	**12,367**	**8,850**	**2,281**	**603**	**11,734**

2. SEGMENT REPORTING (continued)

G) ASSETS UNDER MANAGEMENT (continued)

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

Certain of the Group's clients entered into a Trust arrangement whereby their call account balances maintained with the Bank were transferred into individual Trust Fund accounts managed by a common Trustee. These Trust Funds are invested in highly liquid assets which have a credit rating no lower than that of Investcorp and are specifically ring-fenced to meet the amounts placed in Trust. Client monies held in Trust earn the return generated from the assets of the Trust, with a guaranteed minimum return equivalent to inter-bank based market rates.

All of these clients' assets (including affiliates and co-investors) are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn a majority of the rewards on their investments, subject to normal management and performance fee arrangements. Accordingly, these assets are not included in the Group's consolidated balance sheet.

2. SEGMENT REPORTING (continued)

The interim condensed consolidated statements of income for the six months ended December 31, 2009 and 2008 by reporting segments are as follows:

July 2009 - December 2009 (6 months) $000s	***Private Equity***	***Hedge Funds***	***Real Estate***	***Corporate Support***	***Total***
Fee income					
Management fees	30,670	12,463	5,822	-	48,955
Activity fees	16,898	-	827	-	17,725
Performance fees	-	12,675	334	-	13,009
Gross fee income (a)	47,568	25,138	6,983	-	79,689
Expenses attributable to fee income	(43,383)	(20,303)	(8,787)	-	(72,473)
Net fee income (loss)	4,185	4,835	(1,804)	-	7,216
Asset based income					
Interest income	43	-	528	2,816	3,387
Treasury and other asset based income (loss)	8,143	96,388	7,899	(2,635)	109,795
Fair value changes	44,593	-	(41,798)	-	2,795
Gross asset based income (loss) (b)	52,779	96,388	(33,371)	181	115,977
Provision for impairment	-	-	-	(5,989)	(5,989)
Interest expense	(4,483)	(5,697)	(1,956)	(16,665)	(28,801)
Expenses attributable to asset based income	(12,621)	(10,078)	(1,769)	(3,742)	(28,210)
Net asset based income (loss)	35,675	80,613	(37,096)	(26,215)	52,977
Net income (loss)	39,860	85,448	(38,900)	(26,215)	60,193
Total revenue (a) + (b)	100,347	121,526	(26,388)	181	195,666

July 2008 - December 2008 (6 months) $000s	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Fee income					
Management fees	30,388	26,033	5,565	-	61,986
Activity fees	26,946	-	(835)	-	26,111
Performance fees	-	(2,425)	298	-	(2,127)
Gross fee income (a)	57,334	23,608	5,028	-	85,970
Expenses attributable to fee income	(46,733)	(18,442)	(5,647)	-	(70,822)
Net fee income (loss)	10,601	5,166	(619)	-	15,148
Asset based income					
Interest income	-	-	379	11,235	11,614
Treasury and other asset based income (loss)	21,760	(398,099)	11,653	52,027	(312,659)
Fair value changes	(116,946)	-	(24,942)	-	(141,888)
Gross asset based (loss) income (b)	(95,186)	(398,099)	(12,910)	63,262	(442,933)
Provision for impairment	-	-	-	(2,594)	(2,594)
Interest expense	(9,688)	(34,061)	(5,500)	(12,821)	(62,070)
Expenses attributable to asset based income	(6,779)	(7,010)	(2,579)	(2,293)	(18,661)
Net asset based (loss) income	(111,653)	(439,170)	(20,989)	45,554	(526,258)
Net (loss) income	(101,052)	(434,004)	(21,608)	45,554	(511,110)
Total revenue (a) + (b)	(37,852)	(374,491)	(7,882)	63,262	(356,963)

2. SEGMENT REPORTING (continued)

The interim condensed consolidated balance sheet as at December 31, 2009 and June 30, 2009 by reporting segments is as follows:

December 31, 2009 *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	120,815	120,815
Deposits with financial institutions	-	-	-	652,828	652,828
Positive fair value of derivatives	-	-	-	40,763	40,763
Receivables and prepayments	-	-	-	265,142	265,142
Loans and advances	-	-	-	242,036	242,036
Co-investments	1,010,755	577,574	233,184	-	1,821,513
Premises, equipment and other assets	-	-	-	71,270	71,270
Total assets	1,010,755	577,574	233,184	1,392,854	3,214,367
Liabilities and Equity					
Liabilities					
Deposits from clients - short term	-	173,574	-	147,401	320,975
Negative fair value of derivatives	-	-	-	40,860	40,860
Payables and accrued expenses	10,580	1,814	3,458	82,463	98,315
Deposits from clients - medium term	-	4,399	-	74,006	78,405
Medium-term debt	79,193	181,205	13,947	871,147	1,145,492
Long-term debt	304,882	40,384	106,159	118,919	570,344
Total liabilities	394,655	401,376	123,564	1,334,796	2,254,391
Total equity	616,100	176,198	109,620	58,058	959,976
Total liabilities and equity	1,010,755	577,574	233,184	1,392,854	3,214,367

June 30, 2009 (Audited) *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	416,088	416,088
Deposits with financial institutions	-	-	-	713,217	713,217
Positive fair value of derivatives	-	-	-	56,150	56,150
Receivables and prepayments	-	-	-	335,741	335,741
Loans and advances	-	-	-	224,103	224,103
Co-investments	903,391	614,481	283,207	-	1,801,079
Premises, equipment and other assets	-	-	-	73,986	73,986
Total assets	903,391	614,481	283,207	1,819,285	3,620,364
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	3,000	-	12,000	15,000
Deposits from clients - short term	-	214,983	-	74,890	289,873
Negative fair value of derivatives	-	-	-	33,287	33,287
Payables and accrued expenses	11,376	1,355	20,153	57,477	90,361
Deposits from clients - medium term	-	-	-	83,212	83,212
Medium-term debt	35,098	204,433	37,580	1,358,404	1,635,515
Long-term debt	275,730	14,512	115,854	172,274	578,370
Total liabilities	322,204	438,283	173,587	1,791,544	2,725,618
Total equity	581,187	176,198	109,620	27,741	894,746
Total liabilities and equity	903,391	614,481	283,207	1,819,285	3,620,364

2. SEGMENT REPORTING (continued)

Total revenue of $100.4 million (2008: $(37.9) million) from private equity asset class includes $28.5 million and $10.5 million (2008: $5.8 million and $16.1 million) relating to technology small-cap investments and Gulf growth capital respectively. The balance relates to US and European buyouts.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the period (2008: nil).

3. OPERATING EXPENSES

$000s	***Jul - Dec 2009 (6 months)***	*Jul - Dec 2008 (6 months)*
Staff compensation	30,204	37,864
Incentive compensation accrual	32,100	-
Other personnel costs	7,283	8,589
Professional fees	9,431	11,860
Travel and business development	4,618	6,854
Administration and research	5,736	8,591
Technology and communication	1,505	2,717
Premises	5,544	5,914
Depreciation	3,666	3,398
Other	596	3,696
Total	100,683	89,483

4. LIQUIDITY

$000s	*December 31, 2009*	*(Audited) June 30, 2009*
Cash balances with banks	29,123	35,100
Cash in transit	91,692	380,988
Deposits with financial institutions	652,828	713,217
Cash and cash equivalents	773,643	1,129,305
Less: medium and long-term debt maturing within three months	(2,624)	(142,000)
Net cash liquidity	771,019	987,305
Add: undrawn medium-term revolvers [see Note 13(a)]	-	-
Net accessible liquidity	771,019	987,305
Co-investments in hedge funds	546,174	571,481
Net liquidity	1,317,193	1,558,786

The Group maintains access to sufficient on and off-balance sheet liquidity in order to meet the maturing debt and to ensure sufficient cash is available to fund private equity and real estate acquisitions, prior to syndication to clients.

Accessible liquidity therefore includes both invested amounts that can be realized for cash at very short notice, and undrawn committed medium-term revolvers that can be drawn at short notice and that are not repayable for at least three months from the draw down date.

If required, managed redemptions from the Group's co-investment in hedge funds provide a large source of additional back up liquidity, except for $31.4 million (June 30, 2009: $43 million) which is not immediately available due to gating clauses imposed by the underlying fund managers.

Cash balances with banks comprise the Group's cash, balances in nostro accounts and short-term government securities. Cash in transit relates to redemptions from hedge funds for which notices have been issued, the proceeds of which have been received subsequent to the balance sheet date.

5. RECEIVABLES AND PREPAYMENTS

$000s	***December 31, 2009***	*(Audited) June 30, 2009*
Subscriptions receivable	116,150	111,116
Capital issuance proceeds receivable	-	110,495
Receivables from investee companies	86,130	76,487
Investment disposal proceeds receivable	3,188	3,188
Hedge funds related receivables	31,877	14,046
Accrued interest receivable	7,184	5,009
Prepaid expenses	32,770	27,500
Other receivables	19,846	19,807
	297,145	367,648
Provision for impairment (see Note 10)	(32,003)	(31,907)
Total	265,142	335,741

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

Subscriptions receivable represents amounts due from clients for participation in the Group's US and European buyouts and real estate 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 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.

At June 30, 2009, $110.5 million of receivables represented cash proceeds due from clients participating in the preference shares being issued by the Bank and were short term in nature.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of private equity and real estate investments.

Hedge funds related receivables represent amounts due from HFP funds for management and administrative services and performance fees. They also include redemption proceeds receivable from underlying hedge fund managers relating to the Group's co-investment in HFP through internal parallel vehicles.

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.

6. LOANS AND ADVANCES

$000s	**December 31, 2009**	(Audited) June 30, 2009
Advances to HFP Funds, Real Estate Funds and Technology Funds	15,864	11,985
Advances to investment holding companies	128,938	130,011
Advances to Employee Investment Programs	128,589	121,604
Other advances	21,864	7,829
	295,255	271,429
Provision for impairment (see Note 10)	(53,219)	(47,326)
Total	242,036	224,103

Loans and advances arise largely as a result of the Group extending working capital advances to investment holding companies and include advances to employees to facilitate co-investment in the Group's products.

Advances to HFP funds represent the amounts advanced to these funds to facilitate re-balancing of redemptions and subscriptions between various underlying fund managers. Advances to the Real Estate Funds represent amounts invested on behalf of the Group's clients in the acquisitions made by the Funds in the interim period prior to receipt of the associated capital call. These advances carry interest at market rates. In both cases, the advances are secured by the underlying investments in the associated fund(s), and hence represent a low risk to the Group.

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 margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

7. CO-INVESTMENTS IN HEDGE FUNDS

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. The underlying hedge fund managers invest in a variety of liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments to several emerging hedge fund managers on its single manager platform. An emerging manager is typically one who is just starting his or her firm, but may also include an established manager at low levels of AUM.

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

$000s		***December 31, 2009***	*(Audited) June 30, 2009*
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	74,950	119,815
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	117	9,104
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	286,411	379,818
Structured products	Investments in DSF, IBF or single managers through structured notes that may include a component of embedded leverage	215,109	102,835
Other Hedge Funds investments	Mix of small investments across several theme funds	987	2,909
Total balance sheet co-investments		577,574	614,481

The net asset value of the Group's investments in hedge funds is determined based on the fair value of the underlying investments of each fund as advised by the fund manager. Significant controls are built around the determination of the net asset values of the various hedge funds including the appointment of third party independent fund administrators, use of separate accounts provided by fund managers for increased transparency and an independent verification of the prices of underlying securities through a dedicated operational risk group unit.

8. CO-INVESTMENTS IN PRIVATE EQUITY

$000s	***December 31, 2009***	*(Audited) June 30, 2009*
US and European buyouts [See Note 8 (a)]	843,983	769,392
Technology small cap investments [See Note 8 (b)]	76,846	46,194
Gulf growth capital [See Note 8 (c)]	18,112	13,696
Strategic and other investments [See Note 8 (d)]	71,814	74,109
Total co-investments in private equity	1,010,755	903,391

8 (a) US AND EUROPEAN BUYOUTS

The Group's US and European buyout investments are classified as FVTPL investments.

The fair value of unquoted US and European buyout investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involves third party capital providers operating at arms' length. An example of a material event would be where a sale is imminent and credible bids have been received from third parties wherein the fair value would be established with reference to the range of bids received and based on management's assessment of the most likely realization value within the range. Another example of a material event would be where an arm's length financing transaction has occurred recently that is (a) material in nature, (b) involves third parties, and (c) attaches an implicit value to the company. In the event that such third-party evidenced recent measure of specific fair value for an individual investment is not available, the fair value is determined by following valuation techniques using a multiples-based approach applied to the most recent and relevant operating performance metric of the underlying company, typically EBITDA and sometimes sales. The multiple to be used is taken from a universe of comparable publicly listed companies, recent M&A transactions involving comparable companies, and multiples implied by Discounted Cash Flow ('DCF') analysis. Management exercises its judgment in choosing the most appropriate multiple, on a consistent basis, from within the universe established above.

During the current period management has predominantly chosen DCF multiples to be the most appropriate in fair valuing the investments. Management believes that under current illiquid market conditions with few to nil M&A transactions multiples based on comparable listed companies or M&A transactions would not have been appropriate in fair valuing the investments.

8 (a) US AND EUROPEAN BUY-OUTS (continued)

The carrying values of the Group's co-investments in US and European buyout deals are:

$000s VINTAGE *	**December 31, 2009**	*(Audited) June 30, 2009*
Vintage 1997 (1997 - 2000)	197,228	181,343
Vintage 2001 (2001 - 2004)	112,841	85,014
Vintage 2005 (2005 - 2008)	405,649	381,006
Vintage 2009 (N&W)**	128,265	122,029
Total	843,983	769,392

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

** N&W was acquired in late 2008 but is shown separately in vintage 2009.

Summary by sector and location:

	December 31, 2009			(Audited) June 30, 2009		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	43,347	-	43,347	22,355	-	22,355
Industrial Products	40,183	344,759	384,942	38,920	313,392	352,312
Technology and Telecom	177,748	-	177,748	164,248	-	164,248
Industrial Services	82,583	60,002	142,585	80,807	52,284	133,091
Distribution	81,417	13,944	95,361	77,830	19,556	97,386
Total	425,278	418,705	843,983	384,160	385,232	769,392

The table below highlights the different components of changes in carrying value of co-investments in US and European buyout deals during the period:

$000s	*At beginning*	*Net new acquisitions*	*Fair value movements*	*Movements relating to realizations/ placements**	*Other movements ***	*At end*
6 months to December 31, 2009	769,392	-	44,677	(2,433)	32,347	843,983
12 months to June 30, 2009 (Audited)	921,821	146,256	(246,953)	(62,007)	10,275	769,392

* Movements relating to placements refer to deals acquired in prior years.

** Other movements include add-on fundings and foreign currency translation adjustments.

As indicated earlier, during the current period management has predominantly chosen multiples implied by discounted cash flow analysis to be the most appropriate in fair valuing the investments. Nonetheless, the actual amount that is realized in a future realization transaction may differ from the current estimate of fair value and may still be outside management's estimates of the range around it, given the inherent uncertainty surrounding valuations of unquoted investments.

8 (b) TECHNOLOGY SMALL CAP INVESTMENTS

Similar to US and European buyouts, the Group's technology small-cap investments are classified as FVTPL investments.

The fair value of unquoted technology small cap investments is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for US and European buyout investments as described in Note 8 (a).

The carrying values of Group's co-investments in technology small-cap deals are:

$000s	Communication Infrastructure	Wireless Data	Digital Content	Enterprise Software	Other	December 31, 2009 Total	(Audited) June 30, 2009 Total
Technology Fund I							
North America	496	1,418	83	1,444	753	4,194	4,308
Sub-Total	496	1,418	83	1,444	753	4,194	4,308
Technology Fund II							
North America	5,525	356	3,492	1,520	-	10,893	11,732
Europe	-	-	10,003	-	-	10,003	8,582
Sub-Total	5,525	356	13,495	1,520	-	20,896	20,314
Technology Fund III							
North America	-	8,994	-	-		8,994	5,121
Europe	-	-	-	11,014	-	11,014	10,690
Sub-Total	-	8,994	-	11,014	-	20,008	15,811
Direct Co-Investment							
Europe	-	-	17,549	14,199	-	31,748	5,761
Sub-Total	-	-	17,549	14,199	-	31,748	5,761
Total	6,021	10,768	31,127	28,177	753	76,846	46,194

The table below highlights the different components of changes in carrying value of co-investments in technology small-cap deals during the period:

$000s	At beginning	New acquisitions	Fair value movements	Movements relating to realizations	Other movements *	At end
6 months to December 31, 2009	46,194	3,873	1,764	(6,025)	31,040	76,846
12 months to June 30, 2009 (Audited)	34,208	11,623	1,836	-	(1,473)	46,194

* Other movements include foreign currency translation adjustments and add-on fundings.

8 (c) GULF GROWTH CAPITAL

$000s	July 1, 2009 to December 31, 2009	(Audited) July 1, 2008 to June 30, 2009
At beginning	13,696	-
New acquisitions	4,416	13,696
At end	18,112	13,696

This represents the Group's co-investments through Gulf Opportunity Fund I ('Fund').

Similar to US and European buyouts, the Group's Gulf growth capital investments are classified as FVTPL investments.

The fair value of unquoted Gulf Growth Capital investments is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for US and European buyout investments as described in Note 8 (a).

During the period, the Fund acquired a significant minority interest in Gulf Cryo, a leading manufacturer of industrial, medical and specialty gases in the Middle East.

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 private equity and real estate deals or portfolios.

These are primarily held as AFS investments, except for investments amounting to $36.2 million (June 30, 2009: $38.2 million) that are classified as FVTPL.

9. CO-INVESTMENTS IN REAL ESTATE

The Group's real estate investments are mainly classified as FVTPL investments. Those investments that are developed and leased out are fair valued based on the estimated future cash flows from the underlying real estate assets and using prevailing capitalization rates for similar properties in the same geographical area, or DCF analysis.

Opportunistic investments that involve an element of development are generally valued based on third party led financing events, or DCF analysis.

The debt investments in real estate properties are classfied as held-to-maturity ("HTM") investments.

The carrying values of the Group's co-investments in real estate portfolios in the United States are:

$000s	*Number of*			*Region*			*December 31,*	*(Audited) June 30,*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*2009*	*2009*
Office	15	46,673	-	-	-	10,351	57,024	87,924
Hotels	15	17,308	8,285	1,731	6,973	-	34,297	35,399
Retail	34	4,391	1,210	1,109	5,157	213	12,080	12,663
Industrial	4	5,357	-	-	-	4	5,361	5,598
Core Plus Total	68	73,729	9,495	2,840	12,130	10,568	108,762	141,584
Mezzanine debt		30,657	49	48	107	522	31,383	39,356
Opportunistic	12	25,074	-	25,108	-	34,515	84,697	93,926
Strategic and other		8,342	-	-	-	-	8,342	8,341
Total	80	137,802	9,544	27,996	12,237	45,605	233,184	283,207

The table below highlights the different components of changes in the carrying value of co-investments in real estate portfolios during the period:

$000s	*At beginning*	*Net new acquisitions*	*Fair value movements*	*Movements relating to realizations / placements*	*Other movements **	*At end*
6 months to December 31, 2009	283,207	-	(41,798)	(8,801)	576	233,184
12 months to June 30, 2009 (Audited)	337,038	16,225	(106,276)	(13,651)	49,871	283,207

* Other movements include add-on fundings.

10. PROVISION FOR IMPAIRMENT

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

$000s ***6 months to December 31, 2009***			
Categories	***At beginning***	***Charge***	***At end***
Receivables	31,907	96	32,003
Loans and advances	47,326	5,893	53,219
Total	79,233	5,989	85,222
12 months to June 30, 2009 (Audited)	56,987	22,246	79,233

11. DEPOSITS FROM CLIENTS

$000s	***December 31, 2009***	*(Audited) June 30, 2009*
SHORT-TERM:		
Call accounts	143,430	72,564
Short-term deposits	29,350	21,049
Transitory balances	148,195	196,260
Total deposits from clients - short-term	320,975	289,873
MEDIUM-TERM:		
Medium-term deposits	22,004	23,956
Investment holding companies' deposits	30,864	26,682
Discretionary and other deposits	25,537	32,574
Total deposits from clients - medium-term	78,405	83,212
Total	399,380	373,085

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

Call accounts comprise amounts left on deposit by clients that are not subject to the Trust arrangement described in Note 2 (G) 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.

12. PAYABLES AND ACCRUED EXPENSES

$000s	***December 31, 2009***	*(Audited) June 30, 2009*
Accrued expenses - employee compensation	36,710	28,638
Vendor and other trade payables	28,977	34,473
Investment related payables	18,431	8,890
Deferred income	4,997	7,259
Accrued interest payable	9,200	11,101
Total	98,315	90,361

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

Investment related payables represent amounts contractually due in respect of acquisitions and exit proceeds that are held as escrows 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.

13. MEDIUM-TERM DEBT

The table below shows the total medium-term facilities, net of transaction costs of borrowings, outstanding at December 31, 2009 and June 30, 2009.

$000s	***December 31, 2009***	*(Audited) June 30, 2009*
Medium-term revolvers [See Note 13 (a)]	797,500	797,500
Medium-term debt [See Note 13 (b)]	354,500	846,500
Transaction costs of borrowings	(6,508)	(8,485)
	1,145,492	1,635,515

13 (a) MEDIUM-TERM REVOLVERS

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

		December 31, 2009			(Audited) June 30, 2009		
$000s	***Maturity***	***Size***	***Average utilization***	***Current outstanding***	*Size*	*Average utilization*	*Current outstanding*
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000	122,534	150,000
5-year Eurodollar facility	December 2011	500,000	500,000	500,000	500,000	421,027	500,000
5.5-year Eurodollar facility	July 2012	40,000	40,000	40,000	40,000	30,795	40,000
5-year Eurodollar facility	April 2013	107,500	107,500	107,500	107,500	107,500	107,500
Total		797,500	797,500	797,500	797,500	681,856	797,500

These facilities carry LIBOR-based floating rates of interest when drawn and fixed rate of commitment fees when undrawn.

13 (b) MEDIUM-TERM DEBT

		December 31, 2009		(Audited) June 30, 2009	
$000s	***Maturity***	***Average outstanding***	***Current outstanding***	*Average outstanding*	*Current outstanding*
5-year Eurodollar facility	June 2009	-	-	26,219	-
5-year Eurodollar facility	December 2009	104,413	-	142,000	142,000
5-year Eurodollar facility	December 2009	317,663	-	350,000	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	50,000	50,000
5-year Floating rate medium-term note	June 2012	19,000	19,000	19,000	19,000
5-year Eurodollar facility	April 2013	135,500	135,500	135,500	135,500
Total		776,576	354,500	872,719	846,500

These facilities carry LIBOR-based floating rates of interest.

14. LONG-TERM DEBT

$000s	*Final Maturity*	*December 31, 2009* Average outstanding	*December 31, 2009* Current outstanding	*(Audited) June 30, 2009* Average outstanding	*(Audited) June 30, 2009* Current outstanding
PRIVATE NOTES					
$143 Million Private Placement	October 2008	-	-	35,750	-
$55 Million Private Placement	May 2009	-	-	22,917	-
GBP 25 Million Private Placement	January 2010	2,624	2,624	12,683	2,624
$40 Million Private Placement	December 2010	21,250	21,250	29,063	21,250
$15 Million Private Placement	May 2011	-	-	6,250	-
$50 Million Private Placement	July 2011	-	-	20,833	-
GBP 20 Million Private Placement	September 2011	-	-	14,146	-
$75 Million Bi-lateral Placement	October 2011	45,000	40,000	57,813	50,000
$42 Million Private Placement	November 2011	-	-	17,500	-
$20 Million Private Placement	November 2011	20,000	20,000	20,000	20,000
$20 Million Private Placement	April 2012	20,000	20,000	20,000	20,000
$71.5 Million Private Placement	May 2012	53,625	53,625	61,073	53,625
$35 Million Private Placement	December 2013	35,000	35,000	35,000	35,000
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
		579,827	574,827	735,356	584,827
Foreign exchange translation adjustments			67,991		53,187
Fair value adjustments			(68,812)		(55,774)
Transaction costs of borrowings			(3,662)		(3,870)
Total			570,344		578,370

Long-term debt issuances by the Group predominantly 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 coverage, and operating below a maximum leverage ratio.

15. SHARE CAPITAL

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

	December 31, 2009			*(Audited) June 30, 2009*		
	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	500,000	1,000	500,000
			2,000,000			1,500,000
Issued share capital						
- Ordinary shares	800,000	250	200,000	800,000	250	200,000
- Preference shares	515,146	1,000	515,146	500,000	1,000	500,000
			715,146			700,000

During the period, the Group obtained approvals to increase the issued preference share capital by an additional amount of up to $40 million, bringing the total maximum amount permissible to $540 million. At the balance sheet date, 515,146 preference shares were issued amounting to $515.1 million.

Of the above, 12,148 preference shares were issued to employees during the current period. As per the terms of the issue, the vesting will take place over the 21 months from the date of issuance. Total vesting for the period is 1,735 shares.

The table below summarizes the preference shares issued at balance sheet date:

	December 31, 2009			*(Audited) June 30, 2009*		
Preference shares	**No. of shares**	**Par value $**	**$000**	No. of shares	Par value $	$000
Issued shares	515,146	1,000	515,146	500,000	1,000	500,000
Non-vested shares issued to employees	(12,148)	1,000	(12,148)	-	-	-
Vesting during the period	1,735	1,000	1,735	-	-	-
	504,733		504,733	500,000		500,000

The preference shares are callable 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.

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

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.

16. 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 CBB.

For the measurement of risk weighted exposures, the Group has chosen:

- standardized approach for credit risk of all exposures
- the VaR model for market risk
- basic indicator approach for operational risk.

The table below summarizes the regulatory capital and the risk asset ratio calculation in line with the rules detailed above.

$000s	*December 31, 2009*	*(Audited) June 30, 2009*
Gross Tier 1 capital	882,683	894,746
Less: regulatory deductions	(17,581)	(20,363)
Tier 1 capital - net	865,102	874,383
Tier 2 capital -net	50,307	10,827
Regulatory capital base under Basel II (a)	915,409	885,210

Risk weighted exposure *$000s*	*December 31, 2009* Principal / Notional amounts	*December 31, 2009* Risk weighted equivalents	*(Audited) June 30, 2009* Principal / Notional amounts	*(Audited) June 30, 2009* Risk weighted equivalents
Credit risk				
Claims on sovereigns	32,272	-	125,077	-
Claims on non-central government public sector entities	19,508	-	277,742	-
Claims on banks	746,885	149,377	734,306	146,861
Claims on corporates	430,044	430,044	408,531	408,531
Co-investments (including hedge funds)	1,885,432	2,740,657	1,801,079	2,781,038
Other assets	84,822	84,721	184,059	183,967
Off-balance sheet items				
Commitments and contingent liabilities	431,227	245,235	451,196	268,736
Derivative financial instruments	2,436,509	15,479	3,319,891	19,005
Credit risk weighted exposure		3,665,513		3,808,138
Market risk				
Market risk weighted exposure		5,133		7,900
Operational risk				
Operational risk weighted exposure		600,847		600,847
Total risk weighted exposure ***(b)***		4,271,493		4,416,885
Risk asset ratio *(a)/(b)*		**21.4%**		**20.0%**
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		**12.0%**

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilizes derivative financial instruments primarily as risk management tools for hedging various balance sheet and cash flow risks. Such derivative instruments include forwards, swaps and options in the foreign exchange and capital markets.

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- the hedging instrument, the underlying hedged item, the nature of the risk being hedged and the risk management objective and strategy must be formally documented at the inception of the hedge;
- it must be clearly demonstrated that the hedge, through changes in value of the hedging instrument, is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item;
- the effectiveness of the hedge must be capable of being reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

The Group's management classifies hedges into two categories: (a) fair value hedges that hedge exposure to changes in fair value of a recognized asset or liability; and (b) cash flow hedges that hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognized asset or liability or a forecasted transaction highly probable to occur.

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table illustrates the accounting treatment of fair value changes relating to various types of effective hedges:

Type of hedge	***Changes in fair value of underlying hedged item relating to the hedged risk***	***Changes in fair value of hedging instrument***
Fair value hedges	Recorded in the consolidated statement of income, and as a corresponding adjustment to the carrying value of the hedged item on the consolidated balance sheet.	Recorded in the consolidated statement of income, with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives.
Cash flow hedges	Not applicable	Recorded in equity with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives. Any unrealized gains or losses previously recognized in equity are transferred to the consolidated statement of income at the time when the forecasted transaction impacts the consolidated statement of income.

Other derivatives

The Group does not actively engage in proprietary trading activities in derivatives. However, on occasions, the Group may need to undertake certain derivative transactions to mitigate economic risks under its asset-liability management and risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at December 31, 2009 and June 30, 2009:

Hedged item	*December 31, 2009*			*June 30, 2009 (Audited)*		
$000s / ***Description***	***Notional value***	***Positive fair value***	***Negative fair value***	***Notional value***	***Positive fair value***	***Negative fair value***
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures						
Japanese Yen	414,702	52	(12,762)	436,444	6,383	(145)
ii) Cashflow hedges						
Coupon on long-term debt	86,118	-	(2,772)	78,934	1,336	-
Total forward foreign exchange contracts	500,820	52	(15,534)	515,378	7,719	(145)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	595,781	12,913	(4,266)	553,732	13,753	(431)
ii) Cashflow hedges - floating rate debt	-	-	-	250,000	-	(1,405)
Total interest rate hedging contracts	595,781	12,913	(4,266)	803,732	13,753	(1,836)
Total – Hedging Derivatives	1,096,601	12,965	(19,800)	1,319,110	21,472	(1,981)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	248,572	3,231	(3,074)	216,788	3,683	(3,854)
Total - Derivatives on behalf of clients	248,572	3,231	(3,074)	216,788	3,683	(3,854)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	13,401	(15,791)	384,750	15,877	(17,367)
Interest rate caps	-	-	-	601,000	-	-
Forward foreign exchange contracts	639,085	11,045	(2,173)	695,992	10,502	(10,052)
Currency option	2,251	22	(22)	2,251	33	(33)
Equity options	100,000	99	-	100,000	4,583	-
Total – Other Derivatives	1,091,336	24,567	(17,986)	1,783,993	30,995	(27,452)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**2,436,509**	**40,763**	**(40,860)**	**3,319,891**	**56,150**	**(33,287)**

18. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***December 31, 2009***	*June 30, 2009 (Audited)*
Investment commitments to closed-end committed funds	166,851	173,782
Other investment commitments	52,295	6,750
Total investment commitments	219,146	180,532
Non-cancelable operating leases	68,781	72,854
Guarantees and letters of credit issued to third parties	137,424	175,530
Capital guarantees	5,876	5,876

Investment related commitments include future funding of acquisitions that were contracted but not funded at balance sheet date, and the Group's unfunded co-investment commitments to various private equity and real estate 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 primarily relate to real estate investments. They include backstop guarantees provided in support of performance obligations of investee companies and to facilitate investee companies' on-going operations and leasing of equipment and facilities.

Guarantees amounting to $33.75 million (June 30, 2009: $85.3 million) relate to supporting performance obligations of operating partners and investee companies.

Capital guarantees have been issued by the Group for providing principal protection on a distinct class of shares issued in connection with the Investcorp Balanced Fund, a product of HFP. These guarantees expire without any cost to the Group at the earliest of (i) cumulative returns to investors since inception exceeding 15% at any time; (ii) the investor redeeming his shares at any time prior to seven years; and (iii) seven years from the issue date of the guarantee. The Group has instituted appropriate risk management mechanisms to actively monitor and manage the risk arising from these capital guarantees, using option-pricing models prescribed by the Basel guidelines and the local regulator for measuring market risk. Based on these value-at-risk models, the Group does not carry any significant risk exposure as a result of these capital guarantees at the balance sheet date.

In addition to the above, the Group used to act as a guarantor of last resort to facilitate third party financing for various employee investment programs. Eligible employees, in their individual capacities, were provided financing by third-party lenders on a selective basis and subject to risk-based criteria determined by the lenders, for their participation in the investment programs. At June 30, 2009, eligible employees had drawn down $16.4 million out of a maximum $75 million available under this facility. During the period, this financing was settled and exposure was taken on the Group's balance sheet.

19. 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, liabilities and derivatives.

Fair value of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value. The fair value of such liabilities amount to $1,543.3 million (June 30, 2009: $1,993.6 million) as compared to carrying value of $1,715.8 million (June 30, 2009: $2,213.9 million).

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

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

December 31, 2009 ***$000s***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Positive fair value of derivatives	-	40,763	-	40,763
Co-investments				
Hedge funds	-	577,574	-	577,574
Private equity	901	-	1,009,854	1,010,755
Real estate	-	-	233,184	233,184
Total financial assets	901	618,337	1,243,038	1,862,276
Financial liabilities				
Negative fair value of derivatives	-	40,860	-	40,860
Total financial liabilities	-	40,860	-	40,860

During the period, there has been no transfer between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the opening and closing amounts of Level 3 financial assets recorded at fair value is given in Notes 8 and 9.

20. 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 private equity 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.