IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) BOTH QUALIFIED INSTITUTIONAL BUYERS (''**QIBs**'') WITHIN THE MEANING OF RULE 144A (''**RULE 144A**'') UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''**U.S. SECURITIES ACT**''), AND QUALIFIED PURCHASERS (''**QPs**'') WITHIN THE MEANING OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE ''**INVESTMENT COMPANY ACT**'') OR (2) OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S (''**REGULATION S**'') UNDER THE U.S. SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Prospectus has been prepared in connection with the proposed offer and sale of the Notes (including the Guarantee) described herein. The Prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED HEREIN.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, investors must be either (1) both QIBs and QPs or (2) purchasing the securities in offshore transactions outside the United States in reliance on Regulation S. The Prospectus is being sent at your request. By accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that:

(1) you consent to delivery of such Prospectus by electronic transmission; and

(2) either:

  (a) you and any customers you represent are both QIBs and QPs, or

  (b) the e-mail address that you gave us and to which the e-mail has been delivered is not located in the United States, its territories and possessions (including American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, the U.S. Virgin Islands, and Wake Island), any State of the United States or the District of Columbia.

Prospective purchasers that are both QIBs and QPs are hereby notified that the seller of the securities will be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act pursuant to Rule 144A.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of us in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has not been approved by an authorised person in the United Kingdom and is for distribution only to persons who: (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ''**Financial Promotion Order**''); (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (the ''**FSMA**'') in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as ''**Relevant Persons**''). The Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Initial Purchasers, or any person who controls any of the Initial Purchasers, or any of their directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

Investcorp S.A.

(Incorporated under the laws of the Cayman Islands)

U.S.$250,000,000 8.25 per cent. Notes due 2017
Guaranteed by

Investcorp Bank B.S.C.

(Incorporated under the laws of Bahrain)

Issue Price: 100 per cent.

Investcorp S.A. (the ''**Issuer**'') is offering (the ''**Offering**'') U.S.$250,000,000 aggregate principal amount of its 8.25 per cent. Notes due 1 November, 2017 (the ''**Notes**'') which will be guaranteed by Investcorp Bank B.S.C (the ''**Guarantor**''). Interest on the Notes will be payable semi-annually in arrear on each 1 May and 1 November, commencing on 1 May, 2013.

The Notes will mature on 1 November, 2017. As described in the Terms and Conditions of the Notes (the ''**Conditions**''), some or all of the Notes may be redeemed prior to the Maturity Date by paying 100 per cent. of the aggregate principal amount of such Notes plus a make-whole premium. In addition, at any time prior to the Maturity Date, up to 35 per cent. of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings if at least 65 per cent. of the originally issued aggregate principal amount of the Notes remain outstanding. Upon the occurrence of certain events constituting a change of control, each holder of the Notes may require the Issuer to repurchase all or a portion of its Notes at a redemption price equal to 101 per cent. of the outstanding principal amount thereof plus accrued and unpaid interest. All of the Notes may also be redeemed at 100 per cent. of their principal amount plus accrued interest if at any time the Issuer or the Guarantor becomes obligated to pay withholding taxes as a result of certain changes in law.

The Notes will be the unsecured, unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment with all of the Issuer's existing and future indebtedness that is not subordinated to the Notes. The Notes will have the benefit of a guarantee (the ''**Guarantee**'') of the Guarantor. The Guarantee will rank *pari passu* in right of payment with all of such Guarantor's existing and future indebtedness that is not subordinated to such Guarantee.

Under the articles of association of Investcorp Holdings Limited, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair the Guarantor's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of the Guarantor's senior executive officers and members of the Guarantor's Board of Directors, have the power to declare that an "investment protection event" has occurred. This will be a "Force Majeure Event" under the Conditions and, following the occurrence of a Force Majeure Event, the Guarantee will terminate automatically.

This prospectus (this ''**Prospectus**'') has been approved by the United Kingdom Financial Services Authority (the ''**FSA**'') in its capacity as competent authority under the Financial Services and Markets Act 2000 (the ''**UK Listing Authority**''). Applications have been made to the UK Listing Authority for the Notes to be admitted to the Official List of the FSA (the ''**Official List**'') and to the London Stock Exchange plc (the ''**London Stock Exchange**'') for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the ''**Market**''). References in this Prospectus to the Notes being ''**listed**'' (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the ''**Markets in Financial Instruments Directive**'').

The Guarantor and the Issuer are each rated ''BB'' (outlook stable) by Fitch Inc. (''**Fitch**''), and ''Ba2'' (outlook negative) by Moody's Investors Service Cyprus Ltd. (''**Moody's**'') and BBB+ (outlook negative) by Capital Intelligence (Cyprus) Ltd (''**Capital Intelligence**''). The Notes are expected to be rated ''BB'' by Fitch and ''Ba2'' by Moody's. Fitch is not established in the European Union and has not been registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on Credit Rating Agencies (the ''**CRA Regulation**''). Ratings issued by Fitch have been endorsed by Fitch Ratings Ltd, which is established in the EU and is registered under the CRA Regulation. Moody's and Capital Intelligence are established in the European Union and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation

Investing in the Notes involves a high degree of risk. Please see "Risk Factors" beginning on page 7 of this Prospectus.

The Notes and the Guarantee have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the ''**Securities Act**''), or the securities laws of any other jurisdiction. The Notes are being offered and sold only (1) within the United States to qualified institutional buyers (''**QIBs**'') as defined in, and in reliance on, Rule 144A under the Securities Act (''**Rule 144A**'') that are also qualified purchasers (''**QPs**'') as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the ''**Investment Company Act**''), and (2) to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act (''**Regulation S**''). For further details about eligible offerees and further restrictions on offers, sales, resales and transfers of the Notes and distribution of this Prospectus, please see ''*Transfer Restrictions*'' and ''*Subscription and Sale*'' Neither the Issuer nor the Guarantor have been, and they will not be, registered under the Investment Company Act.

The Notes will be issued in global form through the Depository Trust Company ("DTC") and Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking *société anonyme* ("Clearstream, Luxembourg"), on or about 1 November, 2012.

Joint Lead Managers

BofA Merrill Lynch Citigroup Credit Suisse ING J.P. Morgan The Royal Bank of Scotland

This Prospectus is dated 26 October, 2012.

IMPORTANT INFORMATION

This document constitutes a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the ''**Prospectus Directive**'') and relevant implementing measures in the United Kingdom.

The Issuer and the Guarantor have prepared this Prospectus for use in connection with the offer of the Notes solely (1) within the United States to QIBs that are also QPs and (2) to non-U.S. persons, outside the United States in reliance on Regulation S. By accepting delivery of this Prospectus, each recipient agrees to these restrictions. Please see ''*Notice to Investors*.''

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the Issuer and the Guarantor confirm that the information contained in the Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus and any such information given or representation made must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, Deutsche Trustee Company Limited (the ''**Trustee**'') or Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and The Royal Bank of Scotland plc (the ''**Initial Purchasers**''). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Initial Purchasers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Notes and the Guarantee. Each person receiving this Prospectus acknowledges that such person has not relied on any of the Initial Purchasers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own assessment of the Issuer, the Guarantor and the merits and risks involved in investing in the Notes. None of the Initial Purchasers or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, the Guarantor, the Notes or the Guarantee. To the fullest extent permitted by law, each of the Initial Purchasers and the Trustee accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

By purchasing the Notes, investors will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading ''*Notice to Investors*'' in this Prospectus. Investors should understand that they may be required to bear the financial risks of their investment for an indefinite period of time. None of the Initial Purchasers or the Trustee undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Notes or to advise any investor or potential investors of any information coming to their attention.

None of the Issuer, the Guarantor or the Initial Purchasers are making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. Investors should not consider any information in this Prospectus to be legal, business or tax advice. Each investor should consult its own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

The Issuer and the Guarantor reserve the right to terminate the Offering at any time and the Issuer, the Guarantor and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes. Please see ''*Subscription and Sale*''.

Investors must comply with all applicable laws and regulations in force in any applicable jurisdiction and must obtain any consent, approval or permission required by such investor for the purchase, offer or sale of the Notes under the laws and regulations in force in the jurisdiction to which such investor is subject or in which it makes such purchase, offer or sale, and neither the Issuer and the Guarantor nor the Initial Purchasers will have any responsibility therefore.

This Prospectus is not an offer to sell, or a solicitation of an offer to buy, any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

Neither the U.S. Securities and Exchange Commission (the ''**SEC**''), or any state securities commission nor any other regulatory authority has approved or disapproved these securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In connection with the offering of the Notes, the Initial Purchasers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or the Guarantor or related investments in connection with the offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Initial Purchasers and any of their affiliates acting as investors for their own accounts. The Initial Purchasers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Notes may not be a suitable investment for all investors. It is advisable that each potential investor in the Notes determines the suitability of that investment in light of its own circumstances. In particular, it is advisable that each potential investor (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency; (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of the relevant financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The information set out in relation to sections of this Prospectus describing clearing and settlement arrangements, including the section entitled ''*Summary of the Provisions Relating to the Notes in Global Form*'', is subject to change in or reinterpretation of the rules, regulations and procedures of the DTC, Euroclear or Clearstream, Luxembourg currently in effect.

The Issuer and Guarantor cannot guarantee that the Issuer's application for the listing and admission of the Notes to trading on the London Stock Exchange's regulated market, will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditional on obtaining this listing.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom.

Investor Identification and Anti-Money Laundering

Each potential investor resident in Bahrain intending to subscribe for Notes (each, a ''**potential investor**'') may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Notes within a reasonable time period determined by the Issuer and the Initial Purchasers. Pending the provision of such evidence, an application to subscribe for the Notes will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but any of the Issuer or the Initial Purchasers not satisfied therewith, its application to subscribe for Notes may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor).

In respect of any potential investors, the Issuer will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering and Anti-Money Laundering and Combating of Financial Crime Module contained in the CBB Rulebook, Volume 6.

Neither Investcorp nor the Initial Purchasers will be liable to any investor for any loss suffered by the investor as a result of the rejection or delay of any subscription for the Notes as a result of any of the above.

STABILISATION

IN CONNECTION WITH THIS OFFERING, THE ROYAL BANK OF SCOTLAND PLC (THE "STABILISING MANAGER") (OR ANY PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgments that are described in this Prospectus under the section titled "*Notice to Investors*".

The Notes and the Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder. For a description of certain further restrictions on resale or transfer of the Notes, please see "*Notice to Investors.*" The Issuer and the Guarantor have not been, and will not be, registered under the Investment Company Act.

NOTICE TO UNITED KINGDOM INVESTORS

The issue and distribution of this Prospectus is restricted by law. This Prospectus is not being distributed by, nor has it been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") by, a person authorised under the FSMA. This Prospectus is for distribution only to persons who (i) have professional experience in matters relating to investments (being investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**")), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO RESIDENTS IN THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia (''**Saudi Arabia**'') except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of Saudi Arabia (the ''**CMA**'').

The CMA does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

Investors are informed that Article 17 of the CMA Regulations places restrictions on secondary market activity with respect to the Notes which are summarised as follows:

(a) any transfer must be made through an entity licensed by the CMA;

(b) a person (the ''**transferor**'') who has acquired Notes may not offer or sell such Notes or part thereof to any person (referred to as a ''**transferee**'') unless (i) the price to be paid by the transferee for such Notes equals or exceeds Saudi Riyals one million; or (ii) the transferee is a sophisticated investor (as defined under the CMA Regulations);

(c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original offer was equal to or exceeded Saudi Riyals one million;

(d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Notes if he/she sells his entire holding of the Notes to one transferee; and

(e) the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Notes.

NOTICE TO RESIDENTS IN THE KINGDOM OF BAHRAIN

THIS OFFER IS A PRIVATE PLACEMENT. IT IS NOT SUBJECT TO THE REGULATIONS OF THE CENTRAL BANK OF BAHRAIN THAT APPLY TO PUBLIC OFFERINGS OF SECURITIES AND THE EXTENSIVE DISCLOSURE REQUIREMENTS AND OTHER PROTECTIONS THAT THESE REGULATIONS CONTAIN. THIS PROSPECTUS IS THEREFORE INTENDED ONLY FOR ''**ACCREDITED INVESTORS**'' AS DEFINED IN THE GLOSSARY TO THIS PROSPECTUS.

THE FINANCIAL INSTRUMENTS OFFERED BY WAY OF PRIVATE PLACEMENT MAY ONLY BE OFFERED IN MINIMUM SUBSCRIPTIONS OF U.S.$100,000 (OR EQUIVALENT IN OTHER CURRENCIES), HOWEVER THE MINIMUM DENOMINATION OF THE NOTES IS U.S.$200,000.

THE CENTRAL BANK OF BAHRAIN ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS DOCUMENT AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS DOCUMENT.

WITHOUT LIMITING THE RESPONSIBILITY STATEMENT ON PAGE (ii), THE BOARD OF DIRECTORS AND THE MANAGEMENT OF THE ISSUER AND THE GUARANTOR ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS DOCUMENT AND, TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BOARDS OF DIRECTORS AND THE MANAGEMENT OF THE ISSUER AND THE GUARANTOR, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE RELIABILITY OF SUCH INFORMATION.

GENERAL NOTICE

THE NOTES MAY NOT BE OFFERED TO THE PUBLIC WITHIN ANY JURISDICTION. BY ACCEPTING DELIVERY OF THIS PROSPECTUS, YOU AGREE NOT TO OFFER, SELL, RESELL, TRANSFER OR DELIVER, DIRECTLY OR INDIRECTLY, ANY NOTES TO THE PUBLIC.

AVAILABLE INFORMATION

Each person receiving this Prospectus and any related amendment or supplement acknowledges that: (1) he has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of the information or his investment decisions; and (2) no person has been authorised to give any information or to make any representation concerning the Issuer or the Guarantor or the Notes offered by this Prospectus other than those contained in this Prospectus, and if given or made, any other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or the Initial Purchasers.

Copies of the documents listed in "*General Information – Documents on Display*" will be available, during usual business hours on any workday (Saturdays and public holidays excepted), for inspection at the specified office of the Paying Agent.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Guarantor will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from such reporting requirements under Rule 12g3-2(b) of the Exchange Act, make available to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

Information contained on the Guarantor's website is not incorporated by reference into this Prospectus and is not part of this Prospectus.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organised under the laws of the Cayman Islands. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for the Trustee on behalf of investors to effect service of process outside the Cayman Islands upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside the Cayman Islands predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Cayman Islands law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Paget-Brown, its counsel, that there is doubt as to the enforceability in the Cayman Islands in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

The Guarantor is a corporation organised under the laws of Bahrain. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Guarantor and of such officers and directors are located outside the United States. As a result, it may not be possible for the Trustee on behalf of investors to effect service of process outside Bahrain upon the Guarantor or such persons, or to enforce judgments against them obtained in courts outside Bahrain predicated upon civil liabilities of the Guarantor or such directors and officers under laws other than Bahraini law, including any judgment predicated upon United States federal securities laws. The Guarantor has been advised by Hatim S. Zu'bi & Partners, its counsel, that there is doubt as to the enforceability in Bahrain in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial information included in this Prospectus is not intended to comply with U.S. Securities and Exchange Commission financial information requirements.

Presentation of Financial Information

Except as set out below, the financial information included in this Prospectus has been extracted from the Guarantor's audited consolidated financial statements as at and for the years ended 30 June 2012, 30 June 2011 and 30 June 2010 (the ''**Annual Financial Statements**''). The consolidated financial statements of the Guarantor as at and for the years ended 30 June 2012, 30 June 2011 and 30 June 2010 have been prepared in accordance with International Financial Reporting Standards (''**IFRS**'') and have been audited by Ernst & Young, Bahrain, independent auditors, as stated in their reports included herein. The financial statements for the years ended 30 June 2012, 30 June 2011 and 30 June 2010 together with the audit reports thereon are included in this Prospectus beginning on page F-2.

The consolidated financial statements of the Issuer as at and for the years ended 30 June 2012, 30 June 2011 and 30 June 2010, which are included in this Prospectus have been prepared in accordance with IFRS and have been audited by Ernst & Young, Bahrain, independent auditors, as stated in their reports included herein.

The Guarantor's and the Issuer's financial years end on 30 June in each year. References to ''fiscal year'' or ''FY'' 2012, 2011 and 2010 therefore mean the year ended 30 June 2012, 30 June 2011 and 30 June 2010 respectively. The Annual Financial Statements and the Issuer's financial statements are prepared in U.S. dollars, this being the functional currency of the Guarantor and the Issuer.

The ratios and percentages appearing in ''*Summary Financial Information – Liquidity and Other Ratios*'' on page 34, ''*Management's Discussion and Analysis of Results of Operations and Financial Condition*'' on pages 38-62 and ''*Investcorp's Business*'' on pages 63-90 are calculated on the basis of financial information included in the Annual Financial Statements (unless otherwise indicated), but have not been extracted from the Annual Financial Statements and are not audited.

The following financial information has been derived from Investcorp's management accounting and reporting systems. It has not been extracted from the Annual Financial Statements and has not been audited.

- the table of cumulative returns by asset class, the table of average balance sheet co investment yield (absolute) for each semi-annual period and the tables summarising asset based income by asset class (other than the asset-based income amounts which are extracted from the Annual Financial Statements) in ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2012 Compared With Year Ended 30 June 2011-Asset Based Income*'' and ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2012 Compared With Year Ended 30 June 2011-Asset based Income by Asset Class*'', ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010-Asset Based Income*'' and ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010-Asset based Income by Asset Class*'' on pages 48-49, 49-50 and 52-53 and 54-55, respectively;
- the summary table of interest expense (other than interest expense amounts which are extracted from the Annual Financial Statements) in ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2012 Compared With Year Ended 30 June 2011-Interest Expense*'' and ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010-Interest Expense*'' on pages 49 and 54;
- the net repayment of maturing debt in ''*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010 – Asset-Based Income*'' on pages 52-53;
- the carrying value of Investcorp's five largest investment exposures in ''*Investcorp's Business – Corporate Investment – Corporate Investment – North America and Europe- Business Strategy*'' on pages 71-72;

- the split of client AUM by country in the GCC region and recent and historical fundraising and development of client AUM in "*Investcorp's Business – Placement and Relationship Management*" on pages 67-68;
- the ratios in the table setting out certain key indicators in relation to Investcorp's deleveraging process (other than the total debt amounts and capital adequacy ratios which are extracted from the Annual Financial Statements) set out in "*Investcorp's Business - Strategy - Deleverage Investcorp's balance sheet*" on page 67;
- fundraising for Fund I, Fund II and Fund III in "*Investcorp's Business – Corporate Investment – Technology – Business Strategy*" on page 76;
- certain information with respect to Investcorp's three technology funds in "*Investcorp's Business – Corporate Investment – Technology – Business Strategy*" on page 76;
- the Gulf Opportunity Fund's fundraising "*Investcorp's Business – Corporate Investment – MENA – Business Strategy*" on page 79, the Gulf Opportunity Fund's investments "*Investcorp's Business – Corporate Investment – MENA – Investment Approach*" on page 79; and
- the AUM within products in "*Investcorp's Business – Real estate investment – Product Structures*" on page 78.

The table of percentage changes in revenues for Investcorp's Corporate Investment – North America and Europe portfolio companies in "*Investcorp's Business – Corporate Investment – Investment Process – Post Acquisition*" on page 75 is derived from the management accounts of each relevant portfolio company for 2011 and 2012.

Non-IFRS Financial Information

Certain financial measures and ratios related thereto in this Prospectus are not specifically defined under IFRS as set out in:

- "*Summary Financial Information – Liquidity and Other Ratios*" on page 34;
- the tables of cumulative returns by asset class, the table of average balance sheet co investment yield (absolute) for each semi-annual period and the tables summarising asset based income by asset class (other than the asset-based income amounts) in "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2012 Compared With Year Ended 30 June 2011-Asset Based Income*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2012 Compared With Year Ended 30 June 2011-Asset based Income by Asset Class*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010-Asset Based Income*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010-Asset Based Income*" on pages 48-49, 49-50, 52-53 and 54-55, respectively;
- the ratios of earnings before interest/ interest expense in the tables summarising Investcorp's income statement in "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations - Year Ended 30 June 2012 Compared With Year Ended 30 June 2011 – Net Income*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations – Year Ended 30 June 2011 Compared With Year Ended 30 June 2010 – Net Income*" on pages 47 and 51;
- the ratios of co-investments/(total liquidity + very long term debt) and liquidity/(medium term + long term debt with a maturity of less than five years) shown in the table setting out certain key indicators in relation to Investcorp's deleveraging process in "*Investcorp's Business – Strategy – Deleverage Investcorp's balance sheet*" on page 67;

These measures are presented in this Prospectus because the Issuer and the Guarantor believe that they and similar measures are widely used in their industry as a means of evaluating a company's operating performance and financing structure. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles.

The non-IFRS measures should not be considered by investors in isolation, or as a substitute for analysis of the Guarantor's results as reported under IFRS as set forth in its financial statements.

Investors should rely primarily on the Guarantor's IFRS results and use these non-IFRS measures only supplementally to evaluate the Guarantor's performance. Please see "*Summary—Summary Historical Financial Data*", "*Selected Historical Financial Data*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", and the consolidated financial statements and the related notes included elsewhere in this Prospectus.

Certain Cumulative Return Data

Certain cumulative returns presented in "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations*" are calculated on a non dollar-weighted basis, which means that such figures are calculated by assuming a constant investment in the product and no changes other than performance.

Rounding

Certain amounts that appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures that precede them.

Industry and Market Data

This Prospectus contains third party information about Investcorp's markets and other industry and economic data. The Issuer and the Guarantor have accurately reproduced such third party information and, as far as the Issuer and the Guarantor are aware and able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. This information has been obtained from the following sources:

- certain information relating to the outlook for oil prices and hydrocarbon based GDP in the GCC region is based on the report published by the Institute of International Finance Inc. entitled "GCC Regional Overview" dated April 2012 (the "IIF Report");
- certain information related to GDP in the GCC region is based upon the report published by the International Monetary Fund entitled "World Economic Outlook - April 2012" dated April 2012 (the "World Economic Outlook"); and
- certain information relating to Ultra High Net Worth (as defined below) individuals is based on the report published by Citi Private Bank and Knight Frank entitled "The Wealth Report 2012" dated August 2012

The Issuer and the Guarantor believe that the market data contained in the Prospectus provides fair and adequate estimates of the size of its markets. However, a third party using different methods to assemble, analyse or compute market size information may not obtain or generate the same results.

The Initial Purchasers have not independently verified any such information.

Certain Defined Terms

In this Prospectus the following defined terms are used:

- "**Arabian Gulf**" means Bahrain, Kuwait, Qatar, Saudi Arabia, Oman and the United Arab Emirates;
- "**Absolute Yield**" means a yield which is calculated without adjustment to exclude the effect of leverage;
- "**AUM**" means assets under management, including both client assets under management which Investcorp manages on behalf of its clients, the amount of which includes the committed but not funded portion of clients' investments in its closed end funds and, unless otherwise stated, includes the amount of Investcorp's co-investments;
- "**Bahrain**" means the Kingdom of Bahrain;
- "**Bahrain Bourse**" means the Bahrain Bourse, which was formerly known as the Bahrain Stock Exchange;
- "**CBB**" means the Central Bank of Bahrain;

- "**CMA**" means the Capital Market Authority of Saudi Arabia;
- "**co-investors**" means the special purpose vehicles beneficially owned by Investcorp's Strategic Shareholders, with whom Investcorp carries out its investment activity in corporate investments, U.S. real estate investment and certain of its hedge funds;
- "**Coordinators Committee**" means a management team comprised of the Guarantor's Executive Chairman and Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer, President – Gulf Business, Chief Executive Officer – North America and Chief Executive Officer – Europe;
- "**Designated Representatives**" mean certain of the Guarantor's senior executive officers and members of the Guarantor's Board of Directors;
- "**Economic Co-Investors**" means the co-investors who invest with Investcorp in an investment asset using their own equity and asset backed financing provided by Investcorp at market rates of interest and acquire non-voting interests in the investment asset, and who enter asset backed financing and derivative collar arrangements with Investcorp;
- "**Euro**" or "**€**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty enabling the European Community (signed in Rome on 25 March 1957), as amended;
- "**GBP**" or "**£**" means the currency of United Kingdom;
- "**GCC region**" means the six Gulf Cooperation Council countries, namely Bahrain, Kuwait, Qatar, Saudi Arabia, Oman and the United Arab Emirates[1];
- "**Guarantor**" means Investcorp Bank B.S.C.;
- "**High Net Worth**" investors or individuals means investors or individuals having U.S.$1.0 million or more in investable wealth;
- "**IHL**" or "**Investcorp Holdings**" means Investcorp Holdings Limited;
- "**Investcorp**", the "**Investcorp Group**" and the "**Group**" means Investcorp Bank B.S.C. and its consolidated subsidiaries;
- "**IRR**" means internal rate of return;
- "**Issuer**" means Investcorp S.A.;
- "**Japanese Yen**" or "**¥**" means the currency of Japan;
- "**MENA**" means the region including the Middle East (including Turkey) and North Africa;
- "**Proxyholder Committee**" means seven senior members drawn from the Board of Directors of Investcorp and the management of Investcorp;
- "**Saudi Arabia**" means the Kingdom of Saudi Arabia;
- "**Saudi Riyals**" means the currency of the Kingdom of Saudi Arabia;
- "**SEC**" means the U.S. Securities and Exchange Commission;
- "**Shari'a**" means Islamic law;
- "**Sharpe Ratio**" means a ratio which is a measure of the excess return per unit of risk in an investment strategy, calculated as:

  $$S = \frac{R - R_f}{\sigma} = \frac{E\,[R - R_f]}{\sqrt{\mathrm{var}\,[R - R_f]}}$$

  where R is the asset return, R_f is the return on a benchmark asset, such as the risk free rate of return, $E[R - R_f]$ is the expected value of the excess of the asset return over the benchmark return, and σ is the standard deviation of the excess of the asset return.
- "**SIPCO Group**" means SIPCO Holdings Limited Trust, SIPCO Holdings Limited, SIPCO Limited, Ownership Holdings Limited and C.P. Holdings Limited;

1 On 10th May, 2011, a request by Jordan to join the GCC was formally being considered and Morocco was invited to join the council.

- ''**Strategic Shareholders**'' means certain of Investcorp's directors, certain prominent individuals from the GCC region and certain institutional shareholders;
- ''**UAE**'' means the United Arab Emirates;
- ''**U.S. dollars**'' or ''**U.S.$**'' means the currency of the United States;
- ''**Ultra High Net Worth**'' investors or individuals means investors or individuals having U.S.$50.0 million or more in investable wealth; and
- ''**Voting Co-Investors**'' mean the co-investors who invest with Investcorp in investment assets using their own equity and acquire voting interests in the entities which own or acquire an investment asset, and the shareholders of which have entered into revocable proxy arrangements with an entity controlled by Investcorp's Proxyholder Committee, pursuant to which such entity has the right to vote the shares of the entities in which Voting Co-Investors have acquired voting interests.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements regarding future events and the future results of the Issuer and the Guarantor that are based on current expectations, estimates, forecasts, and projections about the industries in which the Issuer and the Guarantor operate and the beliefs and assumptions of the management of the Issuer and the Guarantor. The Issuer and the Guarantor may also make forward-looking statements in other written materials. In particular, among other statements, certain statements with regard to management objectives, trends in results of operations, margins, costs, return on capital, risk management and competition are forward-looking in nature. Words such as ''expects,'' ''anticipates,'' ''targets,'' ''goals,'' ''projects,'' ''intends,'' ''plans,'' ''believes,'' ''seeks,'' ''estimates,'' variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict because they relate to events and depend on circumstances that will occur in the future. Therefore, the Issuer and the Guarantor's actual results may differ materially and adversely from those expressed or implied in any forward-looking statements. Factors that might cause or contribute to such differences are discussed in this Prospectus under the section entitled ''*Risk Factors*''. These factors include but are not limited to:

- exposure to exchange rates, credit, interest rate and liquidity risks;
- the impact of the current economic situation;
- unethical conduct and non-compliance with law and regulations;
- risks of regulatory investigations and other proceedings;
- ability to grow the Issuer and the Guarantor's business successfully;
- ability to identify and successfully complete acquisitions and integrate those acquisitions into its business;
- material disruptions arising from government intervention and political, social and economic instability;
- ability to attract and retain skilled personnel;
- consequences of the risks involved in the Issuer and the Guarantor's activities that cannot, or may not, be reasonably and economically insured; and
- external or internal crises.

Furthermore, any forward-looking statements made by or on behalf of the Issuer or the Guarantor speak only as of the date they are made.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer and the Guarantor believe to be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or, failing which, the Guarantor, to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks related to Investcorp's Business and the Industry

Difficult market conditions may have a material adverse effect on Investcorp's results of operations, financial condition, business and prospects.

Investcorp's business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside of its control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and other national and international political and economic circumstances (including wars, terrorist acts, security operations or sovereign debt restructurings). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and Investcorp may not be able to or may choose not to manage its exposure to these market conditions and/or other events. In the event of a market downturn, each of Investcorp's product lines could be affected.

The unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financial institutions, and these conditions had a significant adverse effect on Investcorp's business. During that period, many economies around the world experienced significant declines in employment, household wealth, and lending. The recent speculation regarding the inability of Greece and certain other European countries to pay their national debt, the response by Eurozone policy makers to mitigate this sovereign debt crisis and the concerns regarding the stability of the Eurozone currency have created uncertainty in the credit markets. As a result, there has been a strain on banks and other financial services participants.

While the adverse effects of the 2008 and 2009 period have abated to a degree, global financial markets still experience significant volatility. There continue to be lingering signs of economic weakness, such as relatively high levels of unemployment in major markets such as the U.S. and Europe, and financial institutions have not yet provided debt financing in amounts and on the terms commensurate with what they provided prior to 2008, particularly in Europe. In the second half of 2011 there has been a deterioration in the global economic outlook, driven by a worsening Eurozone debt and banking crisis. During the first six months of 2012 much of the Eurozone has deteriorated into recession, and the U.S. recovery slowed noticeably.

A continuing recessionary environment or a further downturn may place negative pressure on asset based returns and the mark to market valuations of Investcorp's balance sheet co investments in corporate investment, real estate investment and hedge funds.

Investcorp may choose to or become forced to sell portfolio companies at values that are less than expected or even at a loss, thereby significantly affecting investment performance and consequently Investcorp's overall operating results and cash flow. Negative market conditions would also increase the risk of default with respect to debt investments held by Investcorp or any of its funds.

Investcorp is exposed to sovereign debt and currency instability risks in Europe and these have had, and may continue to have, an adverse impact on its financial condition and results of operation.

The deterioration of macro-economic conditions in Europe negatively impacted Investcorp's hedge fund returns and the valuation of its European corporate investment portfolio in the 2012 fiscal year. Macro-economic risks could have further consequences which may negatively impact Investcorp's financial conditions and results in the future. For example, high levels of sovereign debt in the U.S. and certain European countries, combined with weak growth and high unemployment, could lead to fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility, and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact Investcorp. With regard to currency instability issues, concerns exist in the euro zone with respect to individual macro-fundamentals on a country-by-country basis, as well as with respect to the overall stability of the European Union and the suitability of a single currency to appropriately deal with specific fiscal management and sovereign debt issues in individual euro zone countries. The exit of one or more Eurozone countries from the Euro currency and the re-introduction of individual currencies could result in the redenomination of a portion (or potentially all) of Investcorp's euro denominated assets, liabilities and cash flows to new currencies, which could have a material adverse effect on Investcorp's business, results of operations and financial condition.

Availability of debt finance may impact investments.

Since the latter half of 2007, the markets for debt financing have contracted significantly, particularly in the area of acquisition financings for corporate investment and real estate investment transactions. Large commercial and investment banks, which have traditionally provided such financing for corporate investments and real estate investments, may demand higher interest rates, a higher proportion of equity financing, more restrictive covenants and generally more onerous terms in order to provide such financing, and in some cases are refusing to provide financing for acquisitions the type of which would have been readily financed in earlier years. In the event that Investcorp is unable to obtain committed debt financing for potential acquisitions or can only obtain debt at higher cost or otherwise on unfavourable terms, Investcorp may have difficulty completing otherwise profitable corporate investment and real estate investment acquisitions or may generate from such acquisitions profits that are lower than would otherwise be the case, either of which could lead to a decrease in the asset based income earned by Investcorp and its clients.

To the extent that the credit markets render corporate debt financing difficult to obtain or more expensive for Investcorp's portfolio companies, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns earned by Investcorp and its clients. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, some of Investcorp's portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalisation or seek bankruptcy protection. If a portfolio company enters into bankruptcy proceedings, this could potentially result in a complete loss of investment value in such company and a negative impact on Investcorp's operating results and projected cash flows.

Adverse economic and market conditions may adversely affect Investcorp's liquidity position, which could adversely affect its business operations in the future.

Investcorp uses cash to fund corporate investments and real estate investments prior to placement with its clients, provide add on funding capital to support or facilitate the growth of its existing investments, to maintain a balance sheet co-investment in its business, pay operating expenses and other obligations as they arise, repay debt and make distributions to Investcorp's shareholders. Investcorp's principal sources of cash, other than that arising from its operating income and sale of assets in which it co-invests with clients are funded from medium and long-term debt sourced from regional and international markets.

If the global economy and conditions in the financial markets worsen, Investcorp's performance could suffer. This could cause Investcorp's adjusted cash flow from operations to significantly decrease, which could materially and adversely affect its liquidity position and the amount of cash it has on hand to conduct its operations. Having less cash on hand could in turn require Investcorp to rely on other sources of cash from markets where financing may not be available on acceptable terms to conduct its operations.

Furthermore, during adverse economic and market conditions, Investcorp might not be able to renew all or part of its existing revolving credit facilities or find alternate financing on commercially reasonable terms. As a result, Investcorp's uses of cash may exceed its sources of cash, thereby potentially affecting its liquidity position.

Investcorp's business may be impacted by ongoing unrest in the Middle East

Many of Investcorp's clients and part of its business are based in the MENA region. As of 30 June 2012, approximately 62 per cent. of Investcorp's client assets under management were from GCC clients and 8 per cent. of Investcorp's total assets under management were corporate investment in the MENA region. Since the beginning of 2011, there has been significant political and social unrest, including violent protests in a number of countries in the MENA region, including the Kingdom of Bahrain. In particular, large scale demonstrations and civil disobedience led to changes in political leadership in Libya, Tunisia and Egypt. In a number of countries in the MENA region, particularly Syria, the situation is ongoing. There are continuing developments and it is difficult to predict whether instability in one country or territory may contribute to instability in other countries or territories within the region. This situation has caused significant disruption to the economies of affected countries and had a destabilising effect on oil and gas prices.

Investcorp's main office in the GCC region and certain strategic investments are located in Bahrain. Beginning in February 2011, protests and demonstrations were held in Bahrain, protesting against the Government. In March 2011, protestors occupied and blockaded the key transportation arteries leading into the centre of Manama causing significant economic and social disruption. Following a period of coordinated security measures within GCC member states (including the government of Bahrain declaring a State of National Safety for three months starting in March 2011), in June and July 2011 Bahrain established an independent commission to report on the demonstrations and held a National Census Dialogue to discuss recommendations for constitutional and legislative reform. During the unrest in Bahrain, Investcorp's office remained operational without any delays in payments, placement activity in the region or any other transaction handling. Although there has continued to be sporadic unrest in 2012, the level of unrest has continued to decline. Any significant demonstrations or political protest could prevent Investcorp from being able to access and operate its office in Bahrain.

Although Investcorp's exposure to Bahrain is limited (see "*Risk Management – Exposure to Bahrain and the MENA Region*"), continued instability in the MENA region could impact Investcorp's MENA-based operations and investments and could materially impact the financial prospects and conditions of its MENA based clients. Such instability could also negatively affect the value of investments in affected countries.

Adverse changes in general economic, political and market conditions in the GCC region may affect the willingness of clients to invest in Investcorp's products.

The majority of Investcorp's clients are concentrated in the GCC region. Wars, acts of terrorism and uncertain political or economic prospects or instability in Bahrain or the wider GCC may adversely impact regional financial markets and Investcorp's client business. Renewed protests in North Africa and the Middle East, including Bahrain could lead to significant political uncertainties in a number of countries.

Financial market and political uncertainty could decrease clients' funds available for investment or decrease client demand for Investcorp's less conservative alternative investment products. Such a decrease in Investcorp's clients' available funds or demand for the products could result in its clients withdrawing from the product offerings or decreasing their rate of investment or their allocation to the alternative asset class as a whole. Any such change may cause a decline in the value of Investcorp's AUM, on which a significant portion of Investcorp's revenues is based.

Adverse changes in general economic, political and market conditions in the GCC region may adversely affect Investcorp itself.

Investcorp is organised and conducts certain operations in Bahrain and its shares are traded on the Bahrain Bourse. Wars, acts of terrorism and uncertain political or economic prospects or instability in Bahrain or the wider GCC could adversely affect Investcorp's organisational structure, its ability to operate its business in Bahrain and the trading of its stock on the Bahrain Bourse.

Investcorp may not be able to place with its clients the investments it underwrites in its corporate investment and real estate investment products.

In Corporate Investment-North America and Europe and real estate investment transactions, Investcorp underwrites the initial purchase of the investments using its own financial resources and, in certain cases, those of its Voting and Economic Co-Investors (including funds that it lends to Economic Co-Investors). Investcorp has also entered into a co-underwriting agreement with two Gulf-based institutions to bridge up to 63 per cent. of the underwriting of Corporate Investment-North America and Europe transactions prior to placement with clients. Investcorp subsequently syndicates the equity investments by placing, on a deal by deal basis, a majority of the acquired equity stakes in such investments with its clients. As a result, if Investcorp were to be unsuccessful in placing a majority of the equity investment it underwrites, its own exposure to the investment may exceed its targeted co-investment range, thereby exposing Investcorp to greater risk, which may have an adverse effect on its business, financial condition and results of operations.

Increasing competition from existing asset managers and new entrants in the alternative asset management market may adversely affect Investcorp's profitability.

Investcorp competes with the alternative asset management businesses of a number of large international financial institutions as well as with established local and regional competitors based in Europe, North America and Asia, including managers offering funds of primary funds, secondary funds and direct and co-investment funds in the private equity, private debt and real estate markets and funds of funds or managed accounts services in the hedge funds market. Further, as the market increasingly recognises the growth in funds available for investment by institutional and High Net Worth individual investors in the GCC region, additional competitors could be attracted to the GCC region.

Many of Investcorp's competitors form part of larger financial services companies and attract business through their client relationships in other areas in which they operate. A number of Investcorp's competitors have a stronger global brand recognition, wider geographic reach and greater resources.

To the extent that Investcorp does not successfully compete in terms of the maintenance of its existing client base, development of additional clients, sophistication of product offering, pricing, performance or customer service, its ability to grow or maintain AUM may suffer and its results of operations will be adversely affected as a result. Competition might lead to pressure on margins or, if Investcorp fails to educate its clients about the advantages of its unique product offerings, could lead to pressure on its fee structure generally. Further, as certain products Investcorp offers become more widely available in the market and are replicated by its competitors, part of its business may be increasingly perceived as a commodity service, which could result in increased pressure from clients to reduce fees, which may reduce Investcorp's revenues and margins in the future. In addition, increasing competition may lead to a decrease in fees across the industry for certain or all segments of Investcorp's product offering. The occurrence of any of these developments could have an adverse effect on Investcorp's business, financial condition and results of operations.

Substantial amounts of existing capital commitments and new money inflows into the corporate investment and real estate investment markets may lead to an increase in transaction prices and diminish returns.

Within the corporate investment and real estate investment industries there are significant amounts of capital committed to corporate investments and U.S. real estate that have not yet been invested, due in part to subdued investment activity during the financial crisis. Corporate investment and real estate investment managers and funds may continue to expand the range of their investments in terms of transaction sizes, industries and geographical regions and there is a finite set of available investment opportunities at any given time. As a result, the pricing of transactions in the corporate investment and U.S. real estate markets may become less disciplined, with higher prices being offered than for historical comparable investments. If this occurs, returns on investments in these alternative investments could decline. A decrease in returns from the corporate investment and U.S. real estate markets over time may have an adverse effect on investors' allocations and result in lower cash inflows into or higher cash outflows from the corporate investments and real estate markets. In addition, lower returns could lead to a decline in the fees investors are willing to pay to managers and funds for asset management and investment advisory services and a decline in performance fees generally. Even if fee rates do not decline, absolute amounts of fees received could decline if AUM declined as a result of negative performance. These developments could have an adverse impact on Investcorp's AUM and results of operations.

Investments in prospective corporate investment transactions may be risky and Investcorp could fail to realise gains on these investments.

Corporate investment involves a number of significant risks, including the following:

- *Limited capital resources*. Prospective portfolio companies, particularly in the Corporate Investment-Technology and Corporate Investment-MENA business lines, may have limited financial resources, which may negatively affect their ability to meet their obligations under their financing arrangements.
- *Limited operating history*. Some prospective portfolio companies, particularly in the Corporate Investment-Technology and Corporate Investment-MENA business lines, may have limited operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns.
- *Limited information*. Generally, little public information exists about these prospective portfolio companies, and Investcorp is required to rely on the ability of its investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. The companies Investcorp targets in its corporate investment business are generally not rated. If Investcorp is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and may lose money on its investments.
- *Dependency on key managers and personnel*. Some prospective portfolio companies may depend on the management talents and efforts of a small group of persons, and the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on Investcorp's portfolio company and, in turn, on its results of operations.
- *Other risk factors*. Prospective portfolio companies, may from time to time be party to litigation, may be susceptible to economic slowdowns or recessions, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. Companies Investcorp targets in its corporate investment business generally are of higher credit risk than Investcorp and, if rated, carry lower ratings than Investcorp. Investcorp's corporate investment portfolio may be exposed to a relatively high concentration in particular industries or particular companies. Investcorp may make follow on investments and may lose the value of both its initial investment and such follow on investments. In its Corporate Investment-MENA business and Corporate Investment-Technology businesses, Investcorp invests in companies it does not control and relies on board representation, shareholder agreements and other mechanisms to protect its interests. Adverse economic conditions may also decrease the value of collateral securing some of Investcorp's loans to portfolio companies and the value of its equity investments. In addition, Investcorp's directors and employees may, in the ordinary course of business, be named as defendants in litigation arising from Investcorp's investments in portfolio companies.

As a result of the factors set out above or other circumstances, Investcorp's corporate investments may not realise gains, or may realise gains that fall short of the returns desired by its clients. Additionally, Investcorp co-invests alongside its clients in its corporate investments. If these investments do not perform as anticipated, the value of Investcorp's co-investments will decrease and the returns it is able to deliver to clients will be adversely affected. The failure to realise gains on Investcorp's co-investment or to provide adequate returns for clients of its corporate investment products could have a material adverse effect on Investcorp's results of operations and could decrease its ability to attract clients to its alternative investment products in the future.

Companies in Investcorp's corporate investment portfolio may incur debt that ranks pari passu with, or senior to, its investments in such companies.

The majority of the portfolio companies have, or may be permitted to incur, other debt that ranks *pari passu* with, or senior to, any portfolio company debt securities in which Investcorp invests and the equity securities it acquires in the portfolio company. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which Investcorp is entitled to receive payments in respect of any subordinated portfolio company debt securities in which Investcorp invests or any distribution from the portfolio company in respect of Investcorp's equity investment. Also, in the event of insolvency, liquidation, dissolution, reorganisation or bankruptcy of a portfolio company, holders of debt instruments ranking senior to Investcorp's investment in that portfolio company would typically be entitled to receive payment in full before Investcorp receives any distribution in respect of its investment. After repaying such senior creditors, the portfolio company may not have any remaining assets available for repaying its obligation to Investcorp. Additionally, Investcorp may not be able to sell its equity investment prior to such event or, if it is able to find a purchaser for its equity interest, it may not be able to recoup all of its investment. In the case of debt ranking equally with debt securities in which Investcorp invests, it could have to share on a pro rata basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganisation or bankruptcy of the relevant portfolio company.

Investcorp's performance is subject to risks associated with real estate investment in properties located in the United States.

Investcorp's real estate investment business derives its income from the ownership and operation of properties in the United States. These properties are primarily office, retail, hotel, multi family residential and resort properties. There are a number of factors that may adversely affect the income that Investcorp's properties generate, including economic downturns, interest rate increases, oversupply of space, competition, the risk of default by tenants, re letting costs, regulatory costs, rising operating costs, certain fixed costs (such as taxes and insurance), environmental risks and the relative illiquidity of real estate investments.

As a result of the factors set out above or other circumstances, Investcorp's real estate investments may not realise gains or may realise gains that fall short of the returns desired by its clients. Additionally, Investcorp co-invests alongside its clients in its real estate investment properties. If these investments do not perform as anticipated, the value of Investcorp's co-investments will decrease and the returns it is able to deliver to clients will be adversely affected. Investcorp cannot guarantee that it will be able to exit its real estate investments or to realise any gains. The failure to realise gains on Investcorp's co-investment or to provide adequate returns for clients of its real estate investment products will have a material adverse effect on Investcorp's results of operations and may decrease its ability to attract clients to its alternative investment products in the future.

Investcorp's real estate investments include development and redevelopment opportunities, which may have a higher level of risk since these investments may require development and renovation costs exceeding Investcorp's estimates.

Investcorp's opportunistic real estate investments aim to produce higher capital gains by investing in slightly higher risk projects involving renovation, refurbishment, conversion or ground-up development. Although not a focus for Investcorp's current investment activity, future acquisitions of such development properties may fail to perform in accordance with Investcorp's expectations and may require development and renovation costs exceeding its estimates. Changing market conditions, including competition from others, may diminish opportunities for making attractive acquisitions. Once made, Investcorp's investments may fail to perform in accordance with its expectations. In addition, the renovation and improvement costs incurred in bringing an acquired property up to market standards may exceed its estimates. Investcorp may not have the financial resources to fund all these development costs.

Risks associated with development and construction activities include: the unavailability of favourable financing; construction costs exceeding original estimates; construction and lease up delays resulting in increased debt service expense and construction costs; and insufficient residential sales or prices or occupancy rates and rents at a newly completed property, causing a property to be unprofitable. If new developments are financed through construction loans, there is a risk that, upon completion of construction, permanent financing for newly developed properties will not be available or will be available only on disadvantageous terms. Development activities are also subject to risks relating to Investcorp's inability to obtain, or delays in obtaining, all necessary zoning, land use, building, occupancy and other required governmental and utility company authorisations.

Underperformance of hedge fund returns generally compared to the past and the equity markets may lead to a significant outflow of funds from the market, decrease Investcorp's AUM and lead to pressure on fees.

Returns in the hedge funds industry came under severe pressure in the last four months of 2008 as a result of a systemic liquidity and credit crisis, although returns in 2009 and 2010 were positive. In 2008 and 2009, as investors sought liquidity, significant outflows from hedge funds throughout the industry caused some managers to apply ''gates'' to limit the amount that investors could redeem. Throughout this period, Investcorp did not apply any gates on redemption requests made by its clients. All requests made by Investcorp for redemption from its own balance sheet co-investments were also met without gates. However, there can be no assurance that Investcorp's hedge fund investments may not be subject to gates in the future, or that Investcorp would not need to implement gates to restrict withdrawals by its clients.

The period from mid-2011 to date has represented a challenging period for the entire hedge fund industry with two factors negatively affecting returns. First, due to uncertainty in Europe as well as other geopolitical events, the global markets experienced significant levels of downside volatility, combined with low absolute returns. In addition, asset class correlations moved to exceptionally high levels, creating very difficult conditions to generate positive returns by taking long or short positions.

It may continue to be difficult for hedge fund managers to achieve positive returns comparable to those achieved in the past because, among other reasons, the investment and trading strategies that proved successful in the past are now replicated across the hedge funds industry and certain market inefficiencies which provide opportunities for gain may be corrected over time, including as a result of the hedge funds' trades. In pursuit of higher returns, hedge fund managers may pursue different strategies or investment opportunities with which they are less familiar, and these strategies or investments may prove unsuccessful.

Investor dissatisfaction with returns in the hedge funds industry for a sufficiently long period of time may result in cash outflows from the hedge funds market. In addition, lower returns could put pressure on the fees that investors are willing to pay to hedge fund managers. These developments could have an adverse impact on AUM in Investcorp's hedge funds products and on Investcorp's results of operations.

Resignation or loss of any of the members of Investcorp's senior management could adversely affect its ability to execute its strategy.

Members of Investcorp's senior management have been instrumental in establishing its business and in managing Investcorp's growth. Their continued service is important to Investcorp's overall management, as well as to its culture and strategic direction. All of Investcorp's senior management are at will employees and, accordingly, they have the ability to leave at any time and could, upon leaving Investcorp's employment, compete with its activities. A resignation or loss of members of the senior management could adversely affect Investcorp's ability to implement its strategies and could, as a result, adversely affect Investcorp's results of operations.

Failure to recruit or retain professionals and other staff could lead to a loss of clients, the inability to implement Investcorp's expansion strategy and a decline in its revenues.

Investcorp relies on professionals to attract and retain clients and to manage client funds successfully. As a result, its ability to attract and retain qualified professionals is central to its ability to maintain and grow AUM and revenues. In addition, because individual professionals often maintain strong personal relationships with Investcorp's clients that are based on clients' trust in that particular investment professional, the departure of key staff could cause significant damage to Investcorp's client relationships. High turnover of staff could negatively impact growth or result in disruptions or inefficiencies that negatively impact Investcorp's business. In addition, certain of Investcorp's fund products have key man provisions, which could be triggered by the departure of certain individuals, leading to a suspension or termination of client investment commitments.

Investcorp is exposed to reputational risks related to its operations and industry.

Asset managers depend on the trust and confidence of their clients to succeed in their business. Investcorp is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. Investcorp's reputation could also be adversely affected if investments or financial products it recommends do not perform as expected.

Investcorp's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including clients and managers of the hedge funds in which its hedge funds business invests. Moreover, if one of Investcorp's investments becomes associated with financial scandals or widely publicised improper behaviour, Investcorp's own reputation may be affected.

Investcorp is also exposed to adverse publicity relating to the industry as a whole. Financial scandals unrelated to Investcorp or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators.

Any damage to Investcorp's reputation, or to the reputation of the alternative investment industry, could cause existing clients to withdraw their business and lead potential clients to be reluctant to do business with Investcorp. Furthermore, negative publicity may result in greater regulatory scrutiny of Investcorp's operations and of the industry generally. Any of these developments could have an adverse effect on Investcorp's business, results of operations and financial condition.

Investcorp's risk management strategies and procedures may fail to identify or anticipate risks.

Risk management applies both to Investcorp's own asset management operations as well as to the investments it makes for its clients. Investcorp has developed, and continues to update, strategies and procedures specific to its business for managing risks, which include market risk, liquidity risk, operational risk and reputational risk. Management of these risks can be very complex given the highly structured nature of many of Investcorp's products and other operations. These strategies and procedures may fail under some circumstances, particularly if Investcorp is confronted with risks that it has underestimated or not previously identified.

In addition, some of Investcorp's methods for managing the risk related to its clients' investments are based upon observations of historical market behaviour. Statistical techniques are applied to these observations in order to arrive at quantifications of some of Investcorp's risk exposures. These statistical methods may not accurately quantify Investcorp's risk exposure if circumstances arise which were not observed in Investcorp's historical data. In particular, as Investcorp enters new lines of business, its historical data may be incomplete.

If the measures used to assess and mitigate risk prove insufficient, Investcorp may experience material unanticipated losses and a decrease in the performance of its investments, resulting in adverse effects on its operations and on its ability to retain and grow AUM.

Deterioration in Investcorp's credit ratings could result in increased funding costs and may have a material adverse impact on its liquidity.

Investcorp cannot guarantee that the rating agencies will not downgrade its debt ratings in the future. Investcorp is currently rated ''Ba2'' (oulook negative) by Moody's, ''BB'' (outlook stable) by Fitch and BBB+ (outlook negative) by Capital Intelligence. Furthermore, Investcorp cannot guarantee that it will be able to take measures to maintain its current ratings or to strengthen its ratings in the event of a potential downgrade, or that the rating agencies will consider that the measures taken by Investcorp for this purpose are adequate. In addition, factors beyond Investcorp's control, such as those relating to the industry or geographic regions in which it operates, may affect the ratings assigned to Investcorp by these agencies.

Investcorp's credit ratings affect the terms on which its creditors are willing to transact with the company. Because the interest rate and other terms of Investcorp's debt agreements depend in part on its credit rating, any deterioration in its credit ratings or a negative outlook given by a rating agency could result in increased funding costs and may limit its funding sources or impact its liquidity. In addition, rating downgrades may limit Investcorp's ability to conduct certain businesses or may cause clients to be reluctant to do business with it. A reduction in Investcorp's credit rating could have a material adverse affect on its business, results of operations and financial condition.

Risks related to Regulatory and Legal Matters

Non-compliance with regulatory requirements may result in enforcement measures or subject Investcorp to significant penalties and could adversely affect its reputation, all of which could result in a significant decline in AUM.

Non-compliance with regulatory requirements may result in enforcement measures being taken against Investcorp. There is a risk that, in the case of severe and/or repeated violations of the regulatory requirements in any jurisdiction, licences or permits held by members of the Investcorp Group which are necessary to conduct business in such jurisdiction could be revoked or limited. Possible sanctions could also include the imposition of fines and censures on Investcorp or its employees itself and/or the imposition of additional capital requirements.

Financial institution regulators typically have a wide range of enforcement powers in the event they discover any regulatory violations. Should a regulated entity be in violation of the relevant regulation, the regulatory authority may be able to prohibit the disposal of assets or the making of payments, order the cessation of business with clients and/or prohibit the acceptance of payments. Public trust and confidence are critical to Investcorp's business and any material loss of investor and/or client confidence as a result of non-compliance or alleged non-compliance with regulatory requirements could result in a significant decline in its AUM, which would have an adverse effect on its business, results of operations and financial condition.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Investcorp is subject to the risk that tax, accounting and regulatory changes may adversely affect its after tax income or its operations and such changes may make the products that it offers less attractive to clients.

Investcorp currently conducts operations in the GCC region, the United States and the European Union (including the United Kingdom) and it has holding companies located in the Cayman Islands. Investcorp both holds and offers investments to its clients in the United States, the European Union, and in countries located in the GCC region. Should the tax laws or interpretations of the tax laws change or should current practices become more restrictive in any of the jurisdictions in which Investcorp conducts operations, has holding companies or where it or its clients make investments, its after tax income could be adversely affected and its investments could become less attractive, causing clients to shift their investments away from or towards particular jurisdictions.

Similarly, regulatory or accounting changes applicable in any of the jurisdictions where Investcorp conducts operations or its clients are located or where Investcorp or its clients make investments could adversely affect its business, including the manner in which it reports income, and could make its investments less attractive to Investcorp or its clients. Investcorp is particularly sensitive to regulatory changes in Bahrain and Saudi Arabia, where it is subject to regulation by the CBB and CMA respectively, and in the European Union, the United Kingdom and the United States, where its operations are conducted and where the majority of its and its clients' investments are located.

Regulation of the alternative asset management industry in the markets in which Investcorp operates is increasing and is likely to continue to increase, and adverse changes in the laws or regulations governing its business could force it to introduce changes in its products and operations, and will likely increase compliance costs. Governmental enforcement actions or investigations in Investcorp's industry could have the same effect and also lead to sanctions.

Investcorp operates in multiple jurisdictions, each of which may have separate regulatory requirements governing its product offerings. The regulations to which it is subject may not be uniform or harmonised. In addition, Investcorp may become subject to more stringent regulations in the future. It is also possible that laws and regulations could be amended or interpreted in a manner that would be adverse to Investcorp and its current operations. To the extent that existing regulations are amended or future regulations are adopted that impose restrictions on Investcorp's business (such as, for example, minimum standard conditions for its products), or negatively affect the investment performance of the products it offers, its AUM and its revenues could be adversely affected. A more stringent regulatory regime may also result in substantially higher compliance costs that would affect Investcorp's profitability. Tougher regulations could effectively preclude Investcorp from offering certain products or operating in certain jurisdictions.

In addition, as Investcorp's business expands, it could become subject to more intensive regulation, which would result in higher compliance costs resulting from greater regulatory limitations and requirements. If Investcorp fails to comply with existing or future regulatory requirements, enforcement measures may be taken against it.

Due to the fragmented status of investment management regulation and the complexity of certain of Investcorp's products, it cannot completely mitigate the risk that despite thorough compliance efforts, it and the hedge funds in which its hedge funds or funds invest may be in violation of relevant laws or regulations, such as, for example, regarding which products may be publicly distributed without a license or what type of distribution methods may qualify as a non-public distribution.

Investcorp is subject to anti-money laundering, anti-bribery and other regulations and is exposed to the risks arising from any non-compliance and to the risk that more stringent rules will impose high costs and restrictions on its business.

Investcorp is subject to laws in Bahrain and several other countries, including the United States, relating to the prevention of money laundering. Generally, it is required to conduct a due diligence investigation of each customer and any other beneficial owners of relevant assets and to notify the authorities if it suspects that assets involved in a transaction or a business relationship originate from criminal activity. Non-compliance with the obligations imposed by law might lead to the imposition of penalties, such as fines. Failure to verify the identity of the beneficial owner with the level of diligence required under the circumstances would be an offence and possibly subject Investcorp to regulatory sanctions and reputational damage. Monitoring compliance with ever more stringent anti money laundering rules may place a significant financial burden on Investcorp and pose technical problems. Investcorp believes that its current anti money laundering policies and procedures are sufficient to ensure compliance with the applicable laws in the jurisdictions in which it operates. Investcorp cannot, however, guarantee that it is in compliance with all applicable anti money laundering rules at all times or that its anti money laundering standards are being consistently applied by its employees across all its subsidiaries in all circumstances. Any violation of anti money laundering rules or even the suggestion of such violations may have severe legal and reputational consequences for Investcorp and may adversely affect its business, results of operations and financial condition.

Investcorp is subject to anti money laundering regulation in many of the other jurisdictions in which it operates, particularly the United Kingdom, Cayman Islands and Saudi Arabia. In recent years, it has experienced increased anti money laundering regulation in those jurisdictions. Furthermore, other jurisdictions in which Investcorp operates have proposed or adopted regulations to strengthen prohibitions on money laundering and terrorist financing, as well as on tax evasion.

Freedom of information regulations have also recently increased in the jurisdictions in which Investcorp operates, and Investcorp may be required to publicly disclose confidential information that it receives from clients. In certain circumstances, the level of confidentiality required by Investcorp's clients may limit Investcorp's ability to make investments in jurisdictions with far reaching disclosure and freedom of information regimes.

In addition, recent reforms to the United Kingdom regulatory regime (including but not limited to the Bribery Act 2010) will require Investcorp to develop new or update existing internal compliance processes, which it is doing. Market practice in this area has yet to be established and it will therefore take time for Investcorp to develop and implement a new set of working practices and these practices may need to be changed once a market standard has been established. Elements of the new United Kingdom regime also have application globally and the risk is raised that an employee or representative of Investcorp may inadvertently breach a United Kingdom requirement which would otherwise not be illegal in the relevant jurisdiction. This risk is increased in the jurisdictions in which Investcorp operates where local custom, law and practice is more permissive in this area. The current and future internal compliance processes and working practices of Investcorp, which are intended to prevent the occurrence of acts or omissions which would constitute fraud, bribery or corruption under United Kingdom law or local laws, may not allow Investcorp to detect or prevent every instance of fraud, bribery or corruption.

Investcorp is exposed to significant legal risks that may arise in the conduct of its business and the outcome of related legal claims may be difficult to predict.

Investcorp faces significant legal risks in its business. Both the volume and amount of damages claimed in litigation, regulatory proceedings and other adversarial proceedings against financial services providers are increasing. These risks could potentially involve disputes over the terms of transactions in which Investcorp acts as principal, intermediary or otherwise. Investcorp is currently subject to two litigation claims which are described in the section "*Investcorp's Business – Legal and Regulatory Proceedings*".

Companies in Investcorp's industry are increasingly exposed to claims (with or without merit) for recommending investments that are not consistent with a client's investment objectives or engaging in unauthorised or excessive trading. During a prolonged capital markets downturn, these claims could increase.

In addition, many of Investcorp's products' structures are intended to ensure a favourable tax treatment for its clients. Although Investcorp believes that those structures will withstand scrutiny by the relevant tax authorities, an adverse decision by a court or tax authority with respect to one or more of its products' tax structures may lead to litigation against Investcorp from clients and other parties, which may lead to reputational and financial losses.

Although Investcorp's business activities are conducted through corporate structures intended to segregate and limit liability, it is possible that an adverse court ruling may ignore its corporate structures and impute liability to Investcorp. Such a ruling would increase its potential liability for damages. In corporate investments relating to technology, where Investcorp often acts as general partner of a partnership, Investcorp could be liable for debts and obligations of the limited partnership if the limited partnership becomes insolvent. Although Investcorp establishes new management vehicles from time to time to serve as general partners to mitigate this risk, it cannot fully protect itself from potential claims that may arise in the bankruptcy of a limited partnership.

In addition, Investcorp's product offerings are structured to protect each product from the liabilities of other products and aspects of its business under applicable law. It is possible that the courts or authorities in other jurisdictions will not respect this limited liability arrangement, which could result in damages to investors in one portion of its business if required to assume potential liabilities of another portion of its business. This could lead to reputational and to financial losses.

Investcorp is also exposed to potential claims from its employees arising under employment and related laws of the various jurisdictions in which Investcorp operates.

Government policy and regulation may change.

Investcorp's business is subject to changes in governmental policy and regulation, including:

- the monetary, interest rate and other policies of central banks and bank and other regulatory authorities, including the Bank of England, the United States Federal Reserve Board and the European Central Bank, which could have an adverse impact on the results of operations of Investcorp's portfolio companies and/or the terms of financing available to Investcorp;
- taxation of capital gains or interest or dividend income, which could have an adverse effect on the returns earned by Investcorp's portfolio companies and/or an adverse effect on Investcorp's ability to place equity in its portfolio companies with investors;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- initiatives by local, state and national regulatory agencies or legislative bodies to revise practices, pricing or responsibilities of financial institutions serving their markets;
- changes in investment and bankruptcy legislation in the principal markets in which Investcorp operates and the consequences thereof;
- other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect the Investcorp's ability to make or realise investments; and
- the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements.

Risks related to the Notes, the Issuer's Capital Structure and the Guarantee

The Guarantor will not be subject to most of the negative covenants in the Conditions applicable to the Issuer

While the Guarantor will be subject to certain negative covenants, these covenants will be significantly less restrictive than those applicable to the Issuer. In particular, the Guarantor will not be subject to restrictions on its ability to:

- make distributions;
- raise debt;
- engage in sales of assets and subsidiary stock; and
- dispose or transfer all or substantially all of its assets or enter into merger or consolidation transactions.

The value of the guarantee provided by the Guarantor could be materially impaired if the Guarantor were to take any of these actions.

The Issuer's ability to service its debt will depend on its future performance.

The Issuer's leverage could have important consequences for investors in the Notes, including:

- making it more difficult for the Issuer to satisfy its obligations with respect to the Notes and its other debt and liabilities;

- increasing the Issuer's vulnerability to a downturn in its business or economic or industry conditions, in part because a significant portion of its income comprises asset-based income arising from unrealised fair value adjustments with no associated cash flow; and
- limiting the Issuer's flexibility in planning for or reacting to changes in its business and its industry.

The Issuer's ability to service its debt will depend on its future performance, which will be affected by prevailing economic conditions, including the performance of businesses in which the Issuer invests, and financial, business, regulatory and other factors. Some of these factors are beyond the Issuer's control.

The Issuer and the Issuer's subsidiaries will be able to incur additional debt.

The Issuer and the Issuer's subsidiaries would be able to incur additional amounts of debt in the future. Although the Conditions will contain restrictions on the incurrence of additional debt, the amount of debt that could be incurred in compliance with these restrictions could be significant.

The Notes will be structurally subordinated to the liabilities of the Issuer's subsidiaries and secured creditors.

None of the Issuer's subsidiaries will provide a guarantee of the Notes. Generally, holders of indebtedness of, and trade creditors of, the Issuer's subsidiaries, including lenders under bank financing agreements, are entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to the Issuer or the Guarantor, as direct or indirect shareholder in such subsidiaries.

Accordingly, in the event that any subsidiary of the Issuer becomes insolvent, liquidates or otherwise reorganises:

- the creditors of the Issuer (including the holders of the Notes) will have no right to proceed against the assets of such subsidiary; and
- creditors of such subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Issuer or the Guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

Restrictive covenants in the Conditions may restrict the Issuer's ability to operate its business. The Issuer's failure to comply with these covenants could result in an event of default.

The Conditions will contain covenants which, among other things:

- require the Issuer to ensure that its Consolidated Net Worth (as defined in the Conditions) does not fall below U.S.$500,000,000;
- require the Issuer to ensure that its Leverage (as defined in the Conditions) does not exceed 3.0:1.0; and
- restrict the Issuer's ability to:
  - incur or guarantee additional debt;
  - pay dividends and make other restricted payments;
  - create or incur security interests on its assets;
  - engage in sales of assets and equity interests in subsidiary stock; and
  - dispose or transfer all or substantially all of its assets or enter into merger or consolidation transactions.

The restrictions contained in the Conditions could affect the Issuer's ability to operate its business and may limit the Issuer's ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect the Issuer's ability to finance its operations, make strategic acquisitions, investments or alliances, restructure the Issuer's organisation or finance its capital needs. Additionally, the Issuer's ability to comply with these covenants and restrictions may be affected by events beyond its control. These include prevailing economic, financial and industry conditions. If the Issuer breaches any of these covenants or restrictions, it could be in default under the Conditions and the Issuer's other indebtedness.

The Notes and other debt instruments of the Issuer include cross default provisions.

If there was an event of default under any of the Issuer's debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such debt to be due and payable immediately, which in turn could result in cross-defaults under the Issuer's other debt instruments, including the Notes. Any such actions could force the Issuer into bankruptcy or liquidation, and the Issuer may not be able to repay its obligations under the Notes in such an event.

The Guarantor may be subject to enhanced regulatory capital and liquidity requirements if Basel III is adopted in Bahrain.

In December 2010 and January 2011, the Basel Committee issued its final guidance on Basel III. The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement and applying stricter regulatory adjustments. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer. Further buffers may also be implemented if there is excess credit growth in any given country resulting in a system-wide build up of risk. If the Basel III guidelines are implemented in Bahrain in their current form, they could increase the minimum quantity and quality of capital which the Guarantor is obliged to maintain. The proposed reforms are expected to be implemented by the beginning of 2013, but are subject to a series of transitional arrangements and, where implemented, will be phased in over a period of time, to be fully effective by 2019.

Investors may not be able to recover in civil proceedings for United States securities laws violations.

The Notes will be issued by the Issuer, which is incorporated under the laws of the Cayman Islands, and the Guarantee will be granted by the Guarantor, which is incorporated under the laws of Bahrain. Most of the Issuer and Guarantor's senior management, directors and executives currently reside outside of the United States and a significant amount of the Issuer and Guarantor's assets are currently located outside the United States. As a result, Investors may be unable to effect service of process within the United States, or to recover on judgments of United States courts in any civil proceedings under the United States federal securities laws.

The Guarantee will terminate automatically upon the occurrence of a Force Majeure Event.

Under the articles of association of Investcorp Holdings, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair the Guarantor's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of the Investcorp Holdings' senior executive officers and members of the Investcorp Holdings' Board of Directors, have the power to declare that an ''investment protection event'' has occurred. Examples of circumstances that would constitute an ''investment protection event'' include the hostile invasion of Bahrain by the forces of a foreign state, the nationalisation of the Guarantor or interference in the conduct of business that is reasonably likely to result in a material adverse change in the business, operations, assets or financial condition of the Guarantor. Should the Designated Representatives declare that an investment protection event has occurred, the Guarantor's shares in Investcorp Holdings' will be automatically redeemed for nominal consideration. If the event is not temporary, Investcorp Holdings' will issue shares and cause them to be delivered to the shareholders of the Guarantor so that each shareholder will own shares directly in Investcorp Holdings that are economically equivalent in all respects to the shares that they own in the Guarantor. See ''*Ownership – Shareholding Structure*''. The occurrence of an ''investment protection event'' will be a ''Force Majeure Event'' under the Conditions and following the occurrence of a Force Majeure Event, the Guarantee will terminate automatically.

Payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act

Under certain circumstances, the Issuer and other non-U.S. financial institutions through which payment on the Notes is made may be required, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (''**FATCA**''), to withhold U.S. tax at a rate of 30 per cent. on all or a portion of payments of principal and interest which are treated as ''foreign pass-thru payments'' made on or after 1 January 2017 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. The application of FATCA to interest, principal or other amounts paid on or with respect to the

Notes is not currently clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a Noteholder's failure to comply with FATCA, neither the Issuer, the Guarantor, any paying agent or any other person would pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Under a grandfathering rule, however, obligations issued on or before 31 December 2012 generally will not be subject to withholding under FATCA. As such, Investcorp does not expect that payments on the Notes will be subject to withholding under FATCA. However, if, on or after 1 January 2013, the Notes are modified, then such Notes would become subject to withholding under FATCA, if such modification results in a deemed exchange of the Notes for U.S. federal income tax purposes. If the Issuer issues additional Notes on or after 1 January 2013 payments on such additional Notes may be subject to withholding under FATCA and, should the originally issued Notes and the further Notes be indistinguishable, payments on the originally issued Notes may also become subject to withholding under FATCA.

Risks related to the Notes and the Trading Market

The market price of the Notes may be volatile.

Historically, the markets for non-investment grade debt such as the Notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions, which may have an adverse effect on the market price of the Notes, regardless of the Issuer and the Guarantor's prospects and financial performance.

It may be difficult for Noteholders to enforce their rights under the Notes or the Guarantee under the laws of the Cayman Islands or Bahrain.

The Notes will be issued by the Issuer, a company which is incorporated under the laws of the Cayman Islands, and will be guaranteed by the Guarantor, which is incorporated under the laws of Bahrain. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the Cayman Islands or Bahrain. Such multi-jurisdictional proceedings are likely to be complex and costly for creditors and otherwise may result in uncertainty and delay regarding the enforcement of noteholders' rights. Noteholders' rights under the Notes and the Guarantee will be subject to the insolvency laws of several jurisdictions and there can be no assurance that noteholders' will be able to effectively enforce their rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency and other laws of the Guarantor's jurisdiction of organisation may be materially different from those of the Issuer, or in conflict with those of other jurisdictions, including in the areas of the rights of creditors, the priority of governmental and other creditors, the ability to obtain post-petition interest and the duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's law should apply, adversely affect noteholders' ability to enforce their rights under the Notes, or the Guarantee or limit any amounts that you may receive under the Notes or the Guarantee.

The Guarantor is a bank which is subject to the Central Bank of Bahrain and Financial Institutions Law, which allows the CBB to appoint an administrator with wide ranging powers in circumstances where the Guarantor is insolvent or appears to be insolvent and gives other claims in liquidation priority over the Guarantee.

If the Guarantor becomes insolvent, or appears most likely to be insolvent, the CBB may assume the administration of the Guarantor or appoint an external administrator to assume the administration pursuant to the Central Bank of Bahrain and Financial Institutions Law (Decree No. 26 of 2006) (the "**CBB Law**"). This would limit the enforceability or validity of the Guarantee. In such a situation, the administrator has the power, among others, to: (a) continue or temporarily suspend the operations of the Guarantor, (b) suspend or limit the discharge of financial obligations of the Guarantor during the period of administration, (c) declare a moratorium in respect of any debts of the Guarantor, (d) discharge obligations of the Guarantor to certain creditors in preference to other creditors, if this is to the advantage of the Guarantor, and (e) subsequent to obtaining the approval of the competent court, and provided that such does not cause prejudice to market agreements and, where applicable, the rights of the other party to be compensated, the administrator may nullify any agreement entered into by the Guarantor before placing the Guarantor under administration if such action is in the interest of the Guarantor or taken to protect the interests of its customers, or to avoid occurrence of an irrevocable damage. During the period of administration, no action can be taken to enforce any security over the property of the Guarantor and no legal proceedings or any other measures may be commenced or continued against the Guarantor or its property except with the approval of the administrator or in the course of executing a court judgment or order issued before the date on which the Guarantor was placed under administration.

In addition, according to Article 156 of the CBB Law, in the event of the liquidation of the Guarantor, the rights pertaining to any of the following would have priority over the property of the Guarantor and would be discharged before the obligations arising out of the Guarantee:

- the administrator's fees and reasonable expenses incurred by the administrator during the administration period of the Guarantor, and the wages and salaries of the officers and employees of the Guarantor up to the date on which the petition for compulsory liquidation was filed at the competent court or the date of termination of the relevant contract of employment, whichever is earlier;
- the liquidator's fees and reasonable expenses incurred by the liquidator during the period of liquidation;
- fees and taxes due to the Government, its organisations, agencies and the CBB;
- deposits and loans taken with the approval of the Central Bank to protect the Guarantor from insolvency;
- deposits with a value not exceeding twenty thousand Bahraini Dinars per depositor; and
- other deposits that exceed twenty thousand Bahraini Dinars and all other unsecured debts due upon the Guarantor (which shall have equal status).

It may be difficult to obtain the enforcement of foreign judgments in Bahrain. Bahraini law relating to the enforcement of foreign judgments is such that investors in the Notes may be unable to recover in civil proceedings for U.S. securities laws violations.

The Trust Deed, the Agency Agreement and the Notes are governed by the laws of England. Although the Trust Deed, the Agency Agreement and the Notes contemplate arbitration to resolve disputes, the Trustee, (under the Trust Deed) and the Agent (under the Agency Agreement)have the option to require a dispute to be heard by the courts of England in which case, no arbitral tribunal shall have jurisdiction to hear a dispute.

Bahrain ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**N.Y. Convention**") by virtue of Legislative Decree 4 of 1988. Accordingly, whenever the N.Y. Convention applies to a foreign arbitral award, that award should be recognised and enforced in compliance with the requirements of the N.Y. Convention.

However, if the Trustee or the Agent exercises its right to opt for a dispute to be heard by the courts of England and an English court renders a judgment against Investcorp Bank, enforcement in Bahrain may become problematic. Article 252 of the Bahrain Civil and Commercial Procedures Act (the "**Commercial Procedures Act**") (Statute No. 12 of 1971) provides that court judgments and orders passed in a foreign country may be enforced in Bahrain on the basis of reciprocity of treatment. If the foreign court is likely to enforce the judgments of Bahraini courts within its own jurisdiction, then reciprocity will be established. Alternatively, Article 255 of the Commercial Procedures Act provides that foreign judgments may be enforced in Bahrain if those judgments originate from states with which Bahrain has entered into treaties with respect to the mutual enforcement of judgments. Thus, judgments of foreign courts can only be enforced in Bahrain if a reciprocal arrangement for the enforcement of such judgments is in force between Bahrain and such other country or a treaty authorizes such enforcement. At present there is no reciprocal arrangement for enforcement of an English court judgment in Bahrain nor is there a treaty authorizing any such enforcement. Consequently, in order to obtain relief in Bahrain, a judgment creditor must file a new case in Bahrain in which the English judgment will constitute evidence of the existence of a debt.

In addition, Bahraini court proceedings are conducted in Arabic and all documents filed in Bahraini courts have to be translated into Arabic. This may result in a delay in the realisation of amounts due under the Trust Deed, the Agency Agreement or the Notes.

The Trustee may not be able to obtain specific enforcement of Investcorp Bank's obligations under the Notes, or obtain monetary damages under Bahraini law.

In the event that the Guarantor fails to perform its obligations under the Guarantee, the potential remedies available to the Trustee include obtaining an order for specific enforcement of the relevant obligations or a claim for damages in Bahrain. There is no assurance that any Bahraini court would order specific performance of a contractual obligation. The amount of damages which a Bahraini court may award in respect of a breach will depend upon a number of possible factors. No assurance is provided on the level of damages which a court may award in the event of a failure by the Guarantor to perform its obligations under the Guarantee.

The Issuer may not have the ability to raise the funds necessary to finance a redemption of Notes following an exercise by noteholders of their rights upon the occurrence of a Change of Control as required by the Conditions, and the change of control provisions in the Conditions may not afford noteholders protection against certain corporate events.

Upon the occurrence of certain events constituting a ''Change of Control'' (as defined in the Conditions), noteholders will have the right to require the Issuer to redeem their Notes at 101 per cent. of the principal amount thereof plus accrued and unpaid interest to the redemption date. If upon such a redemption, 10 per cent. or less of the principal amount of the originally issued Notes would remain outstanding, then the Issuer will be required to redeem all of the outstanding Notes.

If a Change of Control were to occur, the Issuer may not have sufficient funds available to redeem the Notes in respect of which noteholders have exercised such rights. The Issuer may require third-party financing to finance the redemption of any such Notes upon a Change of Control, but may not be able to obtain such financing prior to the redemption date or at all. Restrictions in the Issuer's other financing agreements may limit the Issuer's ability to redeem any Notes following a Change of Control or limit the Issuer's ability to raise financing following a Change of Control. A Change of Control may result in an event of default under, or acceleration of the Issuer's indebtedness. The redemption of Notes following a Change of Control could also cause a default under the Issuer's indebtedness, even if the Change of Control itself does not. Any failure by the Issuer to redeem Notes in respect of which noteholders have exercised the redemption right, would constitute a default under the Conditions, and could result in an acceleration of the Issuer's indebtedness thereunder.

The change of control provision contained in the Conditions may not necessarily afford noteholders protection in the event of certain important corporate events, including a reorganisation, restructuring, merger or other similar transaction involving the Issuer, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a ''Change of Control''. Except as described in Condition 7, the Conditions do not contain provisions that require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganisation, restructuring, merger, recapitalisation or similar transaction.

Credit ratings may not reflect all risks.

The Notes are expected to be assigned credit ratings of BB by Fitch and Ba2 by Moody's. A credit rating is not a recommendation to buy, sell or hold the Notes. The final credit rating may not be the same as the provisional rating. Credit ratings are subject to revisions or withdrawal at any time by the relevant rating agency. A credit rating may be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. Neither the Issuer nor the Guarantor has any obligation to inform the Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer may adversely affect the market price of the Notes.

The Notes will initially be held in global form, and therefore Noteholders must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Interests in the Global Notes will trade in global form only. Unless and until definitive registered notes are issued in exchange for interests in the Global Notes, owners of such beneficial interests will not be considered owners or holders of the Notes. DTC, or its nominee, will be the registered holder of the Rule 144A Global Note and a nominee for the common depositary for Euroclear and Clearstream, Luxembourg will be the registered holder of the Regulation S Global Note. After payment to the nominee, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the holders of beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes must rely on the procedures of DTC, or Euroclear or Clearstream, Luxembourg, as applicable, and if such noteholder is not a participant in DTC, Euroclear or Clearstream, Luxembourg on the procedures of the participant through which the interest is held, to exercise any rights and obligations in respect of the Notes. Please see "*Summary of the Provisions Relating to the Notes While in Global Form*."

Owners of beneficial interests in Notes in global form will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Holders of beneficial interests in the Global Notes will be permitted to act only to the extent they have received proxies to do so from DTC, Euroclear or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable noteholders to vote on any request actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Conditions, unless and until definitive registered Notes are issued, holders of beneficial interest in the Global Notes will be restricted to acting through DTC, Euroclear or Clearstream, Luxembourg. There can be no assurance that the procedures to be implemented through DTC, Euroclear or Clearstream, Luxembourg will be adequate to ensure the timely exercise of rights under the Notes. Please see "*Summary of the Provisions Relating to the Notes While in Global Form*."

There can be no guarantee that the Issuer's application for the listing of the Notes to trade on London Stock Exchange will be accepted.

The Issuer and Guarantor cannot guarantee that the Issuer's application for the listing and admission of the Notes to trading on the London Stock Exchange's regulated market, will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditional on obtaining this listing.

There is no established trading market for the Notes. If a market for the Notes does not develop, or it suffers from a lack of liquidity, the noteholders may be unable to sell their Notes.

The Notes are new securities for which there is currently no established trading market. Accordingly, there can be no assurance as to the development or liquidity of any market for them. Significant trading volumes may not develop. Although the Initial Purchasers have advised the Issuer and the Guarantor that they intend to make a market in the Notes as permitted by applicable laws and regulations, they are not obligated to do so and may discontinue their market-making activities at any time at their sole discretion and without notice. Further, initial allocations of the Notes will be determined by the Issuer and the Initial Purchasers and some of those allocations may be significant, possibly such as to influence outcomes of Noteholder meetings.

The liquidity of the trading market in the Notes and the market price quoted for the Notes may be adversely affected by changes in the overall market for similar-yield securities, interest rates, the Issuer's financial performance or prospects, or in the prospects for companies in the Issuer's industry generally. In addition, subsequent to their initial issuance, the Notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, the Issuer's operating performance and other factors. As a result, an active trading market for the Notes may not develop or, if developed, may not continue, and noteholders may be unable to sell their Notes or may be able to sell them only at a price which is lower than expected.

The Issuer is exposed to interest rate fluctuations and increases in interest rates may adversely affect the Issuer's debt service obligations.

The Issuer is exposed to the risk of fluctuations in interest rates, primarily under certain credit facilities and under other financial instruments, which are based on floating Interbank Offered Rates. Although the Issuer enters into derivative transactions to manage exposure to movements in interest rates, there can be no assurance that the Issuer will not be adversely affected by increases in interest rates.

The Conditions may be modified.

The Conditions contain provisions which allow Noteholders to consent to modifications and waivers, at meetings or by resolutions in writing. These provisions permit defined majorities to bind all Noteholders, including Noteholders who do not attend a meeting and or who vote against a resolution or who do not sign a resolution in writing.

Noteholders may be affected by the EU Savings Directive and similar measures.

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income pursuant to which Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying and Transfer Agent in a Member State that is not be obliged to withhold or deduct tax pursuant to the Directive.

A number of other countries and territories, including the Cayman Islands, have adopted measures similar to Directive 2003/48/EC.

English law may change.

The Notes, the Trust Deed and the Agency Agreement, and any non-contractual obligations arising out of or in connection therewith, are governed by English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Neither the Issuer nor the Guarantor is, or will be, registered as an "investment company" under the Investment Company Act.

Neither the Issuer nor the Guarantor is, or will be, registered as an investment company in the United States under the Investment Company Act. They will rely on an exemption to such registration to the extent registration might otherwise be required. The Investment Company Act provides certain protections to investors and imposes certain restrictions on registered investment companies, none of which will be applicable to the Issuer, the Guarantor or its investors. A qualification for such exemption under the Investment Company Act imposes additional restrictions on the transfer or resale of the Notes.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and related documents referred to herein. Capitalised terms not specifically defined in this overview have the meaning set out in the ''Terms and Conditions of the Notes''.

Issuer:	Investcorp S.A.
Guarantor:	Investcorp Bank B.S.C.
Principal Amount:	U.S.$250,000,000
Joint Lead Managers:	Citigroup Global Markets Limited Credit Suisse Securities (Europe) Limited ING Bank N.V. J.P. Morgan Securities plc Merrill Lynch, Pierce, Fenner & Smith Incorporated The Royal Bank of Scotland plc
Trustee:	Deutsche Trustee Company Limited
Principal Paying and Transfer Agent:	Deutsche Bank AG, London Branch
Registrar:	Deutsche Bank Luxembourg S.A.
U.S. Paying and Transfer Agent:	Deutsche Bank Trust Company Americas
U.S. Registrar:	Deutsche Bank Trust Company Americas
Issue Price:	100 per cent.
Denomination:	The Notes will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Coupon:	8.25 per cent. per annum, payable semi-annually in arrear on 1 May and 1 November in each year, commencing on 1 May 2013.
Day Count Fraction:	30/360
Form of Distribution:	Regulation S and Rule 144A/ Section 3(c)7
Form of Notes:	The Notes will be in registered form. The Notes will be issued in the form of a Regulation S Global Note and a Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Global Notes will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Maturity:	1 November 2017
Taxation; Additional Amounts:	All payments on or in respect of the Notes or the Guarantee will be made without withholding or deduction for or on account of any present or future taxes or other government charges of the Cayman Islands or Bahrain, except to the extent required by law. Subject to certain exceptions, the Issuer or the Guarantor, as the case may be, will undertake to gross-up any and all payments thereon or in respect thereof if any such withholding is required, such that the net amount received by a Noteholder is no less than the amount that would have been received by the Noteholder in the absence of such withholding or deduction. Please see Condition 6.1 (*Additional Amounts*). If

	certain changes in the law of any relevant taxing jurisdiction becomes effective that would impose withholding taxes or other deductions on the payments on the Notes, the Issuer may redeem the Notes in whole, but not in part, at any time, at their principal amount, plus accrued and unpaid interest. See Condition 6.3 (*Redemption for Changes in Withholding Taxes*).
Status of the Notes and the Guarantee:	The Notes will be the direct unsecured, unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment with all of the Issuer's existing and future indebtedness that is not subordinated to the Notes. The Guarantee will be the direct unsecured, unsubordinated obligations of the Guarantor and will rank *pari passu* in right of payment with all of such Guarantor's existing and future indebtedness that is not subordinated to the Guarantee.
Release of Guarantee Upon a Force Majeure Event:	The articles of association of the Issuer's immediate holding company, IHL, contain provisions whereby, following a Force Majeure Event (as defined in the Condition), IHL will cease to be a Subsidiary of the Guarantor. In addition, under the Conditions, the Guarantee shall terminate automatically on the Declaration Date (as defined below) following a Force Majeure Event and thereafter all references in the Conditions and the Trust Deed to the Guarantor as a guarantor of the Notes shall be deemed to be deleted. The occurrence of a Force Majeure Event, and the consequential termination of the Guarantee, shall not constitute an event of default under the Notes.
Optional Redemption:	At any time prior to their maturity, the Issuer may redeem all or part of the Notes by paying a "make-whole" premium as described in Condition 5.1 (*Optional Redemption Prior to Maturity Date*). At any time prior to their maturity the Issuer may on one or more occasions redeem up to 35 per cent. of the aggregate principal amount of the Notes at a redemption price of 108.25 per cent. of the aggregate principal amount of the Notes, plus accrued and unpaid interest with the proceeds of one or more equity offerings as described in Condition 5.2 (*Optional Redemption upon a Qualified Equity Offering*).
Change of Control Put:	Upon the occurrence of an event which is a "Change of Control" (as defined in the Conditions) Noteholders will have the option to request the Issuer to redeem their Notes at 101 per cent. of the principal amount, plus accrued and unpaid interest. See Condition 7.1 (*Change of Control*). If at any time following any redemption of any Notes pursuant to Condition 7.1 (*Change of Control*), 10 per cent. or less of the aggregate principal amount of the Notes originally issued remain outstanding, the Issuer shall redeem all (but not some only) of the Notes at 101 per cent. of the principal amount plus accrued and unpaid interest. See Condition 7.4 (*Mandatory Redemption*).
Negative Pledge:	The Conditions contain a negative pledge in relation to Security Interests (as defined in the Conditions) to secure Financial Indebtedness (as defined in the Conditions). See Condition 9.6 (*Negative Pledge*).
Other Covenants:	The Conditions contain covenants which, among other things: • require the Issuer to ensure that its Consolidated Net Worth (as defined in the Conditions) does not at any time fall below U.S.$500,000,000; • require the Issuer to ensure that its Leverage (as defined in the Conditions) does not exceed 3.0:1.0; and

- restrict the Issuer's ability to:
  - pay dividends and make other restricted payments;
  - allow its Subsidiaries (as defined in the Conditions) to incur debt;
  - engage in sales of assets and equity interests in subsidiary stock; and
  - dispose or transfer all or substantially all of its assets or enter into merger or consolidation transactions.

Covenant Suspension:	Certain of the covenants will be suspended during such time as Investcorp is assigned any two of the following ratings: Baa3 or better by Moody's, BBB- or better by S&P, BBB- or better by Fitch and no Event of Default (as defined in the Conditions) has occurred and is continuing.
Cross Default:	The Conditions include an event of default which may arise upon a default by the Issuer under its other indebtedness. See Condition 11 (*Events of Default*).
Listing:	Application has been made to the UKLA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market.
Governing Law:	The Trust Deed, the Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection therewith will be governed by and construed in accordance with the laws of England.
Selling Restrictions:	United States, United Kingdom, Bahrain, United Arab Emirates, Dubai International Financial Centre, Saudi Arabia and the Cayman Islands.
Ratings:	The Notes are expected to be rated "**BB**" by Fitch and "**Ba2**" by Moody's *Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. Credit ratings primarily relate to default risk of the Issuer and do not relate to the liquidity of the Notes or consider whether there is a market for the Notes. Any change in the credit rating of the Notes or of the Guarantor could adversely affect the price that a subsequent Purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.*

OVERVIEW OF INVESTCORP

This section contains an overview of the detailed information and financial information included elsewhere in this Prospectus. This overview may not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Investcorp Group's business and financial information and related notes included elsewhere in this Prospectus or referenced herein. Prospective investors should also carefully consider the information set forth under the heading "Risk Factors".

Investcorp is one of the leading providers of alternative asset investment products sourced in North America, Europe and the GCC and MENA regions, serving institutions and High Net Worth individuals in the GCC region as well as institutional clients in the U.S. and Europe. Investcorp Bank B.S.C., organised under the laws of Bahrain and licensed as a wholesale bank by the CBB, is the holding company for the Group.

Investcorp was founded in 1982 and has since grown to become one of the most diverse alternative investment managers both in terms of product offerings and geography, with specialised product lines and a significant presence in North America, Europe and the GCC region.

Investcorp's business is spread across three main offices in Bahrain, London and New York. Investcorp's Bahrain office is the regional centre from which its placement and relationship management teams serve GCC investors, and also houses a majority of Investcorp's administrative, finance and corporate support staff management. Investcorp's London and New York offices are primarily involved in investment sourcing and advisory activities in relation to its alternative asset management services.

Following are highlights of Investcorp's recent financial performance:

- As at 30 June 2012, Investcorp had total assets under management of U.S.$11,490 million.
- Investcorp's gross operating income for the fiscal year ended 30 June 2012 was U.S.$267.1 million compared with U.S.$ 413.6 million for the fiscal year ended 30 June 2011. Investcorp's net income was U.S.$67.4 million for the fiscal year ended 30 June 2012 compared to U.S.$ 140.3 million for the fiscal year ended 30 June 2011.
- As at 30 June 2012, Investcorp had total assets of U.S.$2,749.7 million. Investcorp's total liquidity at 30 June 2012 was U.S.$1,062.3 million, comprising U.S.$648.2 million of accessible liquidity plus U.S.$414.1 million held in hedge fund co -investments, of which 67 per cent. is contractually available within three months.

The three asset classes that comprise Investcorp's five product lines are summarised below:

Corporate Investment: Corporate investment involves investing through privately negotiated transactions in the securities of companies that are generally not listed on a public stock exchange. Once it has made an investment in a target company, a corporate investment firm will generally play an active role in the company's management and closely monitor the company's strategic development and operational performance. Corporate investment transactions are typically funded with a significant proportion of interest bearing debt, allowing the corporate investment firm to leverage its investment and therefore achieve a higher return on its equity investment at exit.

Investcorp's activities in the corporate investments asset class are across three product categories, which are run as separate lines of business.

- *Corporate Investment – North America and Europe*: investments in mid-market companies located in North America and Europe;
- *Corporate Investment – Technology*: investments in technology companies located in North America and Europe; and
- *Corporate Investment – MENA*: investments in the Arabian Gulf and MENA regions.

Hedge Funds: Hedge funds are investment vehicles that use diverse investment strategies and products, some of which are unavailable to traditional mutual funds, including short selling and the use of leverage and derivative instruments. The diversity of investment options available to hedge fund managers makes it possible to create an investment portfolio with limited correlation to price changes in the public equity and debt markets, potentially improving the consistency of investors' overall returns while also reducing the risk profile of investors' portfolios.

Real Estate Investment: Real estate investing involves investments in various types of real properties ranging from properties that offer stable rental income, such as office buildings, retail shopping centres, rental apartment communities, hotels and industrial warehouses, to properties that provide a potential for substantial capital appreciation, such as development projects, major refurbishment or asset repositioning opportunities. Real estate investment transactions can be funded with interest bearing debt, allowing investors to leverage their investment to achieve higher returns, both at exit and through the purchase of real properties at larger transaction values.

The following table sets out certain information in relation to the Group's assets under management:

	As at 30 June		
	2012	**2011**	**2010**
		(U.S.$ millions)	
Corporate Investment	5,824	5,650	6,463
North America and Europe	*4,053*	*3,888*	*4,564*
Technology	*754*	*760*	*742*
MENA	*929*	*929*	*929*
Strategic and other investments[(1)]	*88*	*73*	*228*
Hedge funds	4,268	4,749	4,656
Real estate investment	1,219	1,195	1,365
Corporate support[(2)]	179	241	170
Total	11,490	11,835	12,654
Of which:			
Clients[(3)]	8,822	8,887	9,707
Investcorp[(3)]	2,215	2,489	2,431
Affiliates and co-investors	453	459	516

Notes:

(1) Strategic and other investments represent: (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.

(2) Corporate support AUM represents call accounts of clients maintained in individual trust fund accounts managed by a common trustee.

(3) Client assets under management except for Hedge funds is stated at cost less any impairment, whereas Investcorp's co-investments and client Hedge fund investments are marked to market.

The growth and success of Investcorp's business is underpinned by its placement capability in the GCC region, where Investcorp has focused on providing a high level of personal service to its investor base of institutions and High Net Worth individuals. The members of Investcorp's Bahrain based placement and relationship management team travel regularly within the region, maintaining close personal contact with its clients to update them on the progress of Investcorp's existing investments and to explore their interest in participating in new investment opportunities. These active personal relationships ensure that Investcorp is aware of its investors' objectives which, in turn, helps Investcorp develop its acquisition and placement strategy in light of client preferences.

Many of Investcorp's clients have indicated support for its business by choosing to be shareholders and thereby having an even greater involvement in, and ownership of, Investcorp's success. Investcorp aligns its interests with its clients by co-investing in each of its corporate investment and real estate investment transactions, as well as its hedge funds.

Investcorp's high level of service and resulting close relationships with its clients combined with its longevity in the market represent its key competitive advantages in the GCC region. The success of Investcorp's investment track record has encouraged it to expand its capital raising capability in North American and European markets, especially in the United States. Investments by North American and European institutions currently represent approximately one third of Investcorp's client AUM, predominantly due to investors in the hedge fund platform.

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.

Competitive Strengths

The growth in the core markets in which Investcorp distributes products, Investcorp's unique client relationships and management capabilities in those markets, and its multiple product offerings to its clients are the key strengths of Investcorp's business.

Investcorp's placement and relationship management team is uniquely positioned as a conduit of North American and European alternative investment products to GCC region investors

The depth of Investcorp's relationships with High Net Worth individuals, merchant families and institutional investors in the GCC region represents a unique placement capability. Investcorp's placement platform in the GCC region has been developed over a 30-year period of activity and consistently serving the market and today it has relationships with more than 1,000 investors in the GCC region. A significant proportion of Investcorp's client base is invested in more than one of its product lines, and its relationship managers are focused on increasing cross selling penetration. Most of Investcorp's Strategic Shareholders also invest in Investcorp's products as clients.

Investcorp's relationship managers enjoy strong relationships with their clients based around Investcorp's core values of trust and discretion, reflecting Investcorp's unique position as an independent manager in a landscape increasingly inhabited by integrated banking offerings. The longevity of Investcorp's track record, combined with its ''gold standard'' approach to client servicing built up through years of experience in serving the specific needs of GCC region investors, means that Investcorp now enjoys a strong reputation across the region as an independent provider of alternative asset management services.

Investcorp has increased the number of product focused advisors in the region, who work closely with relationship managers in order to provide highly tailored solutions and services to its clients, in particular for specialized product lines such as hedge funds and real estate investment. Investcorp's clients value its ability to screen and source investment opportunities across different product lines within the broader alternative asset management industry, which has improved the depth of Investcorp's relationships and the quality and stability of its revenues. Investcorp's investment products are distributed across the range of underlying investors and it is not reliant on any single investor for more than a small proportion of its revenues in any product line.

Positioned to benefit from high growth markets and the trend toward investing in alternative assets

The majority of Investcorp's clients are based in the GCC region. This region is one of the world's fastest growing wealth markets, partly driven by rising energy prices and strong oil and gas production volumes. This has created significant investable wealth. According to a Citi Private Bank and Knight Frank report published in 2012, the number of Ultra High Net Worth individuals in the Middle East (which includes the GCC region) is expected to increase by approximately 50 per cent. by 2016. Investcorp expects the market for the provision of alternative asset management services to GCC region investors to grow, as GCC region investors trend towards the current asset allocation strategies deployed by leading professional institutional and High Net Worth investors in North America and Europe. The diversification of investment portfolios away from equities and fixed income products will result in significantly increased allocations towards alternative assets such as corporate investment, real estate investment and hedge funds. While the climate has been challenging for all asset classes, the performance of alternative investments over a longer-term horizon remains a powerful argument for increased allocations to alternative investments.

Unique co-investment strategy to align interest with clients

A significant proportion of Investcorp's balance sheet is co-invested in each of its product lines. As at 30 June 2012, Investcorp had an aggregate of U.S.$1,790.3 million of proprietary co-investment across its product lines. This approach facilitates transaction structuring and aligns Investcorp's interests with those of its clients. In addition, a significant proportion of Investcorp's compensation is performance based, and it operates ''carry based'' incentive schemes across most of its product lines. Investcorp believes that the combination of these approaches represents a competitive advantage over other asset managers as it links in a meaningful way the fortunes of the company and its management directly with those of its clients.

Depth of investment and asset management experience

Investcorp's business model focuses on the local implementation of a global model. It has a long history of investment in both North America and Europe, with long-standing on-the-ground presence and experienced investment teams in both regions. Investcorp benefits from an established network of long-serving executives across these regions who share knowledge across its product lines. Investcorp's corporate investment and real estate investment teams have a track record of sourcing repeat investments in their respective sectors, and have established strong relationships with senior corporate executives, local partners, investment banks, other intermediaries, other investors and business communities in order to ensure a steady access to deal flow. Investcorp's hedge funds business invests across a range of North American, European and Asian managers, and has expanded its placement capability into the United States since 2005.

Strategy

Investcorp is internationally recognised for its performance in global alternative investments. It intends to maintain and build on this reputation by capitalizing on the current strength of its brand in the GCC region, growing its client base both in the GCC region and internationally, expanding its product offerings to cater for current and prospective clients' needs, continuing to maintain the ''co-investment' approach of its business model and continuing to attract and retain high quality team members to ensure its product lines continue to offer strong performance.

Leverage Investcorp's market position as the leading alternative investment manager in the GCC region to capture growth from and within the GCC region

As the economy and investable wealth of the GCC region is expected to grow, Investcorp believes the demand from GCC region investors for North American and European alternative investments will also grow. Because of the depth of Investcorp's relationships, strong brand name and proven track record, it believes it is well positioned to capture a significant share of this growing demand.

Investcorp plans to leverage its well established presence in the GCC region, its strong placement capability and its track record of performance to accelerate investment inflows by drawing on contacts developed through existing clients and by marketing new products to existing and new clients.

Expand Investcorp's existing product lines and develop new product lines

Investcorp plans to expand the products offered within its existing product lines. For example, within its hedge funds product line, it continues to expand single manager fund offerings by adding promising new managers onto its platform and in fiscal year 2011 launched the Investcorp Special Opportunities Portfolio (the ''**Special Opportunities Portfolio**''), which consists of select investments in distressed credit and corporate restructurings in the United States and Europe. Investcorp has also successfully launched new corporate investment funds (in relation to Corporate Investment – Technology and Corporate Investment – MENA) and real estate investment funds dedicated to mezzanine investments in the last several years.

Diversify Investcorp's client base

Investcorp plans to leverage its strong international brand and presence to market alternative investment management services on a selective basis to institutions outside of the GCC region.

In targeting these clients, Investcorp will leverage its track record of performance and focus on products which are likely to be most attractive to these entities, such as its hedge funds, real estate and Corporate Investment -Technology offerings. In hedge funds alone, approximately U.S.$917 million of new client money has been raised in fiscal year 2012 from global institutional investors.

Deleverage Investcorp's balance sheet

Beginning in its 2009 fiscal year, Investcorp began a process of deleveraging its balance sheet. This process included the raising of U.S.$511 million (net of forfeitures) in new preference share capital and a managed reduction in risk weighted assets. Other initiatives included increasing collection of client receivable balances, reducing working capital, reducing hedge fund co-investments and increasing levels of cash liquidity.

History

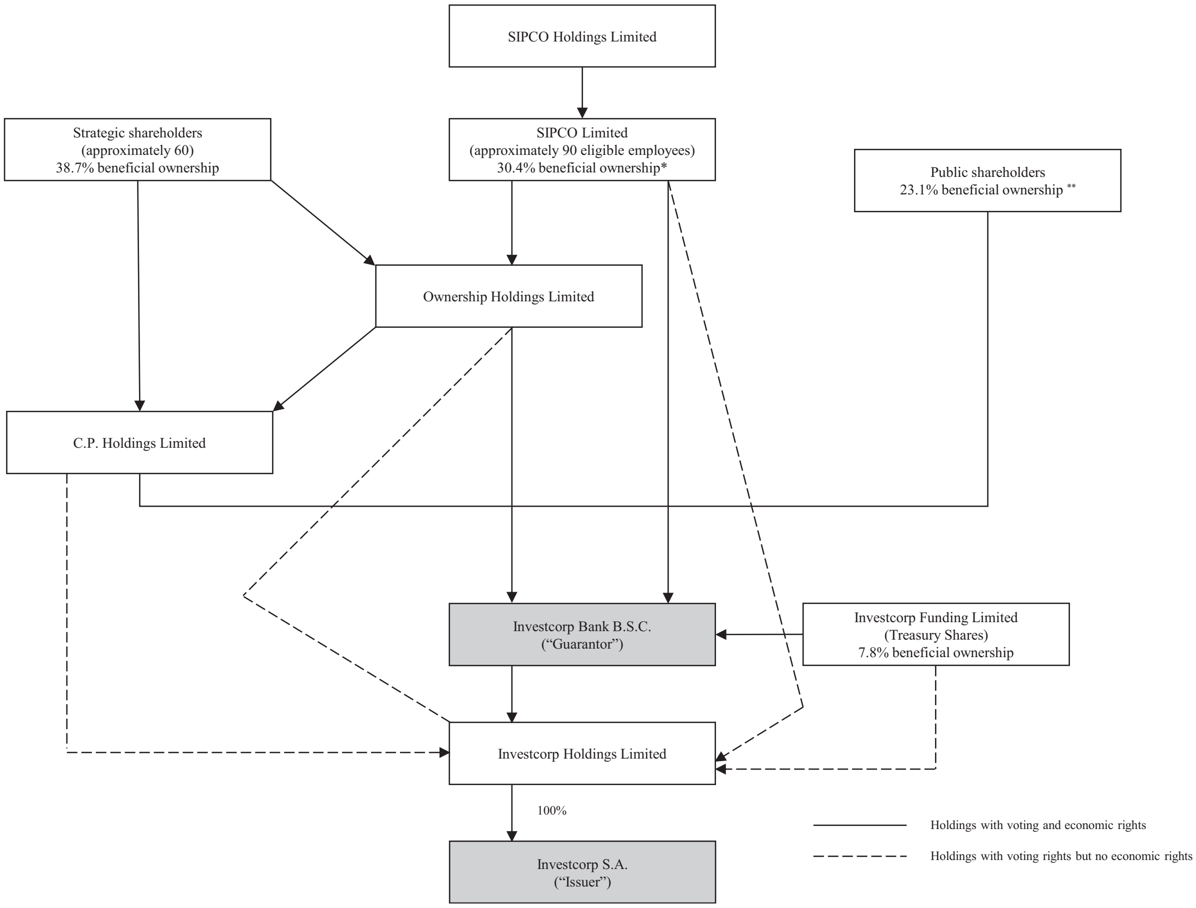
Investcorp was established as a public company in Bahrain in May 1982. Investcorp's first office, in Bahrain, was formally opened by the Prime Minister of Bahrain in 1984 and Investcorp's second office was opened later that year in London. Initially, Investcorp focused on corporate investment transactions, with a specific focus on the acquisition of companies with recognised brand names that would increase Investcorp's visibility in the market, such as the landmark acquisition of Tiffany & Co. in 1984. Investcorp has built on its early successes in its corporate investment and real estate investment product lines, which had been the core of its business. After several years of operating in North America, Investcorp formally opened its New York office in 1988 and has continued its track record of corporate investment successes.

Investcorp went public through a listing of its ordinary shares on the Bahrain Bourse in June 1989.

Investcorp expanded its product offering by launching its hedge funds product line in 1997, its Corporate Investment – Technology product line in 2000 and its Corporate Investment – MENA product line in 2007.

Shareholders

The following diagram illustrates the Group's shareholder structure as at 30 June 2012:



* Includes 13.5 per cent. in shares that are held for potential future allocation to the Employee Share Ownership Plan and 2 per cent. un-vested shares under the Employee Share Ownership Plan. The Group has approval from the CBB to hold up to 40 per cent. of shares for the SIP Plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

** Includes 0.3 per cent. beneficial ownership held in the form of unlisted Global Depositary Receipts.

SUMMARY FINANCIAL INFORMATION

The following tables summarise Investcorp's historical financial information for the periods ended and at the dates indicated below. The summary financial information as at and for the years ended 30 June 2012, 2011 and 2010 are, unless otherwise indicated, extracted from information in the Annual Financial Statements, which are included elsewhere in this Prospectus. This summary financial data should be read in conjunction with, and is qualified in its entirety by the discussion in *"Management's Discussion and Analysis of Results of Operations and Financial Condition"* and the Annual Financial Statements included in this Prospectus.

Consolidated Balance Sheet Data

	As at 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Cash liquidity[1]	350.8	366.0	902.8
Working capital assets[2]	554.4	515.3	638.3
Total co-investments	1,790.3	1,918.0	1,806.8
Premises, equipment and other assets	54.1	59.2	69.0
Total assets	**2,749.7**	**2,858.6**	**3,417.0**

Notes:

(1) Cash liquidity is cash and short term funds and placements with financial institutions and other liquid assets.

(2) Working capital assets comprised of positive fair value of derivatives, receivables and prepayments and loans and advances.

	As at 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Short-term client deposits	195.2	318.0	247.4
Deposits from financial institutions	10.1	–	–
Medium-term client deposits	119.2	95.3	90.7
Medium-term debt	567.3	584.9	1,321.3
Long-term debt	560.5	574.6	591.6
Other liabilities[1]	253.6	225.3	171.5
Total liabilities	**1,705.9**	**1,798.2**	**2,422.6**
Total equity	**1,043.7**	**1,060.3**	**994.3**
Total liabilities and equity	**2,749.7**	**2,858.6**	**3,417.0**

Note:

(1) Other liabilities comprise of negative fair value of derivatives and payables and accrued expenses.

Consolidated Income Statement Data

	Years ended 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Fee income	236.0	197.4	218.9
Asset-based income[1]	31.0	216.2	141.8
Gross operating income	**267.1**	**413.6**	**360.7**
Provisions for impairment	(1.1)	(2.1)	(11.7)
Interest expense	(47.8)	(56.0)	(58.0)
Operating expenses	(150.7)	(215.2)	(188.8)
Net Income	**67.4**	**140.3**	**102.2**

Note:

(1) Asset-based income includes unrealised fair value changes in corporate and real estate co-investments.

Consolidated Cash Flow Data

	Years ended 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Net income adjusted for non-cash items	85.2	159.8	134.1
Net cash from operating activities	108.1	403.2	74.8
Net cash used in financing activities	(112.5)	(890.0)	(361.7)
Net cash used in investing activity	(0.8)	(0.0)	(2.6)
Net decrease in cash and cash equivalents	(5.2)	(486.8)	(289.5)
Cash and cash equivalents at beginning	353.0	839.8	1,129.3
Cash and cash equivalents at end	**347.8**	**353.0**	**839.8**

Liquidity and Other Ratios

	As at 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Cash, short-term funds and other liquid assets	350.8	366.0	902.8
Undrawn revolving credit facilities	297.4	536.3	–
Hedge fund co-investments	414.1	607.4	537.3
Group's total liquidity[(1)]	**1,062.3**	**1,509.7**	**1,440.1**

Notes:

(1) Group's total liquidity comprises cash, short term funds and other liquid assets, undrawn revolving credit facilities and hedge fund co-investments.

	As at 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions, except ratios)		
Group's total liquidity[(1)] / Total assets	39%	53%	42%
Group's total liquidity[(1)] / Total debt[(2)]	73%	96%	64%
Group's total liquidity[(1)] / illiquid co-investment assets[(3)]	77%	115%	113%
Cumulative positive liquidity gap 3 months[(4)]	551.8	376.2	556.1
Cumulative positive liquidity gap 1 year[(4)]	883.9	551.6	1,178.8
Leverage ratio[(5)]	1.6	1.7	2.4
Covenant leverage (required to be less than 3.0x)[(6)]	1.6	1.7	1.6
Total co-investments/Total equity	1.7	1.8	1.8
Residual maturity of debt (months)[(7)]	81	67	68
Capital adequacy ratio	26.9%	25.7%	22.9%
Consolidated net worth	1,043.7	1,060.3	994.3

Notes:

(1) Group's total liquidity comprises cash, short-term funds and other liquid assets, undrawn revolving credit facilities and hedge fund co-investments.

(2) Total debt comprises short and medium term client deposits, deposits from financial institutions, medium term debt and long term debt.

(3) Illiquid co-investment assets comprise corporate investment and real estate investment.

(4) Cumulative positive liquidity gap is calculated as cumulative cash inflows less cumulative cash outflows.

(5) Leverage is calculated as the ratio of Total liabilities to Total equity.

(6) The Covenant leverage means the ratio of Adjusted Consolidated Total Liabilities to Adjusted Consolidated Net Worth (each as defined in Condition 20).

(7) The weighted average maturity of medium term debt, medium term revolvers (including undrawn revolvers) and long term debt. The calculation includes the impact of committed forward start loan agreements.

Assets Under Management Data

	As at 30 June		
	2012	**2011**	**2010**
		(U.S.$ millions)	
Corporate Investment	5,824	5,650	6,463
North America and Europe	*4,053*	*3,888*	*4,564*
Technology	*754*	*760*	*742*
MENA	*929*	*929*	*929*
Strategic and other investments[(1)]	*88*	*73*	*228*
Hedge funds	4,268	4,749	4,656
Real estate investment	1,219	1,195	1,365
Corporate support[(2)]	179	241	170
Total	**11,490**	**11,835**	**12,654**
Of which:			
Clients[(3)]	8,822	8,887	9,707
Investcorp[(3)]	2,215	2,489	2,431
Affiliates and co-investors	453	459	516

Notes:

(1) Strategic and other investments represent: (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.

(2) Corporate support AUM represents call accounts of clients maintained in individual trust fund accounts managed by a common trustee.

(3) Client assets under management except for Hedge funds is stated at cost less any impairment, whereas Investcorp's co-investments and client Hedge fund investments are marked to market.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deduction of fees and commissions (but before expenses) related to the offering, expected to amount to approximately U.S.$244,572,250, will be used for Investcorp's general corporate purposes and to refinance certain medium-term drawn revolvers.

CAPITALISATION

The following table sets forth the consolidated capitalisation of Investcorp as at 30 June 2012. The information in this table has been extracted from the Annual Financial Statements. This table should be read in conjunction with "*Use of Proceeds*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Certain Indebtedness*" and the Annual Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2012
	Actual
	(U.S.$ millions)
Medium-term debt(1)	567.3
Very long term debt(2)	*515.0*
Other long term debt(3)	*45.5*
Long term debt(4)	560.5
Preference share capital	511.5
Ordinary shares at par value	*200.0*
Reserves	*233.0*
Less: Treasury shares	*(163.6)*
Ordinary shareholders equity other than retained earnings, unrealised fair value changes and revaluation reserve	269.4
Add: Unrealised fair value changes recognised directly in equity and revaluation reserve	13.2
Total capitalisation	**1,921.9**

(1) Medium term debt includes medium term revolving credit facilities, which carry LIBOR-based floating rates of interest when drawn and fixed rates of commitment fees when undrawn, and medium term credit facilities, which carry LIBOR-based floating rates of interest.

(2) Very long term debt comprises JPY37 billion notes maturing in 2030 and U.S.$50 million debt maturing in 2032 and includes adjustments relating to foreign exchange translations, fair value adjustments and transaction costs of borrowing.

(3) Other long term debt comprises of long term debt maturing in next five years and includes adjustments relating to fair value adjustments and transaction costs of borrowing.

(4) Long term debt predominately carries fixed rates of interest. The aggregate balance is adjusted for foreign exchange translation adjustments, fair value adjustments and transaction costs of borrowings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the Annual Financial Statements included in this Prospectus. This discussion includes forward-looking statements based on assumptions about Investcorp's future business. Investcorp's actual results could differ materially from those contained in such forward-looking statements.

Overview

Investcorp is one of the leading providers of alternative asset investment products sourced in North America, Europe and the Arabian Gulf and MENA regions, serving institutions and High Net Worth individuals in the GCC region as well as institutional clients in the U.S. and Europe. Investcorp has three asset classes, comprising corporate investment, hedge funds and real estate investment. Investcorp has five product lines within the asset classes, comprising Corporate Investment-North America and Europe, Corporate Investment-Technology, Corporate Investment – MENA, hedge funds and real estate investment. Investcorp's revenues are comprised of fee income and asset based income and its revenues are primarily affected by the growth of wealth in the GCC region and the amount of its AUM. Investcorp's expenses comprise operating expenses (principally staff compensation) and interest expense.

Following are highlights of Investcorp's recent financial performance:

- As at 30 June 2012, Investcorp had total assets under management of U.S.$11,490 million.
- Investcorp's gross operating income in the fiscal year ended 30 June 2012 was U.S.$267.1 million. Investcorp's net income in the fiscal year ended 30 June 2012 was U.S.$67.4 million.
- As at 30 June 2012, Investcorp had total assets of U.S.$2,749.7 million. Investcorp's total liquidity at 30 June 2012 was U.S.$1,062.3 million, comprising U.S.$648.2 million of accessible liquidity plus U.S.$414.1 million held in hedge fund co-investments, of which 67 per cent. is contractually available within three months.

Composition of Investcorp's Revenues

The principal components of Investcorp's revenues are fee income and asset-based income. Investcorp distinguishes its income between fees it earns from clients, acting as an intermediary (including fees earned from the provision of services to, and in connection with, the acquisition, management, and disposition of, portfolio companies), which income it describes generally as fee income, and realised as well as unrealised investment gains earned from Investcorp's co-investments acting as a principal, which income it describes generally as asset-based income.

Set forth below is a breakdown of Investcorp's fee and asset-based income by product for the fiscal years ended 30 June 2012, 30 June 2011 and 30 June 2010.

	Year ended 30 June 2012				
	Corporate Investment	Hedge Funds	Real Estate Investment	Corporate Support	Total
			(U.S.$ millions)		
Fee Income					
Management fees	56.6	22.5	9.1	–	88.1
Activity fees	72.1	(0.5)	12.5	–	84.2
Performance fees	54.9	8.5	0.3	–	63.8
Gross fee income (a)	**183.6**	**30.5**	**21.9**	**–**	**236.0**
Asset based income					
Interest income	5.2	–	8.4	3.8	17.5
Treasury and other asset based income	54.6	(50.2)	8.8	0.3	13.6
Gross asset based income (b)	**59.8**	**(50.2)**	**17.3**	**4.2**	**31.0**
Gross operating income(a) + (b)	**243.4**	**(19.7)**	**39.2**	**4.2**	**267.1**

	Year ended 30 June 2011				
	Corporate Investment	Hedge funds	Real estate Investment	Corporate support	Total
			(U.S.$ millions)		
Fee income					
Management fees	58.2	25.0	9.9	–	93.2
Activity fees	45.2	13.8	6.7	–	65.7
Performance fees	30.4	6.1	2.0	–	38.5
Gross fee income (a)	**133.8**	**45.0**	**18.6**	**–**	**197.4**
Asset based income					
Interest income	3.4	–	3.7	11.6	18.7
Treasury and other asset based income	118.3	39.5	36.9	2.8	197.5
Gross asset based income (b)	**121.7**	**39.5**	**40.6**	**14.5**	**216.2**
Gross operating income (a) + (b)	**255.5**	**84.5**	**59.2**	**14.5**	**413.6**

	Year ended 30 June 2010				
	Corporate Investment	Hedge funds	Real estate Investment	Corporate support	Total
			(U.S.$ millions)		
Fee income					
Management fees	67.2	24.7	12.5	–	104.3
Activity fees	62.4	–	6.3	–	68.7
Performance fees	26.5	18.8	0.6	–	46.0
Gross fee income (a)	**156.1**	**43.5**	**19.3**	**–**	**218.9**
Asset based income					
Interest income	4.6	–	1.2	11.9	17.6
Treasury and other asset based income	117.7	91.3	(91.1)	6.3	124.1
Gross asset based (loss) income (b)	**122.3**	**91.3**	**(89.9)**	**18.1**	**141.8**
Gross operating income (a) + (b)	**278.4**	**134.8**	**(70.6)**	**18.1**	**360.7**

Fee Income

Investcorp earns fee income from activities as an intermediary during all stages of the product lifecycle. There are three categories of fee income: management fees (which includes commitment fees on closed-end fund products), activity fees and performance fees. Activity fees comprise transaction fees earned by the Group from investee companies on acquisition or exit activity in corporate investments or real estate investments (usually as a percentage of the total purchase consideration) and fees earned on placements with clients and performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle rate. The structure of a particular fee within any one fee category may differ depending on the product line and Investcorp does not earn all of the three categories of fee income from each product line. The fee income Investcorp may earn for each of its product lines is described below.

Corporate Investment

In the corporate investment product line, Investcorp earns management fees, activity fees and performance fees.

Corporate investment deal by deal management fees (including fees for administrative services) are charged, in part, based on the amount that the clients have invested in specific portfolio companies. Investcorp accrues these management fees on a monthly basis, which normally continues for the duration of the holding period of the investment in such portfolio company and the fees are paid upon exit from the investment.

Corporate investment funds management fees are charged on the basis of total commitments to closed end funds and are accrued monthly and collected from capital calls, which are made as required.

Corporate investment activity fees have three sub-components: acquisition fees, placement fees and transaction fees in connection with realisation activities. Investcorp charges acquisition fees to the investee company upon completion of the acquisition as consideration for the provision of various services to the investee company, such as advisory services rendered in connection with obtaining third party financing and consulting. Investcorp charges placement fees to clients, which are generally calculated as a percentage of the client's total investment and may vary by client. Investcorp may also charge transaction fees to the investee company upon exiting from the corporate investment.

In consideration for the financial sponsorship of each investment, Investcorp earns performance fees upon the disposal of a portfolio company if the realised IRR for investors exceeds a specified targeted return, which is determined in advance with the clients. These performance fees are calculated as a percentage of the gain that exceeds a specified hurdle rate.

As discussed under "*Significant Accounting Policies*", when Investcorp acquires corporate investment targets, it generally does so with the voting and Economic Co-Investors, who also take an economic share in the target. Investcorp's fee income includes fees earned in connection with the placing of shares in such corporate investment targets acquired by Investcorp and these co-investors with Investcorp's clients.

Investcorp had U.S.$4,078 million as at 30 June 2012, U.S.$3,955 million as at 30 June 2011 and U.S.$4,660 million as at 30 June 2010 in client assets under management in its corporate investment businesses. Investcorp earned U.S.$183.6 million, U.S.$133.8 million and U.S.$156.1 million for the years ended 30 June 2012, 2011 and 2010, respectively, in gross corporate investment fee income.

Hedge Funds

In the hedge funds product line, Investcorp earns management fees, activity fees and performance fees. The hedge funds management fees (including fees for administrative services) are calculated as a percentage of the client hedge funds AUM. Activity fees comprises of placement fees charged to clients participating in Special Opportunity Portfolio, which are generally calculated as a percentage of the client's total investment in the portfolio. In consideration of the financial sponsorship of each fund, Investcorp earns performance fees if the returns for the hedge funds investors exceed a specified targeted return, which is determined in advance with the clients. In the case of the single manager's hedge fund products, Investcorp earns fees as a third party marketer and distributor. Investcorp acts as a distributor of each of the single manager's hedge fund products, and shares management and performance fees with each such single manager based on the quantity of, and returns on, investments with each of such single manager's hedge funds that have been placed with the clients.

Investcorp had U.S.$3,548 million, U.S.$3,729 million and U.S.$3,765 million as of 30 June 2012, 2011 and 2010, respectively, in client assets under management in its hedge funds business. Investcorp earned U.S.$30.5 million, U.S.$45.0 million and U.S.$43.5 million for the years ended 30 June 2012, 2011 and 2010, respectively, in gross hedge funds fee income (net of amounts shared with managers for the single managers products).

Real estate investment

In the real estate investment product line, Investcorp earns management fees, activity fees and performance fees.

Management fees (including fees for administrative services) are charged, in part, based on the amount of the real estate investment client AUM. In particular, Investcorp charges annual real estate investment management fees to the special purpose entities holding the client assets in each portfolio.

Real estate investment activity fees have three sub-components: acquisition fees, placement fees and transaction fees in connection with realisation activities. Investcorp charges acquisition fees to the special purpose property-owning entities holding the assets in each portfolio, which are generally calculated based on a variety of factors including the total transaction value. Investcorp charges placement fees to clients, which are generally calculated as a percentage of the client's total investment in the real property portfolio and may vary by client. Investcorp may also charge transaction fees upon disposal of real estate investments (either single properties or from a portfolio of properties).

In consideration for the financial sponsorship of each investment, Investcorp earns real estate investment performance fees on the sale of a real estate property if the realised IRR for investors exceeds a specified targeted return, which is determined in advance with the clients. These performance fees are calculated as a percentage of the gain that exceeds a specified hurdle rate.

As discussed in ''*Significant Accounting Policies*'', when Investcorp acquires real estate investments in the United States, it generally does so with the Voting Co-Investors and Economic Co-Investors, who also take an economic share in the special purpose entities that are formed to own the real estate investments. The fee income includes fees Investcorp earns in connection with placing such entities acquired by it and these co-investors with Investcorp's clients.

Investcorp had U.S.$1,017 million as at 30 June 2012, U.S.$962 million as at 30 June 2011 and U.S.$1,112 million as at 30 June 2010 in client AUM in its real estate investment business. Investcorp earned U.S.$21.9 million, U.S.$18.6 million and U.S.$19.3 million for the years ended 30 June 2012, 2011 and 2010, respectively, in gross real estate investment fee income.

Asset-based Income

Corporate Investment

Corporate investment asset based income consists of dividends from recapitalisation of corporate investment and gains or losses from the sale and unrealised changes in fair value of the co -investments. The fair value of Investcorp's co -investments in corporate investments was U.S.$1,221.8 million as at 30 June 2012, U.S.$1,121.7 million as at 30 June 2011 and U.S.$1,052.8 million as at 30 June 2010. Investcorp had gross asset based income from corporate investments of U.S.$59.8 million as at 30 June 2012, U.S.$121.7 million as at 30 June 2011, U.S.$122.3 million as at 30 June 2010.

Hedge Funds

Hedge funds asset-based income consists of returns on the co-investments in Investcorp's hedge funds products on a mark-to market basis using reported net asset values of the underlying hedge funds. Investcorp co-invests in each of the hedge funds products. The fair value of Investcorp's co-investments in hedge funds was U.S.$414.1 million as at 30 June 2012, U.S.$607.4 million as at 30 June 2011 and U.S.$537.3 million as at 30 June 2010. Investcorp had a gross asset based loss of U.S.$50.2 million in the year ended 30 June 2012 and gross asset based income of U.S.$39.5 million in the year ended 30 June 2011 and U.S.$91.3 million in the year ended 30 June 2010.

Real estate investment

Real estate investment asset based income consists of distributions of rental income and gains or losses on the sale of real estate investments as well as unrealised changes in fair value of co-investments. Investcorp co-invests in each of its real estate investment portfolios. The fair value of Investcorp's co-investments in real estate was U.S.$154.5 million as at 30 June 2012, U.S.$188.8 million as at 30 June 2011and

U.S.$216.8 million as at 30 June 2010. Investcorp had gross asset based income of U.S.$17.3 million for the year ended 30 June 2012 and U.S.$ 40.6 million for the year ended 30 June 2011 and a gross asset based loss of U.S.$89.9 million for the year ended 30 June 2010.

Corporate Support

Corporate support income comprises of all other income that is common to the Group (such as income arising from the deployment of the Group's excess liquidity). In the fiscal years ended 30 June 2012, 30 June 2011 and 30 June 2010, Investcorp had corporate support income of U.S.$4.2 million, U.S.$14.5 million and U.S.$18.1 million, respectively.

Composition of Investcorp's Expenses

Investcorp's expenses consist of operating expenses, which are the expenses incurred during the course of business performance, and interest expenses, which are expenses incurred in connection with financing activities. Investcorp's operating expenses include staff costs, benefits, professional fees paid to third party advisers, and other operating expenses such as premises, infrastructure, and travel expenses employees incur in connection with the business. Staff costs include variable incentive compensation which is designed to be aligned with the financial performance of Investcorp.

Staff Compensation

The principal component of operating expenses is staff compensation, which consists of salaries and performance-based bonuses paid to employees. Salaries are determined and revised based on competitive market conditions for the professionals and other personnel Investcorp seeks to employ and retain. The aggregate performance-based bonus is determined based on Investcorp's gross income (before payment of employee bonuses) for the fiscal year so that it is aligned with the financial performance of Investcorp. Overall staff compensation is a function of the number of people Investcorp employs, the proportion of highly-paid professionals to the remaining personnel and the level of overall performance relative to the performance benchmarks on which the bonus compensation is based.

Investcorp expensed U.S.$67.5 million, U.S.$130.2 million and U.S.$111.2 million for the years ended 30 June 2012, 2011 and 2010, respectively, in staff compensation. Investcorp had a total of 304 employees as at 30 June 2012, 300 employees as at 30 June 2011 and 320 employees as at 30 June 2010. Investcorp staff also participate in Investcorp's investments through ownership of equity and through the grant of carried interests.

Other Operating Expenses

The remaining operating expenses include other personnel-related costs and non-personnel-related expenses. The personnel-related costs include items such as hiring incentives and severance payments, employee health and welfare benefits, recruiting costs, relocation costs, training expenses and other costs. The non-personnel-related costs include professional fees (primarily from prospective deals that are terminated) and other expenses Investcorp incurs in the day-to-day operation of its business (such as travel and business development, administration and corporate information, technology and communication, premises and other expenses). Total operating expenses other than staff compensation totalled U.S.$83.2 million, U.S.$85.0 million and U.S.$77.6 million for the years ended 30 June 2012, 2011 and 2010, respectively.

Interest Expense

Interest expense is from the amount of interest-bearing debt that Investcorp has outstanding during a fiscal year. The debt on Investcorp's balance sheet can be split between short term debt and medium and long-term debt. Short term working capital debt is in the form of deposits from clients and financial institutions and has a maturity of less than one year. Medium and long-term debt typically have maturities of longer than one year and have been raised from banks and through private placements. Investcorp's long term strategy is to maintain a floating rate re-pricing benchmark for its debt. Thus, the interest expense that Investcorp pays is a function of the total debt, the benchmark LIBOR rate and the spread to LIBOR reflected in Investcorp's cost-of-funding.

Investcorp allocates interest expense across the five product lines on the basis of risk capital and debt or other liabilities required to fund the assets in those product lines. Risk capital is initially allocated to each product line based on the risk profile of the assets in that product line using a Value-at-Risk ("**VaR**") methodology. Liabilities are then allocated based on the maturity profile of the assets in a product line. Interest expense for the allocated liabilities is then allocated interest expense for a product line.

Using this procedure, Investcorp allocates long-term liabilities to its corporate investment products, which it believes is consistent with the holding period of the underlying investments. Investcorp allocates its medium-term facilities and deposits generally to the hedge funds products, which it believes is consistent with the liquid nature of the underlying assets. Revolving facilities are allocated between corporate investment and real estate investment according to the relative level of underwriting.

The interest expense totalled U.S.$47.8 million, U.S.$56.0 million and U.S.$58.0 million for the years ended 30 June 2012, 2011 and 2010, respectively.

Factors Affecting Investcorp's Results

The principal factors that affect Investcorp's results are the following:

Growth in the GCC Region

The vast majority of Investcorp's clients are GCC region institutions and High Net Worth individuals. High levels of liquidity and rapid wealth creation in the GCC region due to relatively high oil prices and GDP growth have increased investable wealth in the region.

According to the World Economic Outlook, the six GCC countries had GDP growth of 6.9 per cent. in 2011 and are forecast to have GDP growth of 4.9 per cent. in 2012 and 4.2 per cent. in 2013 as compared with U.S. GDP growth of 1.7 per cent. in 2011 and forecast GDP growth of 2.1 per cent. in 2012 and 2.4 per cent. in 2013 and Euro area GDP growth of 1.4 per cent. in 2011 and forecast GDP decrease of (0.3) per cent. in 2012 and growth of 0.9 per cent. in 2013. According to the IIF Report, the Brent oil price averaged U.S.$80.2 per barrel in 2010 and U.S.$110.9 per barrel in 2011 and is forecast to average U.S.$114.1 per barrel in 2012 and U.S.$105.0 per barrel in 2013. According to the IIF Report, in the six GCC countries, hydrocarbon-based GDP was U.S.$496 billion in 2010 and U.S.$759 billion in 2011 and is forecast to be U.S.$820 billion in 2012 and U.S.$776 billion in 2013.

According to a Citi Private Bank and Knight Frank report published in 2012, the number of Ultra High Net Worth individuals in the Middle East (which includes the GCC region) is expected to increase by approximately 50 per cent. by 2016.

The rapid growth in regional wealth in recent years, together with Investcorp's ongoing and highly personalised marketing efforts, supports Investcorp's strategy to increase placements of its corporate investment and real estate investment product lines to investors in the GCC region, and its AUM from such customers generally.

Amount of AUM

The fee income depends, in part, on the Group's client AUM and asset based income depends on the amount of the Group's co -investments, which are a portion of total AUM. As the amount of client AUM increases or decreases, the amount of Investcorp's fee income correspondingly increases or decreases. Similarly, asset based income will vary depending upon the amount of Investcorp's co -investment AUM. Investcorp had total AUM for all of its product lines of U.S.$11,490 million as at 30 June 2012, U.S.$11,835 million as at 30 June 2011 and U.S.$12,654 million as at 30 June 2010.

Mix of Fee Income

Allocation of AUM across product lines varies by product and each product contributes to the gross fee income in differing proportions. As described above, Investcorp's activity fees largely consist of fees that are charged to the investee portfolio companies in consideration of the provision of various services to the target company in connection with corporate investment acquisitions (such as advisory services Investcorp provides in connection with obtaining third party financing and consulting or monitoring services in connection with post acquisition operations), real estate investment acquisition fees that are charged to the real estate investment special purpose property owning entities upon acquisition of each real estate property and placement fees that Investcorp earns from clients at the time it places new corporate investment or real estate investment transactions with them. Investcorp's placement fees vary depending upon the total subscription amount from a client. Investcorp's management fees and performance fees are based on a percentage that also varies by product. Therefore, the total aggregate amount of these fees depends, in part, on the proportion of the investments that are placed with clients and investments that are outstanding with clients in any year. For the last three years, on average

73 per cent., 9 per cent. and 18 per cent. of the fees have been derived from Corporate Investment, Real Estate and Hedge Funds respectively. AUM based fee income, being management fee income, and hedge funds fee income on client AUM, contributed approximately 30 per cent. of the historical revenue for the period from fiscal year 2001 to fiscal year 2012, (excluding fiscal year 2009), while transaction fees (acquisition, placement and exit fees) contributed approximately 50 per cent. of historical revenue in the same period.

Investcorp's Ability to Identify and Act upon Investment Opportunities

Investcorp's corporate investment and real estate investment product lines depend on its ability to identify investment opportunities that it believes will generate returns in accordance with the investment guidelines in each of the respective products. The returns for each of these products depend on Investcorp's ability to nurture investee companies. These returns are key to Investcorp's operating results, and also, in turn, attracting new clients and increasing client AUM.

Financing of Investcorp's Corporate Investment and Real Estate Investments

Corporate investments and real estate investments (including any amount necessary to fund acquisition related loans to Investcorp's Economic Co-Investors) are initially financed (either wholly or in part) by committed revolving credit facilities that are drawn down prior to placement of those investments with clients. Investcorp borrows under revolving credit facilities to fund a portion of its corporate investment and real estate investment acquisitions. During the period that the borrowings are outstanding between the closing of the acquisition and receipt of client funds from the placement of the investment, Investcorp bears interest charged on the borrowings and, consequently, its interest expense increases.

In addition, Investcorp's returns are partly driven by its ability to successfully employ leverage in the investee companies or real estate investment properties through the use of third party financing, which is non recourse to Investcorp.

Number and Size of Acquisitions that Investcorp Completes During the Fiscal Year

A significant portion of Investcorp's gross fee income is earned from its activity fees, a primary component of which are fees earned for services rendered in connection with acquisitions. The timing and volume of acquisition related fee income varies with the deal flow over the course of a fiscal year.

The size of the acquisitions Investcorp completes also affects the results. The amount of acquisition related fees generally is determined based on a number of factors, including overall transaction size and the amount of third-party debt financing. Investcorp earned U.S.$36.9 million, U.S.$11.5 million and U.S.$14.7 million in acquisition related fees for the years ended 30 June 2012, 30 June 2011 and 30 June 2010, respectively.

Investcorp's Ability to Place Investments with its Clients

Together with acquisition fees, the second primary component of Investcorp's activity fees are the placement fees it earns upon placement of corporate investments and real estate investment portfolios with its clients. Investcorp's placement fees vary depending upon the amount of aggregate client investments in the corporate investment or real estate investment products, and are therefore directly related to the size of the corporate investment or real estate investment transactions. There is also generally a time lag between the acquisition of a new corporate investment or real estate investment and its subsequent placement with Investcorp's clients. In cases where a reporting date falls in between acquisition and placement, fees earned from placements in the period subsequent to the reporting date are recognised in the next reporting period. Investcorp earned U.S.$41.4 million, U.S.$40.7 million and U.S.$29.7 million in placement fees in the years ended 30 June 2012, 30 June 2011 and 30 June 2010 respectively.

Amount of Investcorp's Management Fees

Management fees (including commitment fees on closed-end funds) from the product lines are another significant portion of Investcorp's gross fee income. Management fees are calculated based on the amount of assets that Investcorp manages on behalf of its clients and voting and Economic Co-Investors. Investcorp earned U.S.$88.1 million, U.S.$93.2 million, U.S.$104.3 million in management fees for the years ended 30 June 2012, 30 June 2011 and 30 June 2010 respectively.

Investcorp's Ability to Exit Its Investments

Investcorp's ability to earn performance fees and realised asset-based income is directly related to its ability to successfully realise and dispose of investments across the corporate investment and real estate investment product lines. Investcorp's performance fees are based on the amount of gain earned by its clients on these investments that exceed a specified hurdle rate. Investcorp earned U.S.$63.8 million, U.S.$38.5 million and U.S.$46.0 million in performance fees for the years ended 30 June 2012, 30 June 2011 and 30 June 2010, respectively.

Amount of Investcorp's Co-Investments

Investcorp co-invests in each of its corporate investment and real estate investment transactions and in the hedge funds products. The target is to retain an amount equal to between five and ten per cent. in each of the corporate investments in the investee company's equity and in the equity investment in each of the real estate investment portfolios. Investcorp may retain more or less than its targeted amount, depending on its ability to successfully place the investment with the clients. Investcorp's co-investment in corporate investment transactions and real estate investment transactions is subject to a carried interest held by its staff, which may reduce the gains Investcorp ultimately realise from such investments.

Asset based income net of interest expense contributed approximately 20 per cent. of the historical revenues to the shareholders for the period from fiscal year 2001 to fiscal year 2012, excluding fiscal year 2009.

The fair value of Investcorp's co-investments in corporate investments was U.S.$1,221.8 million as at 30 June 2012, U.S.$1,121.7 million as at 30 June 2011 and U.S.$1,052.8 million as at 30 June 2010. The fair value of Investcorp's co-investments in real estate investment was U.S.$154.5 million as at 30 June 2012, U.S.$188.8 million as at 30 June 2011 and U.S.$216.8 million as at 30 June 2010.

Investcorp co-invests in each of the hedge funds products. The fair value of Investcorp's co-investments in hedge funds was U.S.$414.1 million as at 30 June 2012, U.S.$607.4 million as at 30 June 2011 and U.S.$537.3 million as at 30 June 2010.

Investcorp's asset-based income depends on the performance of its co-investments, which in turn depends on the performance of its corporate investment, hedge funds and real estate investment. If these investments do not perform as anticipated, the value of the co-investments, and therefore the asset-based income, may decrease. Investcorp's net asset-based income from its corporate investment, hedge funds, real estate investment and corporate support was a loss of U.S.$43.3 million for the year ended 30 June 2012, and asset-based income of U.S.$102.7 million for the year ended 30 June 2011 and U.S.$32.7 million for the year ended 30 June 2010.

Changes in General Global Economic Conditions

Changes in general economic and market conditions in the global economy – such as the global economic downturn, rising or falling equity and debt markets, and general availability of credit – affect the value of an investment in Investcorp's corporate investment and hedge funds products (See "*Risk Factors – Difficult market conditions may have a material adverse effect on Investcorp's results of operations, financial condition, business and prospects*" and "*Risk Factors – Investcorp is exposed to Sovereign debt and currency instability risks in Europe and these have had, and may continue to have, an adverse impact on its financial condition and results of operations*"). Similarly, deterioration in general economic conditions in the United States and Europe may affect investment returns for its clients and the amount of asset based income Investcorp earns from the corporate investment and real estate investment product lines. The return on investments in Investcorp's products may affect clients' demand for the products, and thus result in an increase or decrease in the AUM. Although market conditions have recently shown some signs of improvement, it is not possible to predict whether economic and market conditions may continue to improve.

Competition for Deal Flow

Investcorp's ability to generate activity fees depends on its access to potential investment opportunities that it is subsequently able to consummate and place with clients. As described above, activity fees account for a significant portion of Investcorp's gross fee income. The global alternative asset manager market manages a significant amount of committed but not yet invested capital. Although alternative asset managers worldwide have expanded the range of their prospective investments, there is a finite set of available investment opportunities at any given time. The result is that the most attractive opportunities across all alternative investment classes are often pursued by a number of managers with considerable funds to invest.

Competition for Clients

Investcorp competes with a wide variety of alternative asset managers affiliated with large international financial institutions and established regional and local competitors based in Europe, North America and Asia. Alternative asset management is a growing market and Investcorp expects there will continue to be new managers offering competing products. Further, as the market increasingly recognises the growth in funds available for investment by institutional investors and High Net Worth individuals in the GCC region, additional competitors could be attracted to the GCC region. Investcorp's ability to compete to maintain its existing client base while developing additional clients directly affects its AUM.

Staff Compensation

The largest portion of Investcorp's operating expenses relates to the compensation of its employees, in particular its professionals. Investcorp's personnel expenses change over time based on changes in the number of professionals employed and the average total compensation per employee. The compensation expense has a significant performance-based component, which is based on overall financial performance. Investcorp's staff compensation decreased from U.S.$130.2 million in the fiscal year ended 30 June 2011 to U.S.$67.5 million in the fiscal year ended 30 June 2012, reflecting a lower compensation accrual in line with the lower income generated during the fiscal year ended 30 June 2012. Employee headcount increased from 300 employees as of 30 June 2011 to 304 employees as of 30 June 2012.

Strategies to Address the Global Financial Crisis

In order to address the difficult market conditions resulting from the global financial crisis, Investcorp took the following steps beginning in fiscal year 2009:

De-leveraging and de-risking the balance sheet. Investcorp raised over U.S.$500 million in preference share capital from institutional and private investors across the GCC countries. See "*Ownership-Shareholders*". This new preference share capital boosted Investcorp's economic capital base, helping meet Investcorp's deleveraging objectives and supporting deal underwriting and new business initiatives.

Investcorp's total assets have declined by 44 per cent. since the global financial crisis, falling from U.S.$4.8 billion as at 30 June 2008 to U.S.$2.7 billion as at 30 June 2012, predominantly reflecting the collection of client receivable balances, the reduction of working capital and, the reduction of hedge fund co-investments.

Investcorp's total co -investments in hedge funds, corporate investment and real estate investment have fallen by almost half since the global financial crisis from U.S.$3.4 billion as at 30 June 2008 to U.S.$1.8 billion as at 30 June 2012 and as at 30 June 2012 represented a 1.7 times multiple of its total equity.

Right-sizing expense base by reducing costs. In December 2008 Investcorp implemented reductions in fixed operating expenses by 25 per cent., equivalent to approximately U.S.$50 million on an annualised basis. The number of full time employees was reduced by 22 per cent. Headcount reductions were implemented to avoid any impact on client-facing roles or new and growing areas of investment business.

Continuing a critical dialogue with clients. Investcorp sought to reassure clients that the investment teams were focusing on the management of their investments and on developing suitable new products to meet their needs in the current environment

Pursuing appropriate and appealing opportunistic investments. Investcorp sought to take advantage of opportunities created by the price dislocations. For example:

- In 2008, the market for convertible securities experienced a significant sell off and Investcorp took advantage of this situation by increasing portfolio allocations to this strategy, which delivered significant returns during the 2009 calendar year.
- In the last quarter of 2008, as a result of continuing policy actions by central banks, Investcorp took a long position on the short end of the yield curve through a vehicle managed by one of its underlying fixed income managers, which also delivered significant positive returns.
- In fiscal year 2011, the hedge funds business launched the Special Opportunities Portfolio of select investments in distressed credit and corporate restructuring in the U.S. and Europe.

- In Real Estate, Investcorp focussed on investments that generate significant cash flow after debt service, so as to allow for the large majority of the expected return to be generated from cash flow that exits at the time the investment is made.

Results of Operations

Year Ended 30 June 2012 Compared With Year Ended 30 June 2011

Net Income

The following table summarises Investcorp's income statement for the periods shown:

	Years ended 30 June		
	2012	2011	% Change
	(U.S.$ millions, except %)		
Fee income	236.0	197.4	20%
Asset-based income	31.0	216.2	(86%)
Gross operating income	**267.1**	**413.6**	**(35%)**
Provisions for impairment	(1.1)	(2.1)	48%
Interest expense	(47.8)	(56.0)	15%
Operating expenses	(150.7)	(215.2)	30%
Net income	**67.4**	**140.3**	**(52%)**
Earnings before interest[(1)]/ interest expense	2.4x	3.5x	–
Gross revenues[(2)]/ (operating expenses + interest expense)	1.3x	1.5x	–

(1) Earnings before interest represent gross operating income less provisions for impairment and operating expenses.

(2) Gross revenues represent gross operating income net of provisions for impairment.

Gross operating income in fiscal year 2012 was U.S.$267.1 million as compared with U.S.$413.6 million in fiscal year 2011, reflecting a significant decrease in asset-based income (as described below), but mitigated by growth in fee income. Operating expenses were 30 per cent. lower at U.S.$150.7 million as compared with U.S.$215.2 million in fiscal year 2012, a decrease due to lower variable compensation accruals in line with the lower net income in fiscal year 2012. Interest expense fell by U.S.$8.2 million or 15 per cent. as a result of further de-leveraging of the balance sheet.

The overall net income of U.S.$67.4 million was the third consecutive positive fiscal year performance since the rebound to profitability after the global financial crisis.

Fee Income

Fee income earned in fiscal year 2012 was U.S.$236.0 million, 20 per cent. higher than the U.S.$ 197.4 million reported for fiscal year 2011. Management fee income fell 5 per cent. to U.S.$88.1 million from U.S.$93.2 million in fiscal year 2012 as a result of profitable corporate investment and real estate investment realisations during the fiscal year that lowered assets under management. Activity fees of U.S.$84.2 million increased significantly as a result of increased acquisition and placement activity in corporate investments and real estate. Performance fees of U.S.$63.8 million increased by two-thirds driven by the underlying performance at some of the corporate investment portfolio companies.

The following table summarises Investcorp's fee income for the periods shown:

	Years ended 30 June		
	2012	2011	% Change B/(W)
	(U.S.$ millions, except %)		
Management fees	88.1	93.2	(5%)
Activity fees	84.2	65.7	28%
Performance fees	63.8	38.5	66%
Fee income	**236.0**	**197.4**	**20%**

Asset-Based Income

Asset-based income, including the impact of unrealised changes in the fair value of balance sheet co-investments in corporate investment and real estate investment, was U.S.$31.0 million in fiscal year 2012 as compared with U.S.$216.2 million in fiscal year 2011. The significant decrease in gross asset-based income in fiscal year 2012 was primarily due to the European sovereign debt crisis, accentuated by a deteriorating economic environment and the impact this had on Investcorp's hedge fund returns and the valuation of its European corporate investment portfolio.

Treasury income and other asset-based income included interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk on long-term liabilities. The decline in treasury and liquidity income reflects the year on year fall in average money market yields as well as lower average levels of un-invested cash liquidity following the repayment of maturing debt during the year.

The following table summarises Investcorp's asset-based income for the periods shown:

	Years ended 30 June		
	2012	**2011**	**% Change**
	(U.S.$ millions, except %)		
Corporate Investment	59.8	121.7	(51%)
Hedge funds	(50.2)	39.5	>(100%)
Real estate investment	17.3	40.6	(57%)
Treasury and other asset based income	4.2	14.5	(71%)
Gross asset-based income	**31.0**	**216.2**	**(86%)**

The following table shows cumulative returns for each asset class since June 2006 on a non dollar-weighted basis:

	Six months to											
	Dec 2006	**Jun 2007**	**Dec 2007**	**Jun 2008**	**Dec 2008**	**Jun 2009**	**Dec 2009**	**Jun 2010**	**Dec 2010**	**Jun 2011**	**Dec 2011**	**Jun 2012**
	(Unaudited) (%)											
Corporate Investment cumulative	2.2	9.1	12.3	9.8	(2.3)	(18.2)	(13.6)	(7.4)	(4.0)	5.1	11.5	10.9
Real estate investment cumulative	3.9	10.8	14.0	16.1	11.7	(11.4)	(22.1)	(39.6)	(35.5)	(27.0)	(26.3)	(21.3)
Hedge funds cumulative	6.5	17.6	25.5	24.3	(1.0)	10.7	27.9	27.4	36.4	36.0	23.0	24.5

Hedge funds, with a cumulative return of 24.5 per cent., are still significantly above the low point reached in December 2008 despite the losses in fiscal year 2012. The cumulative return for corporate investment of 10.9 per cent. includes a slight drop of 0.5 per cent. between December 2011 and June 2012 due to the impact of the European economic slowdown on the valuations of some of the European portfolio companies, offset by gains in some U.S. portfolio companies. Real estate investments continued to rebound in fiscal year 2012 with a cumulative loss narrowing to 21.3 per cent. compared with a cumulative loss of 27.1 per cent. as at the end of fiscal year 2011.

The following table shows the average balance sheet co-investment yield (absolute) for each semi-annual period in fiscal year 2011 and fiscal year 2012, computed by comparing asset-based income including unrealised fair value changes to average assets:

	Six months to			
Asset yields	**31 December 2010**	**30 June 2011**	**31 December 2011**	**30 June 2012**
	(Unaudited) (%)			
Corporate Investment	3.6	9.5	6.1	(0.5)
Real estate investment	6.9	13.1	1.0	6.8
Hedge funds[(1)]	7.1	(0.3)	(9.6)	1.2
Average co-investment yield[(2)]	3.8	4.9	0.4	0.9

(1) Non U.S.$ weighted levered returns on net calculated by assuming a constant investment in the product and no changes other than performance.
(2) Includes treasury and other asset based income.

Asset-based Income by Asset Class

The following table summarises Investcorp's asset-based income for the periods shown:

	Years ended 30 June		
	2012	**2011**	**% Change**
	(U.S.$ millions, except %) (Unaudited, except asset-based income)		
Corporate Investment			
Asset-based income	59.8	121.7	(50.8%)
Average co-investments (excluding underwriting)[(1)]	1,074.6	931.9	15.3%
Absolute yield for period	5.6%	13.1%	(7.5%)
Hedge funds			
Asset-based income	(50.2)	39.5	>(100%)
Average co-investments[(1)]	599.7	607.4	(1.3%)
Non U.S.$ weighted returns	(8.5%)	6.8%	(15.3%)
Real estate investment			
Asset-based income	17.3	40.6	(57.4%)
Average co-investments[(1)]	217.4	201.8	7.7%
Absolute yield for period	7.9%	20.1%	(12.2%)

(1) Average co-investments is calculated as the average of daily balances of such co-investments.

Interest Expense

Total interst expense of U.S.$47.8 million in fiscal year 2012 was 15 per cent. lower than in fiscal year 2011. The average level of interest-bearing liabilities declined by 12 per cent. over fiscal year 2012, in line with the de-leveraging of Investcorp's balance sheet. Investcorp's debt margins increased due to the progressive draw down of higher-cost medium- term loans but this was more than offset by the lower levels of average U.S.$ LIBOR and EURIBOR rates. Average short term debt increased by 18 per cent. to U.S.$397 million in fiscal year 2012 and average medium and long-term debt fell by 18 per cent. to U.S.$1,324 million. The combination of lower average levels of debt and a decline in the average cost of funds led to a lower interest expense.

The following table summarises Investcorp's interest expense for the periods shown:

	Years ended 30 June		
	2012	**2011**	**2012 vs. 2011**
	(U.S.$ millions, except %) *(Unaudited, except interest expense)*		
Average short term interest-bearing liabilities[1]	397	337	60
Average medium and long term interest-bearing liabilities[1]	1,324	1,622	(297)
Average interest-bearing liabilities	**1,721**	**1,959**	**(237)**
Interest expense	47.8	56.0	(8.2)
Cost of funding	2.8%	2.9%	(0.1%)

(1) Average interest bearing liabilities are calculated as the average of daily balances of such liabilities.

The following table breaks down the change in interest expense into its component parts. The main driver of lower interest expense in fiscal year 2012 was from a decrease in interest-bearing liabilities.

	2012 vs. 2011
	(U.S.$ millions)
Due to lower average interest-bearing debt	6.8
Due to decrease in average cost of funding	1.4
Total variance	**8.2**

Operating Expense

Operating expenses decreased by 30 per cent. from U.S.$215.2 million in fiscal year 2011 to U.S.$150.7 million in fiscal year 2012. The decrease largely reflects lower compensation accruals in line with the lower income generated during the period. Staff compensation represented 45 per cent. of total operating expenses in fiscal year 2012 as compared to 61 per cent. of total operating expenses in fiscal year 2011.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses decreased by 2 per cent. to U.S.$83.2 million in fiscal year 2012. The aggregate cost-to-income ratio increased to 69 per cent. in fiscal year 2012 from 61 per cent. in fiscal year 2011 due to the fall in revenues from asset-based income.

The following table summarises Investcorp's operating expenses for the periods shown:

	Years ended 30 June	
	2012	**2011**
Staff compensation (including incentive compensation)	67.5	130.2
Other operating expenses (U.S.$ millions)	83.2	85.0
Total operating expenses (U.S.$ millions)	**150.7**	**215.2**
Full time employees (FTEs) at end of period[1]	**304**	**300**
Staff compensation per FTE (U.S.$ thousands)[1]	222.2	434.0
Other operating expenses per FTE (U.S.$ thousands)[1]	273.7	283.2
Total staff cost / total operating expenses	45%	61%
Operating expenses/ (net income plus operating expenses)	69%	61%

(1) Unaudited

Income by segment

The following table summarises the revenue contribution of each business segment, showing fee income and asset-based income earned by each business unit:

	Fee income			Asset-based income & unrealised fair value changes			Total		
	Years ended 30 June			Years ended 30 June			Years ended 30 June		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
	(U.S.$ millions, except %)								
Corporate Investment	183.6	133.8	37%	59.8	121.7	(51%)	243.4	255.5	(5%)
Hedge funds	30.5	45.0	(32%)	(50.2)	39.5	>(100%)	(19.7)	84.4	>(100%)
Real estate investment	21.9	18.6	18%	17.3	40.6	(57%)	39.2	59.2	(34%)
Corporate support	–	–	–	4.2	14.5	(71%)	4.2	14.5	(71%)
Revenue contribution	**236.0**	**197.4**	**20%**	**31.0**	**216.2**	**(86%)**	**267.1**	**413.6**	**(35%)**
Operating expenses	(125.3)	(159.8)	22%	(25.5)	(55.4)	54%	(150.7)	(215.2)	30%
Interest expense	–	–	–	(47.8)	(56.0)	15%	(47.8)	(56.0)	15%
Provision for impairment	–	–	–	(1.1)	(2.1)	48%	(1.1)	(2.1)	48%
Net income (loss)	**110.7**	**37.6**	**>100%**	**(43.3)**	**102.7**	**>(100%)**	**67.4**	**140.3**	**(52%)**

Revenue contributions across both corporate investment and real estate investment remained positive during fiscal year 2012, although they were lower than in fiscal year 2011 due to a decline in asset-based income. Increased activity and performance fees for corporate investment and real estate investment boosted the fee revenues by 20 per cent. in fiscal year 2012. Total hedge fund income in fiscal year 2012 was significantly lower than in fiscal year 2011, largely as a result of the negative return environment in the first half of the fiscal year. Net fee income of U.S.$110.7 million, a key indicator of Investcorp's overall performance and health, nearly tripled compared to the prior year's level of U.S.$37.6 million.

Year Ended 30 June 2011 Compared With Year Ended 30 June 2010

Net Income

The following table summarises Investcorp's income statement for the periods shown:

	Years ended 30 June		
	2011	2010	% Change B/(W)
	(U.S.$ millions, except %)		
Fee income	197.4	218.9	(10%)
Asset-based income	216.2	141.8	52%
Gross operating income	**413.6**	**360.7**	**15%**
Provisions	(2.1)	(11.7)	82%
Interest expense	(56.0)	(58.0)	3%
Operating expenses	(215.2)	(188.8)	(14%)
Net income	**140.3**	**102.2**	**37%**
Earnings before interest(1)/ interest expense	3.5x	2.8x	–
Gross revenues(2)/ (operating expenses + interest expense)	1.5x	1.4x	–

(1) Earnings before interest represent gross operating income less provisions for impairment and operating expenses.

(2) Gross revenues represent gross operating income net of provisions for impairment.

Gross operating income in fiscal year 2011 was U.S.$413.6 million as compared with U.S.$360.7 million in fiscal year 2010, reflecting a significant increase in asset-based income. Operating expenses were 14 per cent. higher at U.S.$215.2 million in fiscal 2011 as compared with U.S.$188.8 million in fiscal year 2010, an increase due to higher variable compensation accruals in line with the increase in net income in fiscal year 2011. Interest expense fell by U.S.$2.0 million or 3 per cent. from a further de-leveraging of the balance sheet.

The overall net income of U.S.$140.3 million is the third best performance in Investcorp's three decade history, continuing the rebound to profitability which started in fiscal year 2010.

Fee Income

Fee income earned in fiscal year 2011 was U.S.$197.4 million, 10 per cent. lower than the U.S.$218.9 million reported for fiscal year 2010. Management fee income fell 11 per cent. to U.S.$93.2 million in fiscal year 2011 from U.S.$104.3 million in fiscal year 2010 as a result of profitable corporate investment and real estate investment realisations during the fiscal year that lowered AUM. Activity fees of U.S.$65.7 million decreased marginally as a result of improved placement activity offset by lower transactional fees on acquisitions and exits. Performance fees of U.S.$38.5 million reflected increased exit activity in corporate investments and lower returns in hedge funds due to unstable market conditions during May and June 2011.

The following table summarises Investcorp's fee income for the periods shown:

	Years ended 30 June		
	2011	**2010**	**% Change B/(W)**
	(U.S.$ millions, except %)		
Management fees	93.2	104.3	(11%)
Activity fees	65.7	68.7	(4%)
Performance fees	38.5	46.0	(16%)
Fee income	**197.4**	**218.9**	**(10%)**

Asset-Based Income

Asset-based income, including the impact of unrealised changes in the fair value of balance sheet co-investments in corporate investment and real estate investment, was U.S.$216.2 million in fiscal year 2011 as compared with U.S.$141.8 million in fiscal year 2010. The increase in gross asset-based income in fiscal year 2011 was primarily due to a rebound in real estate investment returns from the valuation declines seen from fiscal year 2009 to fiscal year 2010. Gross asset-based income was also boosted by capital gains from profitable corporate investment and real estate investment realisation activity. This was offset by a decline in hedge fund co-investment returns from the above-target performance in fiscal year 2010, as the market uncertainty of May and June 2011 impacted returns.

Treasury income and other asset-based income included interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk on long-term liabilities. The decline reflected the year-on-year fall in average LIBOR yields available on money market products as well as lower average levels of carried liquidity following the net repayment of U.S.$814 million of maturing debt and drawn revolving credit facilities during the fiscal year 2011 (unaudited).

The following table summarises Investcorp's asset-based income for the periods shown:

	Years ended 30 June		
	2011	**2010**	**% Change**
	(U.S.$ millions, except %)		
Corporate investment	121.7	122.3	(1%)
Hedge funds	39.5	91.3	(57%)
Real estate investment	40.6	(89.9)	>100%
Treasury and other asset based income	14.5	18.1	(20%)
Gross asset-based income	**216.2**	**141.8**	**52%**

The following table shows cumulative returns for each asset class since June 2006 on a non-dollar weighted basis:

	Six months to									
	Dec 2006	**Jun 2007**	**Dec 2007**	**Jun 2008**	**Dec 2008**	**Jun 2009**	**Dec 2009**	**Jun 2010**	**Dec 2010**	**Jun 2011**
	(Unaudited) (%)									
Corporate Investment cumulative	2.2	9.1	12.3	9.8	(2.3)	(18.2)	(13.6)	(7.4)	(4.0)	5.1
Real estate investment cumulative	3.9	10.8	14.0	16.1	11.7	(11.4)	(22.1)	(39.6)	(35.5)	(27.0)
Hedge funds cumulative	6.5	17.6	25.5	24.3	(1.0)	10.7	27.9	27.4	36.4	36.0

There had been steep declines in corporate investment valuations since December 2007 and in real estate investment valuations since June 2008. The trough for corporate investment valuations was reached in June 2009. For the year ended 30 June 2011, corporate investment recorded a positive cumulative return. Real estate investment reached a trough decline of 39.6 per cent. in June 2010, but has rebounded in fiscal year 2011 to a cumulative loss of 27.0 per cent. as the U.S. commercial real estate markets continues to show signs of stabilisation. Hedge funds, with a cumulative return of 36.0 per cent., showing recovery from the value lost during the period June 2008 to December 2008.

The following table shows the average balance sheet co-investment yield (absolute) for each semi-annual period in fiscal year 2010 and fiscal year 2011, computed by comparing realised asset-based income including unrealised fair value changes to average assets:

	Six months to			
Asset yields	**31 December 2009**	**30 June 2010**	**31 December 2010**	**30 June 2011**
	(Unaudited) (%)			
Corporate Investment...........................	5.6	7.2	3.6	9.5
Real estate investment	(12.1)	(22.5)	6.9	13.1
Hedge funds[(1)]	15.5	(0.4)	7.1	(0.3)
Average co-investment yield[(2)]	3.8	0.9	3.8	4.9

(1) Non U.S.$ weighted returns calculated by assuming a constant investment in the product and no changes other than performance.

(2) Includes treasury and liquidity income.

Asset-based Income by Asset Class

The following table summarises Investcorp's asset-based income/loss for the periods shown:

	Years ended 30 June		
	2011	2010	% Change
	(Unaudited, except asset-based income) (U.S.$ millions, except %)		
Corporate Investment			
Asset-based income	121.7	122.3	(0.5%)
Average co-investments (excluding underwriting)[1]	931.9	958.9	(2.8%)
Absolute yield for period	13.1%	12.8%	0.3%
Hedge funds			
Asset-based income	39.5	91.3	(56.7%)
Average co-investments[1]	607.4	606.0	(0.2%)
Non $ weighted returns	6.8%	15.0%	(8.2%)
Real estate investment			
Asset-based income	40.6	(89.9)	>100%
Average co-investments[1]	201.8	263.2	(23.3%)
Absolute yield for period	20.1%	(34.2%)	54.3%

(1) Average co-investments is calculated as the average of the daily balances of such co-investments.

Interest Expense

Total interest expense of U.S.$56.0 million in fiscal year 2011 was 3 per cent. lower than in fiscal year 2010. Although the average cost of funds increased due to the progressive draw down of refinancing arranged in fiscal year 2010, the average level of interest-bearing liabilities declined by 14 per cent. over fiscal year 2011, in line with the de-leveraging of Investcorp's balance sheet. Average short term debt increased to U.S.$337 million in fiscal year 2011 and average medium and long-term debt fell by 19 per cent. to U.S.$1,622 million.

The following table summarises Investcorp's interest expense for the periods shown:

	Years ended 30 June		
	2011	2010	2011 vs. 2010
	(Unaudited, except interest expense) (U.S.$ millions, except %)		
Average short term interest-bearing liabilities[1]	337	277	60
Average medium and long term interest-bearing liabilities[1]	1,622	2,002	(380)
Average interest-bearing liabilities	**1,959**	**2,279**	**(320)**
Interest expense	56.0	58.0	(2.0)
Cost of funding	2.9%	2.5%	0.4%

(1) Average interest bearing liabilities are calculated as the average of the daily balances of such liabilities.

The following table breaks down the change in interest expense into its component parts. The main driver of lower interest expense in fiscal year 2011 was from a decrease in interest-bearing liabilities.

	2011 vs. 2010 (B/W)
	(U.S.$ millions)
Due to lower average interest-bearing debt	8.2
Due to increase in average cost of funding	(6.2)
Total variance	**2.0**

Operating Expense

Operating expenses increased by 14 per cent. from U.S.$188.8 million in fiscal year 2010 to U.S.$215.2 million in fiscal year 2011. The increase largely reflects higher compensation accruals in line with the higher income generated during the period. Staff compensation represented 61 per cent. of total operating expenses in fiscal year 2011 as compared to 59 per cent. of total operating expenses in fiscal year 2010.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses increased by 10 per cent. to U.S.$85.0 million in fiscal year 2011, primarily as a result of increased professional fees relating to due diligence activity relating to acquisitions. The aggregate cost-to-income ratio improved to 61 per cent. from 65 per cent. in fiscal year 2010.

The following table summarises Investcorp's operating expenses for the periods shown:

	Years ended 30 June	
	2011	**2010**
Staff compensation (including incentive compensation)	130.2	111.2
Other operating expenses (U.S.$ millions)	85.0	77.6
Total operating expenses (U.S.$ millions)	**215.2**	**188.8**
Full time employees (FTEs) at end of period[(1)]	**300**	**320**
Staff compensation per FTE (U.S.$ thousands)[(1)]	434.0	347.6
Other operating expenses per FTE (U.S.$ thousands)[(1)]	283.2	242.5
Total staff cost / total operating expenses	61%	59%
Operating expenses/ (net income plus operating expenses)	61%	65%

(1) Unaudited

Income by segment

The following table summarises the revenue contribution of each business segment, showing fee income and asset-based income earned by each business unit:

	Fee income			Asset-based income & unrealised fair value changes			Total		
	Years ended 30 June			Years ended 30 June			Years ended 30 June		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
	(U.S.$ millions, except %)								
Corporate Investment	133.8	156.1	(14%)	121.7	122.3	(1%)	255.5	278.4	(8%)
Hedge funds	45.0	43.5	(3%)	39.5	91.3	(57%)	84.4	134.8	(37%)
Real estate investment	18.6	19.3	(4%)	40.6	(89.9)	>100%	59.2	(70.6)	>100%
Corporate support	–	–	–	14.5	18.1	(20%)	14.5	18.1	(20%)
Revenue contribution	**197.4**	**218.9**	**(10%)**	**216.2**	**141.8**	**52%**	**413.6**	**360.7**	**15%**
Operating expenses	(159.8)	(149.4)	(7%)	(55.4)	(39.4)	(41%)	(215.2)	(188.8)	14%
Interest expense	–	–	–	(56.0)	(58.0)	3%	(56.0)	(58.0)	3%
Provision for impairment	–	–	–	(2.1)	(11.7)	82%	(2.1)	(11.7)	82%
Net income (loss)	**37.6**	**69.5**	**(46%)**	**102.7**	**32.7**	**>100%**	**140.3**	**102.2**	**37%**

Revenue contributions across all business segments were positive in fiscal year 2011 driven by strong returns in all asset classes. Fee revenues in hedge funds and real estate investment were steady. Fee revenues in corporate investment declined due to lower transactional activity as well as a decrease in client AUM as a result of high realisation activity, which consequently reduced management fees earned on AUM. Total hedge fund income in fiscal year 2011 was significantly lower than in fiscal year 2010 as both performance fees and investment income reflected a lower level of returns in fiscal year 2011, following much higher than normal returns in fiscal year 2010. Total income for real estate investment showed a significant improvement as negative investment returns rebounded and turned strongly positive in fiscal year 2011.

Financial Condition

Assets

The following table summarises Investcorp's total assets as at the dates shown:

	As at 30 June		
	2012	2011	2010
	(U.S.$ millions, except ratios)		
Cash and equivalents	347.8	353.0	839.8
Other liquid assets(1)	3.0	13.0	63.0
Hedge Fund co-investments	414.1	607.4	537.3
Corporate Investment and Real Estate Investments co-investments	1,376.3	1,310.6	1,269.5
Other(2)	608.5	574.5	707.3
Total assets	**2,749.7**	**2,858.6**	**3,417.0**
Co-investment assets(3)	**1,790.3**	**1,918.0**	**1,806.8**
Co-investments/Total equity	**1.7x**	**1.8x**	**1.8x**

(1) Non cash equivalent

(2) Other consists of receivables and payments, loans and advances, positive fair value of derivatives and premises, equipment and other assets.

(3) Hedge funds, corporate investments and real estate investment

At 30 June 2012, total assets were U.S.$2,749.7 million, a decrease of U.S.$108.9 million from 30 June 2011. Co -investment assets fell by U.S.$127.7 million as at 30 June 2012, compared to the end of fiscal year 2011.

Co-investments in corporate investment, hedge funds and real estate investment as a multiple of total equity fell to 1.7 times on 30 June 2012 as compared to 1.8 times on 30 June 2011. Investcorp continued to be a significant co-investor alongside its clients in each of the lines of business. Investcorp's co-investment assets accounted for 19 per cent. of total AUM at 30 June 2012, which was unchanged from 30 June 2011. A gradual reduction of co-investment levels as a percentage of total AUM is targeted over the medium-term.

Liquidity

During fiscal year 2012, Investcorp maintained comfortable levels of immediately accessible cash invested in at-call money funds and short tenor money market assets. Total accessible liquidity (cash plus undrawn revolvers) at 30 June, 2012 was U.S.$648.2 million as compared with U.S.$902.3 million as at 30 June 2011. The majority of revolving facilities which had been fully drawn throughout fiscal year 2010 were paid down in the second half of fiscal 2011. At 30 June, 2012, U.S.$297.4 million of revolving facilities remained available for drawdown.

Group's total liquidity at 30 June 2012 was U.S.$1,062.3 million, comprising U.S.$648.2 million of cash and undrawn revolvers and U.S.$414.1 million held in hedge fund co-investments. Approximately 76 per cent. of hedge fund liquidity is contractually available within a six month period. The level of total liquidity continues to remain in excess of Investcorp's borrowing covenant to maintain a minimum of U.S.$750 million liquidity and also exceeds the total amount of term-debt repayments due over the next five years.

The following table reflects the liquidity profile of Investcorp's hedge funds for fiscal years 2010, 2011 and 2012:

	Available for monetization					
	2012		**2011**		**2010**	
Time Period	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Within 1 month..........	114	28	158	27	145	27
Within 3 months........	278	67	376	62	354	66
Within 6 months........	314	76	425	70	413	77
Within 12 months......	382	92	504	83	489	91
Over 12 months.........	414	100	607	100	537	100

Liabilities

The following table summarises Investcorp's total liabilities as at the dates shown:

	As at 30 June		
	2012	**2011**	**2010**
	(U.S.$ millions)		
Client and other short term deposits	205.4	318.0	247.4
Medium-term debt and client deposits	579.5	522.7	614.5
Medium term revolvers – drawn..	107.5	157.5	797.5
Long-term debt..	560.5	574.6	591.6
Other(1)	253.6	225.3	171.5
Total liabilities..	**1,705.9**	**1,798.2**	**2,422.6**

(1) Other consists of negative fair value of derivatives and payable and accrued expenses.

Total liabilities decreased by 5 per cent. in fiscal year 2012 from U.S.$1,798.2 million at 30 June 2011 to U.S.$1,705.9 million at 30 June 2012, primarily reflecting the redeployment of transitory client balances early in the fiscal year 2012. Financial leverage, defined as liabilities adjusted for transitory balances divided by equity, was 1.6 times at 30 June 2012 compared with 1.7 times as at 30 June 2011.

Following the successful closing of a U.S.$575.0 million equivalent multi-currency forward start loan agreement in fiscal year 2010, Investcorp closed a new U.S.$529.0 million equivalent, multi-currency senior unsecured forward start facility in June 2012 with international and Gulf relationship banks to early refinance debt maturing in March and April 2013. This was structured as a multi -tranche facility consisting of term loans and revolving credit facilities, with an amortising repayment over three and a half years with a final maturity in September 2015. The amortisation structure mirrors Investcorp's strategy for continued and gradual balance sheet deleveraging whilst maintaining adequate operational liquidity for underwriting and placement activities.

Indebtedness

Medium-term debt

The facilities listed in the following table are revolving credit facilities (''**RCF**''), which carry LIBOR-based floating rates of interest when drawn and fixed commitment fees when undrawn:

	Tranche Type	Size	Amount outstanding as at 30 June 2012	Final maturity date
		(U.S.$ millions)		
U.S.$243m 5-year syndicated Eurodollar facility	Revolver	107.5	107.5	April 2013
U.S.$55m 2-year structured facility	Revolver	55.0	50.3	February 2014

The facilities listed in the following table are term credit facilities which carry LIBOR-based floating rates of interest:

	Facility amount	Amount outstanding as at 30 June 2012	Final maturity date
		(U.S.$ millions)	
U.S.$575m (equiv.) syndicated facility	281.7	281.7	March 2013
U.S.$243m 5-year syndicated Eurodollar facility	135.5	135.5	April 2013

Under the terms of the loan facilities, Investcorp is subject to certain customary covenants, including, among others, limitations on asset sales and other fundamental changes, limitations on the creation of security interests, limitations on the incurrence of additional indebtedness and limitations on aggregate financial indebtedness.

The U.S.$575 million (equivalent) syndicated 3-year multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity and operating below a maximum leverage ratio. The 2-year structured revolving facility of U.S.$55 million is secured by an equivalent amount of Investcorp's co-investments in hedge funds.

The new U.S.$529 million equivalent multicurrency syndicated forward start agreement, entered into with a number of international and Gulf relationship banks and signed in June 2012, is split into tranches that become available at various future dates on or before 31 March 2013 and is repayable as to 15 per cent. of principal in September 2013, 20 per cent. in September 2014 and the balance on September 30, 2015. The facility includes a revolving credit component and US Dollar, Euro and Qatari Riyal tranches and is intended to be used primarily to repay existing indebtedness of the Issuer and for general working capital requirements. Currently, approximately Qatari riyal 55 million has been drawn under the facility. The agreement contains customary representations and covenants, including information covenants and requirements to maintain a minimum level of consolidated net worth and liquidity and leverage ratios, a negative pledge and customary events of default, as well as a change of control put.

Investcorp believes that it is in compliance with all such covenants and restrictions and does not anticipate that such covenants and restrictions will limit its operations.

Long-Term Senior Guaranteed Notes and Loans

Investcorp has incurred long-term debt through several issuances of senior notes and loans obtained by its subsidiaries, Investcorp Capital Limited and Investcorp S.A. Long-term debt issuances by the Group predominantly carry fixed rates of interest and are governed by covenants contained in the relevant agreements.

The following table contains information relating to Investcorp's long-term notes and loans without taking into account any foreign exchange translation adjustments or fair value adjustments arising from hedging derivatives:

	Amount outstanding as at 30 June 2012	**Maturity date**
	(U.S.$ millions)	
U.S.$75 million bilateral Private Placement (LIBOR-based)	20.0	March 2013
U.S.$35 million Private Placement	26.3	December 2013
¥37 billion Private Placement	332.3	March 2030
U.S.$50 million Private Placement	50.0	July 2032

As of 30 June 2012, Investcorp Capital Limited had issued ¥37 billion of 3.50 per cent. fixed rate notes due 2030 and U.S.$50 million of 8.08 per cent. fixed rate Notes due 2032, as described in the table above pursuant to a global medium term note programme. All of the outstanding notes are guaranteed by Investcorp Bank B.S.C. and Investcorp S.A. The notes and the U.S.$75 million bi -lateral facility, of which U.S.$20 million was outstanding, contains additional covenants, including, among others, maintenance of minimum consolidated net worth, maintenance of minimum ratios of adjusted consolidated total liabilities to consolidated net worth and maintenance of minimum debt service coverage.

The following table contains information relating to Investcorp's debt maturities:

	Maturities during the Six Months Ended							
	Dec 2012	**Jun 2013**	**Dec 2013**	**Jun 2014**	**Dec 2014**	**Jun 2015**	**Dec 2015**	**Post 2030**
				(U.S.$ millions)				
Debt maturities[(1)]	1	307	106	55	106	–	344	382
Cumulative maturities	1	308	414	469	575	575	919	1,301

Note:

(1) Debt maturities reflect the availability of the new forward start facility signed in June 2012.

Total Equity

Total equity at 30 June 2012 was U.S.$1,043.7 million, 2 per cent. lower than U.S.$1,060.3 million as at 30 June 2011. With effect from 4 October 2010, Investcorp cancelled its GDR listing on the London Stock Exchange. During the first half of fiscal year 2011, 6.3 million GDRs representing 7.9 per cent. of Investcorp's issued share capital, were re-purchased through a voluntary tender offer at a price of U.S.$4.76 per GDR. Following the cancellation of the London listing, Investcorp's shares continue to be listed on the Bahrain Bourse (formerly known as the Bahrain Stock Exchange).

The decrease in total equity as at 30 June 2012 reflects Investcorp's positive performance during the 2012 fiscal year less the proposed appropriations for preference share dividends and ordinary share dividends for fiscal year ended June 30, 2011.

The following table summarises total equity as at the dates shown:

	As at 30 June		
	2012	2011	2010
	(U.S.$ millions)		
Ordinary shareholders' equity[1]	453.0	443.5	400.1
Preference share capital	511.5	511.5	508.7
Proposed appropriations	66.1	74.7	57.4
Fair value and revaluation adjustments recognised directly in equity	13.2	30.7	28.2
Net total equity	**1,043.7**	**1,060.3**	**994.3**

(1) Excludes proposed appropriations and unrealised fair value changes recognized directly in equity and revaluation reserve.

In fiscal year 2009, Investcorp issued U.S.$500 million in preference shares. The Guarantor received commitments in excess of the U.S.$500 million of preference shares that could be issued under its Memorandum and Articles of Association. An amendment approved by the shareholders at an Extraordinary General Meeting held in September 2009 enabled Investcorp to issue additional preference shares to cover this over subscription, including to its employees. Additional preference shares for a total of U.S.$15 million were issued, including U.S.$11 million for employees. As at 30 June 2012 U.S.$511.5 million of preference shares (net of forfeitures) were outstanding.

Regulatory Capital under Basel II

The Basel II Capital Adequacy Ratio at 30 June 2012 was 26.9 per cent., compared with 25.7 per cent. as at 30 June 2011 and 22.9 per cent. as at 30 June 2010, which was well above the CBB's regulatory minimum requirement of 12 per cent. The increase in the Basel II ratio as at 30 June 2012 reflects a reduction in risk weighted assets offset by slightly lower regulatory capital.

In 2011, the Basel Committee on Banking Supervision issued new Basel III proposals to strengthen the resilience of the global banking sector. These proposals focused on the quality and amount of capital, tighter leverage ratios, a minimum 30-day liquidity coverage ratio and principles for enhancing corporate governance. If the proposals are implemented in their current form by the CBB, Investcorp does not believe that the proposals would impose any immediate additional requirements on Investcorp's liquidity.

The relevant risk weights across each asset category, applied at 30 June 2012 are summarised below.

Asset class / segment	Basel II methodology	Basel II risk weight
Corporate investment	Standardised approach	150%
Real estate investment	Standardised approach	200%
Hedge funds	Standardised approach	150%
Corporate investment and real estate underwriting	Standardised approach	100%
Operational risk	Basic indicator approach	15%

Significant Accounting Policies

Presented below is a summary of the significant accounting policies.

Accounting Convention in the Consolidated Financial Statements Preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("**FVTPL**") corporate investment and real estate investments and impairment provisions for financial assets other than FVTPL investments. In the process of applying the Group's accounting policies, management has made judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements

Classification of Financial Assets

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or available for sale (''**AFS**''). For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity. Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when they have readily available reliable measure of fair values and the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors. All other investments are classified as AFS.

Other liquid assets, which form part of placements with financial institutions and other liquid assets, are recorded at amortised cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL. The management has designated such assets as FVTPL.

Co-Investments in Corporate Investment and Real estate investment

Investcorp's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealised gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of Investcorp's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognised at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Certain debt investments out of Investcorp's co-investments in corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortised cost, less provision for impairment, if any.

Co-investments in Hedge Funds

Investcorp's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

Impairment and Un-collectability of Financial Assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realisable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognised in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

In case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

(a) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

(b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognised directly in equity.

Derivative Financial Instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

Income and Expenses

Interest income is recognised using the effective yield of the asset and is recorded as asset-based income. Asset based income from all FVTPL investments is recognised on the basis of changes in fair value for the year. Capital gains realised on FVTPL investments are recognised by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realisation.

Fee income is recognised when services are rendered. Performance fees are recognised when earned.

Realised capital gains or losses on investments other than FVTPL investments are taken to income at the time of de-recognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

INVESTCORP'S BUSINESS

Introduction

Investcorp is one of the leading providers of alternative asset investment products sourced in North America, Europe and MENA, serving institutions and High Net Worth individuals in the GCC region as well as institutional clients in the U.S. and Europe. Investcorp Bank B.S.C., organised under the laws of Bahrain and licensed as a wholesale bank by the CBB, is the holding company for the Group.

Investcorp was founded in 1982 and has since grown to become one of the most diverse alternative investment managers both in terms of product offerings and geography, with specialised product lines and a significant presence in North America, Europe and the GCC region.

The Guarantor is a Public Shareholding Company incorporated in Bahrain and registered in the Commercial Register under No. 12411 on May 15, 1982 for an unlimited duration. The registered office of the Guarantor is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain.

Overview

Investcorp's business is spread across three main offices in Bahrain, London and New York. Investcorp currently intends to open new offices in Doha and Abu-Dhabi in fiscal year 2013, subject to regulatory approvals. Investcorp's Bahrain office is the regional centre from which its placement and relationship management teams serve GCC investors, and also houses a majority of Investcorp's administrative, finance and corporate support staff management. Investcorp's London and New York offices are primarily involved in investment sourcing and advisory activities in relation to its alternative asset management services.

The asset classes that comprise Investcorp's five product lines are summarised below:

- *Corporate Investment:* Corporate investment involves investing through privately negotiated transactions in the securities of companies that are generally not listed on a public stock exchange. Once it has made an investment in a target company, a corporate investment firm will generally play an active role in the company's management and closely monitor the company's strategic development and operational performance. Corporate investment transactions are typically funded with a significant proportion of interest bearing debt, allowing the corporate investment firm to leverage its investment and therefore achieve a higher return on its equity investment at exit.

  Investcorp's activities in the corporate investments asset class are across three product categories, each of which is run as separate lines of business.

  - *North America and Europe*: investments in mid-market companies located in North America and Europe;
  - *Technology*: investments in technology companies located in North America and Europe; and
  - *MENA*: investments in the Arabian Gulf and MENA regions.
- *Hedge Funds:* Hedge funds are investment vehicles that use diverse investment strategies and products, some of which are unavailable to traditional mutual funds, including short selling and the use of leverage and derivative instruments. The diversity of investment options available to hedge fund managers makes it possible to create an investment portfolio with limited correlation to price changes in the public equity and debt markets, potentially improving the consistency of investors' overall returns while also reducing the risk profile of investors' portfolios.
- *Real Estate investment*: Real estate investing involves investments in various types of real properties ranging from properties that offer stable rental income, such as office buildings, retail shopping centres, rental apartment communities, hotels and industrial warehouses, to properties that provide a potential for substantial capital appreciation, such as development projects, major refurbishment or asset repositioning opportunities. Real estate investment transactions can be funded with interest bearing debt, allowing investors to leverage their investment to achieve higher returns, both at exit and through the purchase of real properties at larger transaction values.

The growth and success of Investcorp's business is underpinned by its placement capability in the GCC region, where Investcorp has focused on providing a high level of personal service to its investor base of institutions and High Net Worth individuals. While Investcorp's Bahrain office is its regional centre in the GCC region, it has a relatively small proportion of clients in Bahrain and little asset exposure to Bahrain.

The members of Investcorp's Bahrain-based placement and relationship management team travel regularly within the region, maintaining close personal contact with its clients to update them on the progress of Investcorp's existing investments and to explore their interest in participating in new investment opportunities. These active personal relationships ensure that Investcorp is aware of its investors' objectives which in turn help Investcorp develop its acquisition and placement strategy in light of client preferences.

Many of Investcorp's clients have indicated support for its business by choosing to be shareholders and thereby having an even greater involvement in, and ownership of, Investcorp's success. Investcorp aligns its interests with its clients by co-investing in each of its corporate investment and real estate investment transactions, as well as its hedge funds.

Investcorp's high level of service and resulting close relationships with its clients combined with its longevity in the market represent its key competitive advantages in the GCC region. The success of Investcorp's investment track record has encouraged it to expand its capital raising capability in North American and European markets, especially in the United States. Investments by North American and European institutions currently represent approximately one-third of Investcorp's client AUM, predominantly due to investors in the hedge fund platform. The expansion of Investcorp's placement platform beyond the GCC region is aimed at two primary objectives: growing Investcorp's AUM base and, as a result, its fee-based earnings; and maintaining its position as one of the leading global providers of alternative asset management services.

Increased financial regulation and widespread sovereign downgrades have increased the proportion of investors with a requirement or preference for safety and liquidity, however low the yield. Such low yields on risk free assets do however stimulate other investors to consider potentially less liquid, but attractively priced alternative assets with limited correlation to macro-economic conditions. Investcorp is now seeing evidence of a gradual improvement in the outlook of its private client base.

The following table provides a breakdown of Investcorp's AUM across its product lines as at the dates shown:

	As at 30 June		
	2012	**2011**	**2010**
		(U.S.$ millions)	
Corporate Investment	5,824	5,650	6,463
North America and Europe	*4,053*	*3,888*	*4,564*
Technology	*754*	*760*	*742*
MENA	*929*	*929*	*929*
Strategic and other investments(1)	*88*	*73*	*228*
Hedge funds	4,268	4,749	4,656
Real estate investment	1,219	1,195	1,365
Corporate support(2)	179	241	170
Total(3)	11,490	11,835	12,654

Notes:

(1) Strategic and other investments represent: (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.

(2) Corporate support AUM represents call accounts of clients maintained in individual trust fund accounts managed by a common trustee.

(3) Client assets under management except for Hedge funds is based on cost less any impairment, whereas Investcorp's co-investments and client Hedge fund investments are marked to market.

History

Investcorp was established as a public company in Bahrain in May 1982. The vision of Investcorp's founder and current Executive Chairman and Chief Executive Officer, Nemir A Kirdar, was to build a firm that would assist in the deployment of wealth from the GCC region into investments in North America and Europe. Investcorp's first office, in Bahrain, was formally opened by the Prime Minister of Bahrain in 1984 and Investcorp's second office was opened later that year in London. Initially, Investcorp focused on corporate investments transactions, with a specific focus on the acquisition of companies with recognised brand names that would increase Investcorp's visibility in the market, such as the landmark acquisition of Tiffany & Co. in 1984. Investcorp has built on its early successes in its corporate investment and real estate investment product lines, which had been the core of its business. After several years of operating in North America, Investcorp formally opened its New York office in 1988 and has continued its track record of corporate investments successes. Other notable corporate investments during this period included the acquisitions of Gucci, Circle K, Prime Equipment, Clubcar, A&W Brands, and Saks Fifth Avenue, which was then Investcorp's largest transaction to date. Later notable acquisitions included Simmons, Leica Geosystems and Jostens. Notable real estate investments during the first decade of Investcorp's history included Swiss Bank Tower in New York and Manulife Plaza in Los Angeles. Since 1982, Investcorp has made 142 corporate investments and 246 real estate investments with an aggregate value of approximately U.S.$43 billion in a broad range of industries and markets.

Following the successful flotation of Gucci in 1995, Investcorp made its first investment in hedge funds in 1996, using its own financial resources. In 1997, Investcorp made its hedge funds product line available to clients, initially through two funds. Investcorp currently offers four funds of hedge funds, six single manager funds (which have been seeded with Investcorp's own capital). Since 2006, Investcorp has also offered structured products to its clients structured products.

In 2000, Investcorp launched its Corporate Investment-Technology product line, through the launch of a fund focusing on investment in the technology sector. Investcorp's first Corporate Investment-Technology fund was made available to its clients in 2001, its second Corporate Investment-Technology fund was raised in 2005 and the third Corporate Investment- Technology fund was raised in 2008. Since 2001, Investcorp's Corporate Investment-Technology business has made 43 investments.

Investcorp's MENA product line was established in 2007 to make corporate investments in the Arabian Gulf and MENA region.

Investcorp went public through a listing of its ordinary shares on the Bahrain Bourse in June 1989 and, through a subsequent reverse stock split in 2003, Investcorp's shareholder base was reduced from approximately 6,700 public shareholders predominately holding small amounts of shares to approximately 300 public shareholders generally holding larger blocks of shares.

In 2006, Investcorp's GDRs in respect of its ordinary shares were admitted to trading on the London Stock Exchange. In August 2010, due to changes in financial markets, resulting in low trading volumes in the GDRs, Investcorp applied to the UK Listing Authority to cancel the GDRs' listing and it was cancelled in October 2010. A small number of unlisted GDRs were outstanding as at June 2012.

Since 1982, Investcorp has earned a net profit every year other than 2009, although profitability has been affected by economic cycles and political developments. During this period, the internal rate of return to shareholders has been 17 per cent. based on dividends and current book value.

Investcorp has also established a U.S.400 million co-underwriting fund with two Gulf-based investors to bridge up to 63 per cent. (portion funded by the two Gulf-based investors) of the underwriting of Corporate Investment North America and Europe transactions in the period from initial acquisition to placing with clients to reduce the risk on Investcorp's balance sheet.

Competitive Strengths

The growth in the core markets in which Investcorp distributes products, Investcorp's unique client relationships and management capabilities in those markets, and its multiple product offerings to its clients are the key strengths of Investcorp's business.

Investcorp's placement and relationship management team is uniquely positioned as a conduit of North American and European alternative investment products to GCC region investors

The depth of Investcorp's relationships with High Net Worth individuals, merchant families and institutional investors in the GCC region represents a unique placement capability. Investcorp's placement platform in the GCC region has been developed over a 30-year period of actively and consistently serving the market and today it has relationships with more than 1,000 investors in the GCC region. A significant proportion of Investcorp's client base is invested in more than one of its product lines, and its relationship managers are focused on increasing cross selling penetration. Most of Investcorp's Strategic Shareholders also invest in Investcorp's products as clients.

Investcorp's relationship managers enjoy strong relationships with their clients based around Investcorp's core values of trust and discretion, reflecting Investcorp's unique position as an independent manager in a landscape increasingly inhabited by integrated banking offerings. The longevity of Investcorp's track record, combined with its ''gold standard'' approach to client servicing built up through years of experience in serving the specific needs of GCC region investors, means that Investcorp now enjoys a strong reputation across the region as an independent provider of alternative asset management services.

Investcorp has increased the number of product focused advisors in the region, who work closely with relationship managers in order to provide highly tailored solutions and services to its clients, in particular for specialized product lines such as hedge funds and real estate investment. Investcorp's clients value its ability to screen and source investment opportunities across different product lines within the broader alternative asset management industry, which has improved the depth of Investcorp's relationships and the quality and stability of its revenues. Investcorp's investment products are distributed across the range of underlying investors and it is not reliant on any single investor for more than a small proportion of its revenues in any product line.

Positioned to benefit from high growth markets and the trend toward investing in alternative assets

The majority of Investcorp's clients are based in the GCC region. This region is one of the world's fastest growing wealth markets, partly driven by rising energy prices and strong oil and gas production volumes. This has created significant investable wealth. Investcorp expects the market for the provision of alternative asset management services to GCC region investors to grow, as GCC region investors trend towards the current asset allocation strategies deployed by leading professional institutional and High Net Worth investors in North America and Europe. The diversification of investment portfolios away from equities and fixed income products will result in significantly increased allocations towards alternative assets such as corporate investment, real estate investment and hedge funds.

Unique co-investment strategy to align interest with clients

A significant proportion of Investcorp's balance sheet is co-invested in each of its product lines. At 30 June 2012, it had an aggregate of U.S.$1,790.3 million of proprietary co-investment across its product lines. This approach facilitates transaction structuring and aligns Investcorp's interests with those of its clients. In addition, a significant proportion of Investcorp's compensation is performance based, and it operates ''carry based'' incentive schemes across most of its product lines. Investcorp believes that the combination of these approaches represents a competitive advantage over other asset managers as it links in a meaningful way the fortunes of the company and its management directly with those of its clients.

Depth of management experience

Investcorp's business model focuses on the local implementation of a global model. It has a long history of investment in both North America and Europe, with long-standing on-the-ground presence and experienced investment teams in both regions. Investcorp benefits from an established network of long-serving executives across these regions who share knowledge across its product lines. Investcorp's corporate investment and real estate investment teams have a track record of sourcing repeat investments in their respective sectors, and have established strong relationships with senior corporate executives, local partners, investment banks, other intermediaries, other investors and business communities in order to ensure a steady access to deal flow. Investcorp's hedge funds business invests across a range of North American, European and Asian managers, and has expanded its placement capability into the United States since 2005.

Strategy

Investcorp is internationally recognised for its performance in global alternative investments. It intends to maintain and build on this reputation by capitalizing on the current strength of its brand in the GCC region, growing its client base both in the GCC region and internationally, expanding its product offerings to cater for current and prospective clients' needs, continuing to maintain the ''co-investment' approach of its business model and continuing to attract and retain high quality team members to ensure its product lines continue to offer strong performance.

Leverage Investcorp's market position as the leading alternative investment manager in the GCC region to capture growth from and within the GCC region

As the economy and investable wealth of the GCC region is expected to grow, Investcorp believes the demand from GCC region investors for North American and European alternative investments will grow. Because of the depth of Investcorp's relationships, strong brand name and proven track record, it believes it is well positioned to capture a significant share of this growing demand.

Investcorp plans to leverage its well established presence in the GCC region, its strong placement capability and its track record of performance to accelerate investment inflows by drawing on contacts developed through existing clients and by marketing new products to existing and new clients.

Expand Investcorp's existing product lines and develop new product lines

Investcorp plans to expand the products offered within its existing product lines. For example, within its hedge funds product line, it expects to continue to expand single manager funds offerings by adding promising new managers onto its platform. In fiscal year 2011, the hedge funds business launched the Special Opportunities Portfolio of select investments in distressed credit and corporate restructurings in the U.S. and Europe. Investcorp has successfully launched new corporate investment funds (in relation to Corporate Investment-Technology and Corporate Investment-MENA) and real estate investment funds dedicated to mezzanine investments in the last several years.

In fiscal year 2012, the real estate business had a first close of its third real estate debt fund at U.S.$100 million. The fund was established to invest in and originate commercial real estate debt.

Diversify Investcorp's client base

Investcorp plans to leverage its strong international brand and presence to market alternative investment management services on a selective basis to institutions outside of the GCC region. In targeting these clients, Investcorp will leverage its track record of performance and focus on products which are likely to be most attractive to these entities, such as its hedge funds and Corporate Investment-Technology offerings.

Deleverage Investcorp's balance sheet

Beginning in its 2009 fiscal year, Investcorp began a process of deleveraging its balance sheet. This process included the raising of U.S.$515.1 million in new preference share capital and a managed reduction in risk weighted assets. Other initiatives included increasing collection of client receivable balances, reducing working capital, reducing hedge fund co-investments and increasing levels of cash liquidity.

The following table sets out certain key indicators in relation to Investcorp's deleveraging process:

	As at 30 June	
	2008	**2012**
	(Unaudited)	
Total debt (U.S.$ billions)	3.0	1.5
Co-investments/(Total equity + very long term debt)[(1)]	2.1x	1.1x
Covenant leverage ratio[(2)]	2.5x	1.5x
Capital adequacy ratio	18.4%	26.9%
Liquidity/(medium term + long term debt with a maturity of less than five years)[(3)]	1.3x	1.2x
Residual maturity of debt	61 months	81 months

Notes:

(1) This ratio is provided to reflect the ratio of the co-investments on Investorp's balance sheet to total equity and very long-term debt to reflect the funding profile of such assets.

(2) Liabilities adjusted for transitory balances/equity, as defined by the covenants under certain facility agreements.

(3) This ratio is provided to reflect the liquidity coverage for debt maturing in next five years.

Placement and Relationship Management

The growth and success of Investcorp's business is underpinned by its alternative investments placement capability in the GCC region. The majority of its products are distributed to GCC region clients through a dedicated placement and relationship management team based in Bahrain. Investcorp has also increased its placement capabilities in North America and Europe, particularly in North America with respect to its hedge funds products. Furthermore, Investcorp has supplemented its in-house placement capabilities in North America with third party placement agents in connection with offerings of its corporate investment products to North American institutional investors.

Since inception in 1982, Investcorp's placement and relationship management team has raised approximately U.S.$24 billion from its clients, of which approximately U.S.$9 billion has been channelled into 95 corporate investment deals, approximately U.S.$11 billion into hedge funds, approximately U.S.$2 billion into real estate investment portfolios, approximately U.S.$0.9 billion into the Corporate Investment-Technology funds and U.S.$0.9 billion into Corporate Investment-MENA. Since 1982, Investcorp's corporate investments have returned an internal rate of return of 14 per cent since inception. (unaudited).

Even during the peak of the financial crisis period during fiscal year 2009, Investcorp raised around U.S.$1.6 billion, including U.S.$0.5 billion of preference share capital notwithstanding the significant decline in aggregate AUM. During the fiscal year ended 30 June 2010, Investcorp raised U.S.$1,273 million, including U.S.$1,114 million within its hedge fund business. During the fiscal year ended 30 June 2011, Investcorp raised U.S.$751 million, including U.S.$226 million for corporate investment including the newly launched product, Investcorp Special Opportunities portfolio, U.S.$58 million in real estate investment deal by deal placement and U.S.$467 million within its hedge fund business. During the fiscal year ended 30 June 2012, Investcorp raised U.S.$1,339 million, including U.S.$214 million for corporate investment deal by deal, U.S.$207 million in real estate investment deal by deal placement including Investcorp's third debt fund and U.S.$917 million within its hedge fund business. Since fiscal year 2008, Investcorp has sourced and placed 17 investments (corporate deal-by-deal investments and real estate portfolios).

The following table shows Investcorp's recent and historical fundraising:

Fiscal year ended	**New Funds Raised** *(Unaudited, U.S.$ billions)*
30 June 2008	3.9
30 June 2009	1.6(1)
30 June 2010	1.3(2)
30 June 2011	0.8
30 June 2012	1.3
Total Fundraising	8.9

Note:

(1) Including U.S.$0.5 billion of preference share capital.

(2) Excludes U.S.$0.1 billion of MENA Mezzanine Fund.

Investcorp's ability to provide tailored solutions and services to its client base has resulted in a significant amount of repeat business from long term clients. At the same time, Investcorp has been successful in leveraging its brand name to reach new clients in the GCC region. In the two year period ended 30 June 2012, the firm has added over 70 new High Net Worth individual and institutional investors to its client base. Approximately 45 per cent. of clients are invested in more than one of its product lines and approximately 1 per cent. are invested in all product lines.

The placement effort is built on some key principles:

Client base: A majority of Investcorp's client base is High Net Worth individuals and institutions from the GCC region. The combination of wealth creation in the GCC region and a growing trend towards increasing allocations to alternative asset classes should continue to support Investcorp's GCC region placement capacity for its existing and new products. GCC region investors have, in the past, been less accepting than North American and European investors of including alternative assets in their investment portfolios. Investcorp, along with various other market participants, has been instrumental in introducing the alternative asset class to the GCC region. Its relationship managers actively introduce strategic asset allocation concepts to GCC region investors and explain the important role in terms of diversification and risk adjusted return that corporate investment, hedge funds and real estate investment play in an appropriately balanced portfolio.

Organisational platform: Investcorp's placement and relationship management team's intensive and highly personalised approach has allowed it to build long term relationships with its clients and successfully leverage its strong brand name in the GCC region. This team is made up of 22 professionals, 17 of whom are relationship management or product specialist professionals, who travel regularly throughout the GCC region maintaining close personal contact with clients. An additional 8 professionals of the placement and relationship management team are located in North America and are focused on growing Investcorp's hedge funds product AUM in those markets.

Client segmentation: The placement and relationship management team is divided into geographical teams which target and serve institutional clients (sovereign wealth funds, government institutions, banks, insurance companies and corporate investors) and private clients (High Net Worth individuals and private investment companies).

Product specialists: These specialists add analytical and structuring capabilities to provide customised solutions and greater product insight for clients in each asset class.

Marketing support team: This team maintains and enhances client relationship management systems and processes, acting as a support vehicle for the institutional, private client and product specialist teams. These sub-teams provide Investcorp with the ability to tailor its marketing approach to the specific goals of a particular client. Investcorp places a great deal of emphasis on mentoring, developing and retaining members of its placement and relationship management team. It tracks the progress of its relationship managers to ensure that performance levels are high and that placement progress is consistent with individual goals. The team also operates a client relationship management system as a management tool to ensure that time is spent productively on matching clients to the most suitable investment opportunities.

Relationships: Investcorp's placement capability in the GCC region has developed over a 30 year period, and today it has relationships with over 1,000 investors in the region. Investcorp's assets under management have grown from U.S.$50 million in 1982 to U.S.$11.5 billion as of 30 June 2012. This GCC client base is well diversified with a low level of client concentration. As of 30 June 2012, Investcorp's top five GCC clients contributed 23 per cent., top ten 31 per cent. and top thirty approximately 50 per cent. of AUM. The split of client AUM by country in the GCC region is shown in the following table:

Country	**Percentage as of 30 June 2012**
	(%)
Bahrain	15
Kuwait	24
Oman	2
Qatar	9
Saudi Arabia	24
United Arab Emirates	22
Other	4

As of 30 June 2012, the split of client AUM by geography was 62 per cent. in the Gulf region and 38 per cent. international.

The following table shows the development of Investcorp's client AUM from the GCC region and elsewhere as at the dates shown:

	Gulf client AUM	**% Client AUM**	**Non Gulf client AUM**	**% Client AUM**
Date	*(Unaudited, U.S.$ billions)*	*(%)*	*(Unaudited, U.S.$ billions)*	*(%)*
30 June 2010	6.2	64	3.5	36
30 June 2011	5.7	64	3.2	36
30 June 2012	5.4	62	3.4	38

The following table categorises Investcorp's clients by length of client relationship, based on Gulf deal-by-deal corporate investment data. The percentages reflect the value of AUM held by clients, rather than the number of clients.:

	Percentage as of 30 June 2012
	(%)
Less than 5 years	6
5 years to 10 years	24
10 years to 15 years	28
Greater than 15 years	42

The placement and relationship management team is in regular contact with clients and uses mapping techniques to identify untapped pockets of wealth to understand Investcorp's position in the market and to develop strategies to reach segments, individuals and institutions that represent prospective clients. Investcorp's relationship-based approach allows the team to develop a detailed understanding of each client's goals and preferences for allocation between different asset classes, allowing it to tailor investment offerings to anticipate the needs and capacity of a particular client and to avoid misdirecting selling efforts. Investcorp also uses account planning and follow ups to outline major opportunities for clients and has clear strategies for completion and timelines for such opportunities.

In addition to its role in the placement process, the placement and relationship management team also provides feedback on the types of products which may be popular with investors, such as in Shari'a compliant investment opportunities, which has resulted in the design of a number of Shari'a compliant investment products.

Product customisation: Investcorp offers its product lines to clients in a variety of structures. It also continues to develop new product structures in order to make its products attractive to a broad range of potential clients and to allow the members of the placement and relationship management team to tailor the mix of products in a product structure that meets the specific needs and goals of each client. For example, Investcorp often customises its hedge fund offerings to meet the liquidity, risk return profile or investment allocation preferences of its largest clients.

Investcorp has a well-established Shari'a board comprising persons experienced in Islamic Shari'a matters who typically have served on Shari'a investment boards of other companies. The Shari'a board reviews Investcorp's Islamic products for Shari'a compliance and issues the relevant opinions of Shari'a. Upon Investcorp's request, the Shari'a board also assists in developing new structures for Investcorp's products and is generally available to respond to client inquiries regarding the products that it offers.

Recent Developments

Fleetpride

In October 2012, Investcorp announced the signing of an agreement for the sale of its Corporate Investment – North America and Europe portfolio company, Fleetpride. Investcorp purchased Fleetpride in 2006 and successfully built the company to its position today as one of the leading distributors of heavy duty truck parts in North America.

Fleetmatics

In October 2012, Investcorp announced that its Corporate Investment – Technology portfolio company, Fleetmatics, one of the leading global providers of fleet management solutions for commercial fleet vehicles, priced its initial public offering of 7,812,500 shares of its common stock at a price to the public of U.S.$17.00 per share. The shares started trading on the New York Stock Exchange on 5 October 2012 under the symbol "FLTX".

Kingsguard

In October 2012 Investcorp and Kingsguard Advisors LP ("**Kingsguard**"), a New York-based investment firm founded by former Goldman Sachs senior executives announced a strategic partnership that will offer Kingsguard support and stable growth capital while providing Investcorp and its investors access to a global macro-driven fixed income strategy.

Automak

In September 2012 Investcorp and Automak Automotive Company K.S.C.C. (''**Automak**''), the leading independent vehicle leasing and rental company in Kuwait, announced an agreement under which Investcorp's Gulf Opportunity Fund I will acquire a 35 per cent. stake in Automak through a capital injection.

Real Estate Acquisitions

In September 2012 Investcorp made two real estate equity acquisitions and one debt financing investment in seven high-quality office properties across key markets in the U.S. The transactions equate to over 900,000 square feet of real estate and the combined investment totals over U.S.$140 million.

Orka Group

Investcorp Gulf Opportunity Fund I agreed to acquire a 30 per cent. stake in Orka Group in July 2012. Orka Group is one of Turkey's leading and fastest growing menswear retailers in a transaction that was closed in September 2012. Orka Group sells its Damat, Tween and D'S Damat-branded clothing in more than 250 stores in 40 different countries worldwide, including through franchises.

Redington International

In December 2011, an agreement was signed for the sale of the 26 per cent. stake in Redington International held by the Gulf Opportunity Fund I for U.S.$115 million. The deal closed successfully in February 2012.

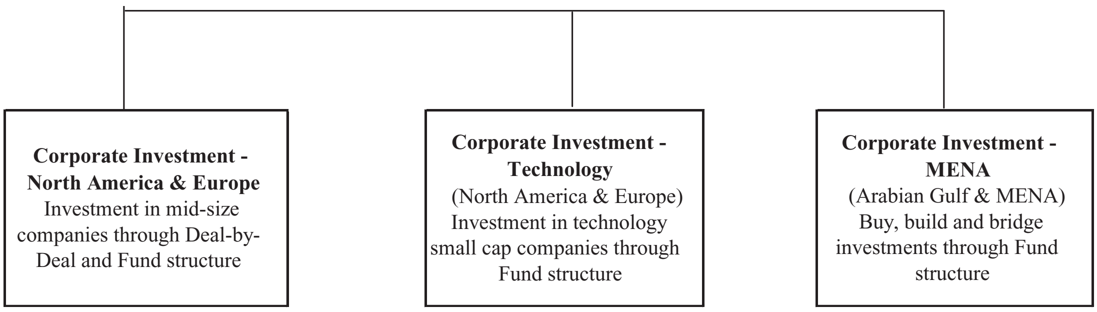
Accuity Inc.

In November 2011, Investcorp sold Accuity Inc., a Corporate Investment – North America and Europe portfolio company, to Reed Elsevier for an enterprise value of U.S.$530 million.

Corporate Investment

Investcorp has been active in corporate investment in North America and Europe since 1982, making it one of the earliest participants in the transatlantic corporate investment (more commonly referred to as ''private equity'') market.

Investcorp's corporate investment products in this asset class comprise three business lines:



Corporate Investment – North America and Europe products are primarily offered to clients on a deal-by-deal basis, where no advance long-term blind commitment is required from the client. This recognises that GCC region clients usually prefer to exercise discretion on individual investment decisions. For non-Gulf clients, Investcorp has a buyouts fund, which allows them to co-invest alongside its traditional deal-by-deal investors. The Corporate Investment-Technology and Corporate Investment-MENA investments are predominantly made via commitments to funds.

Corporate Investment – North America and Europe

Business Strategy

Investcorp conducts its Corporate Investment – North America and Europe activities from its offices in New York and London. The primary objectives of this North America and Europe team are to select and arrange investments with potential for capital gains, to manage them for value optimisation and to seek exit opportunities to generate targeted returns on invested capital in the medium term.

Investcorp's Corporate Investment–North America and Europe team based in New York and London is responsible for sourcing and providing advice with respect to the acquisition and disposition of its corporate investments and provides advice with respect to the operations of the companies Investcorp invests in.

Investcorp had U.S.$4,053 million as at 30 June 2012, U.S.$3,888 million as at 30 June 2011 and U.S.$4,564 million as at 30 June 2010 of North America and Europe AUM, which represented 35.3 per cent. as at 30 June 2012, 32.9 per cent. as at 30 June 2011 and, 36.1 per cent. as at 30 June 2010 of total AUM. Since inception in 1982, 95 acquisitions have been completed totalling approximately U.S.$32 billion in value.

As at 30 June 2012, Investcorp had 39 staff within their North America and Europe product line, including 26 professionals and 4 advisory directors. Approximately 20 per cent. of these are managing directors who have been with Investcorp for an average of twelve years and who have significant experience in private equity transactions.

The following table shows Investcorp's five largest corporate investment exposures (of its portfolio of 20 companies in its Corporate Investment –North America and Europe business line) as of 30 June 2012:

	Carrying Value at 30 June 2012
	(Unaudited) *(U.S.$ millions)*
Company	
TelePacific	165.6
Berlin Packaging	117.1
Archway	115.2
N&W	88.6
Icopal	79.1
Total	565.6

Investment Approach

Investcorp's investment opportunities are primarily sourced through its contacts with a broad range of financial institutions and intermediaries throughout North America and Europe. In addition to sourcing investment opportunities through financial intermediaries, Investcorp also identifies opportunities through its networks of senior executives across the corporate landscape in North America and Europe.

Investcorp has created a systematic approach to this crucial component of its investment process. It hosts periodic informative events of interest to senior corporate executives, keeps in regular personal contact and uses email newsletters and personal correspondence to communicate.

The initial equity investment by Investcorp and its clients in each targeted company is up to U.S.$150 million and the expected holding period is between three and seven years. The team aims to complete three to five acquisitions per year. On average, Investcorp seeks to retain approximately five to ten per cent. of each corporate investment as its co-investment.

Investcorp's investment thesis is based on a strategy of value enhancement by partnering with talented managers in a given industry and focusing on business fundamentals, rather than relying on multiple arbitrage or use of high levels of leverage.

Investcorp generally invests in middle market companies, which typically have more opportunity for operational improvements, and have historically benefited greatly from the Value Enhancement Model ("**VEM**"). Portfolio operational improvements are crucial to value creation in an environment of reduced financial leverage and contraction of multiples. VEM was launched in 2001 and was the cornerstone of this strategy long before the current financial crisis. Value addition focuses on applying the combination of financial, strategic and operating skills across the business throughout the life-cycle of ownership. Investcorp focuses on both revenue and cost focused initiatives as well as building portfolio companies using the team's operating experience and management resources.

Investcorp focuses on market leaders (typically first or second in market share) in attractive and less cyclical industries. This mitigates the inherent risks associated with smaller middle-market businesses, which are sometimes considered more likely to fail than larger ones. Investcorp seeks to capitalise on market leading positions in their respective industries and pursue add-on acquisitions or other attractive opportunities to position companies for growth and increased profitability.

Investcorp seeks investment opportunities in companies with capable management teams, prominent positions in their industries, a track record and potential for growth. Specifically, Investcorp looks for opportunities where a combination of revenue growth, margin enhancement through operational improvement and scale economies, and the introduction of more sophisticated management techniques and best practices are expected to generate an increase in value in the medium term.

Investcorp and its economic and Voting Co-Investors generally acquire controlling interests in its target companies. Investcorp generally does not engage in transactions in collaboration with other investors unless it acquires the controlling position in the acquisition.

Investment Structure

Investcorp offers its corporate investment product to its clients in a variety of structures to maximise the opportunities for its placement and relationship management team to tailor Investcorp's corporate investment product to the objectives of each client. The majority of Investcorp's corporate investment offerings are offered to clients on a unique deal by deal basis in which it acquires the corporate investment asset using Investcorp's own financial resources and those of its voting and economic co-investors (including funds that it lends to the Economic Co-Investors) and subsequently it places a significant portion of the interests in the target with its clients. On occasion, where doing so is deemed to be strategically beneficial and practical from an operations perspective, Investcorp combines two or more of its corporate investment targets and subsequently offers that group or portfolio to its clients. Investcorp is also able to structure a portion of its deal by deal corporate investment offerings in a Shari'a compliant form in order to attract investors seeking such investments. Investcorp expects Shari'a compliant offerings to be an increasingly important source of its corporate investment AUM in the future. On average Investcorp's placement and relationship management team completes the placement of a deal by deal corporate investment to its clients within approximately eight weeks after the acquisition. Investcorp's investment placement team typically offers a client approximately four deal by deal corporate investments each year. The client focus of Investcorp's deal by deal investments are High Net Worth individual and institutional investors in the GCC region.

Generally, Investcorp's voting and Economic Co-Investors invest in each U.S. corporate investment acquisition. When investing with these co-investors, Investcorp acquires the target corporate investment asset using its own financial resources and the assets of the co-investors (including funds Investcorp lends to its Economic Co-Investors). Investcorp and its Economic Co-Investors acquire non- voting interests in U.S. targets. Investcorp's Voting Co-Investors acquire the voting interests in U.S. targets. Investcorp and its voting and Economic Co-Investors acquire voting shares in Cayman Islands holding companies that are formed for the acquisition of European targets. Subsequently, Investcorp places a significant portion of the economic interests in U.S. targets held by Investcorp and these co-investors with its clients. Investcorp also enters into asset backed financing and derivative collar arrangements with its Economic Co-Investors. As a result of these arrangements, it bears certain financial risks and enjoys certain financial benefits with respect to assets held by its Economic Co-Investors and includes a portion of these assets, as well as a portion of the gains and losses on these assets, in its consolidated balance sheets, cash flows statements and income statements included elsewhere in this Prospectus. In addition, an entity controlled by Investcorp's Proxyholder Committee enters into revocable proxy arrangements with shareholders of its Voting Co-Investors. As a result of these proxy arrangements, Investcorp's Proxyholder Committee secures the power to vote the shares of the entities that own or acquire the target. These arrangements, however, are revocable, but to date none of these arrangements have been revoked.

In fiscal 2007, Investcorp launched a buyout fund targeted at international institutional investors. In September 2008, the fund held its final close with U.S.$746 million raised. The fund invests in transactions made by Investcorp's buyouts group on a fixed pro rata basis, with the fund's share being 30 per cent. of the total equity in each deal. The fund is additive to Investcorp's placement capacity, potentially allowing for larger deal sizes as the fund invests over its expected three to five year investment life cycle. As at 30 June 2012, the fund has invested in 10 deals and is approximately 76 per cent. invested.

Investment Process

Deals are sourced directly or through intermediaries such as investment banks, industry contacts or other financial sponsors. Of 400 to 500 potential opportunities presented during an average year, approximately 5 to 10 per cent. are selected in an initial screening process following application of Investcorp's selection criteria. Acquisition due diligence and risk analysis is then performed on certain opportunities after the application of further screening procedures which reduce the number of targets to 3 to 5 per cent. Investcorp has the infrastructure to support the completion of up to five actual acquisitions each year which would result in an annual equity deployment of U.S.$300-U.S.$750 million prior to the corporate investment fund participation and GCC client syndication.

All acquisitions undergo analysis at Investment Committee meetings and all such acquisitions, add -on financings or exit arrangements also require final approval by an independent Placement Committee and an independent Risk Committee.

Investcorp divides its investment process into Acquisition, Post-Acquisition and Realisation phases.

Acquisition stage. Investcorp's corporate investment team conducts an investment selection process to identify acquisitions that meet its investment criteria and those of its clients and provide the potential for capital gains at exit. Investcorp reviews and evaluates more than 400 investment opportunities annually and Investcorp performs pre-acquisition due diligence, involving its own teams as well as those of its consultants and expert advisors, on less than five per cent., of the opportunities referred to Investcorp each year, of which only three to five opportunities will typically result in acquisitions. At any given time, Investcorp may be in the process of negotiating the terms of one or more potential new acquisitions and, as with any other period of similar duration, it is possible that agreements with respect to one or more new acquisitions may be signed between the date of this Prospectus and the issue date for the Notes. Investcorp believes its selection process is a competitive advantage which enhances its ability to successfully place investments with its clients and increases the potential for gains on exit.

In screening potential investments, Investcorp looks for targets that will require an equity investment up to U.S.$150 million, are capable of being financed with debt, achieve attractive rates of return based on acceptable risk levels, reasonable acquisition multiples in comparison to growth potential, and, based on information from Investcorp's placement and relationship management team, its ability to be placed with Investcorp's client base.

If Investcorp's initial screening criteria are satisfied, a deal team is assigned, which analyses the historical performance and trends of the target company, the cyclicality of the business sector, management's projection of growth compared to the target company's historical performance and the sustainability and predictability of earnings, and carefully analyses and stress-tests the assumptions in the target company's business plan. The deal team will also seek an independent third-party valuation of the target, engage consultants to evaluate the relevant market, potential operational improvements and management, and engage financial, legal, environmental, insurance and pension experts, as appropriate. The deal team will also discuss the potential target in general terms with Investcorp's placement and relationship management team as well as Investcorp's buyout fund investors in order for the placement and relationship management teams and such investors to assess whether there is likely to be an appropriate level of interest in the investment among Investcorp's investors. Investcorp often engages the services of senior executives from the relevant industry to provide industry specific expertise during its pre-acquisition review of target.

There are three principal components of Investcorp's investment approval process:

- *Investment Committee:* Investcorp's Investment Committee comprises the most experienced buyout executives in its New York and London offices. The purpose of each Investment Committee is to evaluate current investment opportunities, the risk and return profile and recommend due-diligence actions to be undertaken in the evaluation process. The Investment Committee submits investment proposals to the Risk Committee for funding approval.

- *Risk Committee*: Investcorp's Risk Committee comprises senior members of the management team including the head of risk management. The Risk Committee evaluates and approves proposed investments by the investing lines of business based on the investment's risk-return profile on a stand-alone as well as portfolio basis. This includes any corporate investment or real estate investment deal irrespective of whether they are in a fund or intended to be placed with retail investors. It includes any special opportunity portfolios or deals originated by the hedge funds group or any of the other line of business comprising equity or debt or hybrid investments, as well as any proposed new fund or product launches by any line of business. It also includes any proposed add-on investments that require additional capital from Investcorp and clients.

The Risk Committee also examines proposals for realisation alternatives for existing investments and makes recommendations on the most optimal strategy for the eventual realisation of each portfolio company.

- *Placement Committee*: Investcorp's Placement Committee comprises senior members of the Placement and Relationship Management team. The Placement Committee is responsible for assessing the placeability of any deal that is targeted for retail placement with investors in the Gulf. This covers all Corporate Investment and Real Estate deals, as well as any Corporate Investment -Technology or Corporate Investment -MENA deals that are intended to be placed on a deal by deal basis rather than through their respective funds. It also includes any special opportunity portfolios or deals originated by the Hedge Funds group or any of the other line of business comprising equity or debt or hybrid investments intended for retail placement.

  Investcorp's Placement Committee and Risk Committee approves or rejects a proposed investment or realisation from two perspectives: its attractiveness to Investcorp's client base and its attractiveness to Investcorp as an underwriter and co -investor, thereby maintaining alignment and balance of its fiduciary responsibilities to both clients and shareholders.

Investcorp's full Board of Directors reviews and ratifies each acquisition after it has been completed.

Post-acquisition. Investcorp plays an active role in the post-acquisition management of its corporate investments. Working with the acquired company's management, Investcorp's post-acquisition team monitors the progress of the portfolio company. Investcorp's advisory directors and independent industry executives, who provide significant operating expertise, support the post-acquisition team and serve on the portfolio company's boards of directors. These advisory directors and industry experts will typically form part of the pre-acquisition deal team.

During the first stage of the holding period, the company undergoes an 'alignment phase'. The purpose of this programme is to reaffirm Investcorp's investment thesis, conduct a more formal management and organisational assessment, check the health of processes around critical business drivers, focus management on high priority initiatives, establish benchmarks for critical success factors and establish strategic, operational and financial metrics for ongoing monitoring of the investment.

In addition to the alignment phase, the post acquisition team and advisory directors formally establish between four and seven quantifiable annual objectives for each portfolio company. These are reviewed by Investcorp's Portfolio Review Committee, comprising senior members of the private equity team, including the advisory directors, who meet once a month to review the progress of portfolio companies versus their agreed targets. This Portfolio Review Committee reviews each portfolio company at least twice a year, with specific focus on strategy, resource allocation, early identification of issues that may impact performance and development of corrective actions.

When deemed necessary, a review of each portfolio company is undertaken by an Investcorp partner who has not previously been involved in the transaction. This review, the 'Fresh Look' programme, is often completed in conjunction with outside consultants and involves a full review of the portfolio company's investment thesis, competitive position and strategic alternatives and validation of its strategic plan. The results of the 'Fresh Look' programme are considered by the Portfolio Review Committee in relation to each portfolio company's exit strategy.

In the event that Investcorp experiences difficulties in successfully implementing its value enhancement strategy for a particular portfolio company, whether because of economic conditions or other reasons, Investcorp addresses the changing situation by collaborating with company management to re-evaluate strategy, inject additional capital into the company or refinancing the company by restructuring its debt through external lenders or through the placement of debt with existing investors, including Investcorp themselves.

In fiscal year 2009, Investcorp implemented cost reductions throughout its Corporate Investment - North America and Europe portfolio which amounted to U.S.$500 million on an annualised basis. The aggregate EBITDA across Corporate Investment - North America and Europe portfolio increased 2.8 per cent. in fiscal year 2010, 15 per cent. in fiscal year 2011 and 8 per cent. in fiscal year 2012.

The following table sets out changes in revenue for the periods shown for Investcorp's Corporate Investment – North America and Europe portfolio companies.

Portfolio company	**Investment date**	**Year on year change % (LTM June 2011 to June 2012)**
Armacell	January 2007	3
Asiakastieto	May 2008	2
Autodistribution	February 2006	(1)
Berlin Packaging	August 2007	9
CCC	February 2006	2
CEME	July 2008	14
Esmalglass	June 2012	5
FleetPride	June 2006	28
GL Education	March 2012	9
Icopal	July 2007	4
N&W	November 2008	(6)
IPH (f. Orexad)	June 2006	16
Polyconcept	June 2005	7
Randall-Reilly	February 2008	7
SourceMedia	November 2004	(3)
Sur La Table	July 2011	18
TelePacific	April 2000	4
Veritext	July 2010	11

Realisation. Investcorp begins planning for realisation prior to the acquisition. It evaluates the possibilities for exit and formulates a strategy to prepare and position the target for a profitable divestiture. Throughout the life of an investment, Investcorp evaluates market conditions and exit alternatives. Investcorp seeks to ensure that business fundamentals are in place for growth during the post-realisation period. Investcorp believes that this policy has helped establish its name in the private equity markets as a responsible financial investor, thereby promoting deal flow and enhancing the establishment of long-lasting relations with the management of companies, public and private investors, and commercial and investment banks.

Since fiscal year 2009, Investcorp has returned more than U.S.$2 billion to its clients from realisations and other distributions, including the proceeds of:

- the sale of American Tire Distributors in June 2010 for U.S.$1.3 billion;
- the sale of Associated Materials in September 2010 for U.S.$1.3 billion;
- the sale of Moody in April 2011 for U.S.$729 million.

Corporate Investment – Technology

Business Strategy

The technology product line offers Investcorp's clients the opportunity to invest in select technology sectors in the U.S. and Europe. With Investcorp as a co-investor, clients participate on a portfolio basis through dedicated technology investment funds. As of 30 June 2012, the Corporate Investment-Technology team had raised an aggregate of U.S.$1.03 billion through three separate funds: the 2001 Investcorp Technology Ventures Fund I ("**Fund I**"), with a commitment size of U.S.$230 million, the 2005 Investcorp Technology Ventures Fund II ("**Fund II**"), with a commitment size of U.S.$300 million, and the 2007 Investcorp Technology Partners Fund III ("**Fund III**"), which closed in January 2008, with a commitment size of U.S.$500 million. Both Fund II and Fund III had participation from Investcorp's traditional GCC investors as well as from a diverse group of new limited partners from North America, Europe and Asia. Fund I was invested in 24 companies and has returned U.S.$206 million to its investors. Fund II is invested in 12 companies and will only be making follow-on investments to support the growth of the portfolio. Fund III is currently invested in seven companies and expects to make two to three investments over the next twelve years (foregoing unaudited).

Investcorp had U.S.$754 million as at 30 June 2012, U.S.$760 million as at 30 June 2011, U.S.$742 million as at 30 June 2010 of technology funds AUM (inclusive of committed but not funded amounts), which represented 6.6 per cent. as at 30 June 2012, 6.4 per cent. as at 30 June 2011 and 5.9 per cent. as at 30 June 2010 of total AUM.

The Corporate Investment-Technology team is focused on making equity investments in the range of U.S.$25-U.S.$50 million in control-oriented corporate carve outs, buyouts and public situations. In targeting these more complex transactions that fall between the focus of traditional venture capital firms and traditional buyout firms, the Corporate Investment-Technology team applies a distinct skill set and operating model. Unlike many buyout firms, the Corporate Investment-Technology team focuses on making its returns through growth and, as a result, tends to use less leverage in its capital structures; thus, the Corporate Investment-Technology team has been relatively less affected by the instability in global credit markets.

Investcorp's New York and London based Corporate Investment-Technology team consists of 12 investment professionals and two senior advisors who blend traditional private equity skills with a broad range of complementary business start-up, finance, operations and technical experience to assess proposed investments and provide private equity style post acquisition supervision and support to the companies in which its funds invest.

The Corporate Investment-Technology executives have worked together, on average, for ten years and have many years of financial, operating, technical and investing experience among them. In fiscal 2013 the Corporate Investment-Technology team will be gradually integrated with the Corporate Investment-North America and Europe team.

The following table sets out certain information with respect to Investcorp's three technology funds:

	Fund I	**Fund II**	**Fund III**
		(Unaudited)	
Fund size (*U.S.$ millions*)	230	300	500
Vintage year	2001	2005	2008
Percentage of commitments drawn	100%	99%	59%
Number of investments	24	12	7
Number of exits	22[(1)]	7[(1)]	0
Returned capital (*U.S.$ millions*)	206	42	0
DPI (distribution over paid-in capital)	90%	14%	0%

(1) Includes partial exits and write offs.

Investment Approach

The Corporate Investment-Technology team generally targets three types of investment opportunity:

- *Buyouts*: Maturation of technology industry and technology debt markets allows private equity firms to help companies refocus and restructure.
- *Corporate Carve-outs*: Consolidation of technology sector forces companies to unload non core assets, or corporate orphans, which have greater prospects as independent entities.
- *Control PIPE and Take Private Transactions*: Rigorous requirements and significant costs of being public limit access to public capital for smaller technology companies.

Investcorp's Corporate Investment-Technology funds primarily invest in lead or co-lead positions, taking a meaningful stake in its portfolio companies. Investcorp typically requires board representation.

Investcorp has avoided investing in businesses that rely on the success of specific point technologies or standards. Instead, the team examines broader multi-year trends and evaluates the growth potential of businesses based on these trends.

Investcorp's Corporate Investment-Technology funds generally do not invest in specific technologies but instead examine broader trends and seek companies whose growth is tied to these trends. The team focuses on companies that fall broadly into four key areas: mobile data technologies and applications, enterprise software, communications infrastructure products and applications, and digital content enablement.

One advantage for the Corporate Investment-Technology business in its deal sourcing is its ability to leverage the network of relationships of the senior management team as well as those of other parts of Investcorp. Investment opportunities are sourced through several avenues, including. Investcorp's other lines of business, its existing portfolio companies, venture-capital firms, banking intermediaries and entrepreneurs who make a direct approach. The majority of the transactions that have been reviewed by the Corporate Investment-Technology team are internally sourced with no intermediaries or competitive processes involved.

Product Structure

Unlike the majority of Investcorp's Corporate Investment-North America and Europe and real estate investments (which are marketed to clients on a deal by deal basis), the Corporate Investment-Technology product is predominantly offered to clients on a dedicated fund basis. Accordingly, capital is raised from investors and Investcorp as co-investors in each of the Corporate Investment-Technology funds in the form of firm capital commitments prior to the fund's closing. Such capital is subsequently drawn and utilised by the funds to make equity investments. From time to time, Investcorp may also make direct investments in technology companies, purchased using its own financial resources and subsequently placed on a deal-by-deal basis to clients.

Investment Process

Investcorp's Corporate Investment-Technology investment process is split into three stages: Investment, Post Investment, and Realisation.

Investment. Investcorp's Corporate Investment-Technology capital team identifies potential technology investments, evaluates such targets and ultimately determines whether or not to complete an acquisition thereof using the same rigorous process as is applied by its private equity team in their acquisition of private equity target companies. As with its other product lines, Investcorp believes its stringent investment selection process is a competitive advantage and enhances its ability to successfully market its Corporate Investment-Technology capital product line to its clients and increases the potential for attractive exit gains.

Potential investments undergo a detailed and extensive selection process intended to identify investments which meet Investcorp's and its clients' investment criteria and to provide the potential for sizeable capital gains at exit, including:

- extensive pre-investment due diligence on all aspects of the business model, market dynamics, technology, financial and accounting processes, and management viability;
- detailed valuation modelling; and
- detailed VaR-based risk modelling of the impact of new investments on the overall fund.

Prior to the determination to proceed with any potential investment, there must be a consensus within the Corporate Investment-Technology team and the Technology Investment Committee, which is comprised of senior members of the Corporate Investment-Technology team and senior executives from the other corporate investment business lines and real estate investment teams and representatives of the finance division of Investcorp's Bahrain office, must review and issue final approval.

Post investment. During the post-acquisition phase, Investcorp's Corporate Investment-Technology team conducts ongoing focused monitoring of each company in the investment portfolio of its funds and brings a private equity approach to bear in working with company management to identify and take advantage of opportunities to add value. With each round of funding a full reassessment of the health and growth prospects of the company is completed.

A comprehensive fair valuation exercise with respect to the technology portfolio is conducted on a quarterly basis for each of Investcorp's funds with input from the Corporate Investment-Technology investment team and its finance and risk management teams. These valuations are reviewed by Investcorp's external auditors.

Once an investment is acquired, Investcorp is committed to providing intensive post investment oversight. Investcorp's active post investment strategy is comprised of three distinct pillars of post investment support: corporate governance; operational support; and transactional support.

The Corporate Investment-Technology team uses its influence to institute or encourage 'best practices' at its portfolio companies, including the installation of corporate governance controls, audited financial statements and formalised business processes, in order to position its portfolio companies for eventual sales or public listings. The Corporate Investment-Technology team benefits from Investcorp's extensive network of corporate relationships with current and past buyouts and technology portfolio companies as more than 15 chief information officers of current buyout portfolio companies are available for due diligence as well as for potential customer introductions. The team also works closely with colleagues in the buyout business complementing its capabilities with extensive local expertise and networks. These are used to generate cross border deal flow, structure sophisticated technology deals and support companies in the investment portfolio.

Realisation. Investcorp's Corporate Investment-Technology team begins planning for realisation prior to its funds making an investment. Throughout the life of an investment, Investcorp evaluates market conditions and exit alternatives in order to identify an appropriate exit opportunity.

Corporate Investment – MENA

Business Strategy

The Corporate Investment-MENA product line was established in the second half of fiscal 2007 to provide investors the ability to participate in the growing number of opportunities in the Arabian Gulf and MENA regions. The GCC and surrounding region is growing, driven mainly by the need to create employment, the need to diversify the economy away from energy and the need to generate greater value from hydrocarbon resources.

Governments in the region are channelling a large proportion of the fiscal surpluses generated by higher energy prices and production levels to investments in the long-term development of the region, including social infrastructure projects, energy production capacity expansion projects and non-hydrocarbon industrial development.

Realising that the private sector will have to assume a disproportionate role in meeting those imperatives, governments in the GCC are also promoting measures intended to create a more attractive investment environment (e.g., gradual liberalisation of economies, improved legal environment, strengthening of eco-system for investment). As a result of these developments, the economic outlook for the GCC is robust, and investment opportunities within the region are becoming increasingly abundant.

In parallel to these favourable economic conditions are several encouraging developments that have made the deployment of private equity more attractive in recent years. These include: growth in deal flow, availability of acquisition financing, ability to add value and exercise influence, improved corporate governance efforts, growth in exit options and the willingness of family-owned businesses to seek third-party equity partners to enhance growth opportunities.

Investcorp raised U.S.$0.9 billion in an inaugural fund (the "**Gulf Opportunity Fund I**") for its Corporate Investment-MENA product line in order to take advantage of economic developments in the Arabian Gulf and MENA regions. The vision of the Fund is to create significant shareholder value while supporting economic growth and diversification in the region by sourcing, creating and executing unique investment opportunities in buyouts, greenfield and bridges.

Investment opportunities in buyouts continue to grow as a result of:

- corporate carve outs from oil and gas and petrochemical companies or public utilities which are focusing their resources on their core businesses;
- family-owned businesses looking to monetise holdings or exit due to generational issues;
- privately-held growth companies needing the capital and the relationships to expand beyond their home market or their industry segment; and
- on-going privatisations.

Investcorp's Bahrain based Corporate Investment-MENA team consists of 12 professionals and one advisory director who have distinctive expertise in investments and operations.

Investment Approach

The Gulf Opportunity Fund I intends to make 8-10 investments focusing on middle market companies with an enterprise value ranging between U.S.$150 million and U.S.$500 million. Each investment would require U.S.$20 – U.S.$120 million of equity and the expected holding period is between three and six years. The team aims to complete two to four acquisitions per year.

Such companies operate in industries with fast growth and/or comparative advantage in the region, stable or predictable industry trends with low risk of near term discontinuities or event risks, sound competitive dynamics and substantial barriers to entry.

Through the application of Investcorp's investment criteria, these investments will be targeted towards the economic sectors that are expected to benefit the most from the growth in the GCC and MENA regions and which are in need of additional capital and expertise to finance transformation and expansion. Targeted sectors include ancillary support services (i.e., oil services), retail, food (retail and manufacturing), healthcare, education, consumer finance, logistics and transportation. Using Investcorp's VEM, the Gulf Opportunity Fund I will seek to create value in the post acquisition phase, either in a majority or in a minority position with strong protection rights. While geographic focus is predominately in the GCC, the Gulf Opportunity Fund I will look opportunistically into the MENA region.

As at 30 June 2012, the Gulf Opportunity Fund I had invested 60 per cent. of the committed capital to the Fund. As at that date 8 per cent. of the fund was realised, 40 per cent. of the fund was invested in Saudi Arabia, 27 per cent. in Kuwait and 33 per cent. in Turkey. Industries of the unrealised investment, were distribution (27 per cent.) and consumer products (73 per cent.) (foregoing unaudited).

Investment Process

The Gulf Opportunity Fund I is managed by an Investment Committee, comprising senior professionals. It meets at least once a week to review new investment proposals. Any new investment proposal or any subsequent capital injection to an existing portfolio company which warrants further research and diligence is assigned to a team to further develop the investment thesis and lead the due diligence. Each such investment is reviewed at least three times during the transaction process. The committee helps the assigned team to shape the due diligence effort and allocates resources in a phased approach, in light of critical issues identified. At the final stage, the committee approves the valuation and the structure of the bid and advises on deal negotiations. Each new investment proposal is supported by detailed analyses that identify the business rationale, relevant risks/returns, and valuations.

Hedge Funds

Investcorp has been involved in hedge funds for 16 years and has developed a strong performance track record utilising a high degree of portfolio transparency and leading edge risk management tools and techniques. Investcorp's hedge fund business was established in 1996 to manage Investcorp's own liquidity and was introduced to clients the following year. Clients benefit from Investcorp's significant commitment to risk management systems, operational infrastructure and hedge fund investment talent developed to oversee proprietary capital investments. Today, this proprietary investment foundation continues to influence how Investcorp assesses investment opportunities and manages its hedge fund portfolios.

Investcorp offers clients a range of hedge fund products using hedge fund managers whose performance and risk exposures are closely monitored. Hedge fund products are marketed to GCC region clients and to institutional investors in North America and Europe. Investcorp began offering its clients fund of fund products in 1997 and single manager products in 2006. Investcorp currently offers four funds of hedge funds, six single manager funds (which have been seeded with Investcorp's own capital). Since 2006, Investcorp has also offered its clients structured products.

Investcorp had U.S.$4,268 million as at 30 June 2012, U.S.$4,749 million as at 30 June 2011 and U.S.$4,656 million as at 30 June 2010 in hedge fund AUM, which represented 37.1 per cent. as at 30 June 2012, 40.1 per cent. as at 30 June 2011 and 36.8 per cent. as at 30 June 2010 of Investcorp's total AUM.

As at 30 June 2012, 29 per cent. of Investcorp's client AUM was from investors in the GCC region while 71 per cent. was from international investors. Investcorp's hedge fund AUM is invested through a diversified range of products described under ''Product Structures'' below and is focused on risk-adjusted returns. One of Investcorp's subsidiaries is registered with the SEC and the Financial Industry Regulatory Authority as a broker dealer and two other subsidiaries are registered with the SEC as investment advisors.

At 30 June 2012, the hedge funds product line employed 40 professionals. In addition, at 30 June 2012, Investcorp had five consultant programmers who maintain its technology dedicated to analysing and monitoring hedge fund performance. The majority of Investcorp's hedge funds team is located in New

York to improve Investcorp's ability to source fund managers and expand its client base to include U.S. institutional investors.

Investment Strategy

The hedge funds product line aims to achieve attractive returns through a diversified portfolio of investments in hedge funds on a risk-adjusted basis, over a medium-term period.

Investcorp's hedge funds AUM is also diversified across individual managers. The top ten largest non-single fund managers by AUM as at 30 June 2012 across the platform represented U.S.$1.422 billion, which is 33.3 per cent. of total hedge funds AUM (unaudited).

A high level of transparency within the funds that Investcorp offers to its clients facilitates Investcorp's comprehensive risk assessment and proactive risk mitigation. Separate account management allows Investcorp to rigorously monitor valuation and performance and enables it to make informed and timely decisions as to change in the fund managers they have selected.

Product Structures

Investcorp currently offers four fund of funds, a Special Opportunities Portfolio, six single manager funds, customised portfolios and structured products.

Investcorp's funds invest in established hedge fund managers. In the aggregate, as at 30 June 2012, 2011 and 2010, Investcorp had 6 per cent., 16 per cent. and 18 per cent. of client AUM in fund of funds, 38 per cent., 24 per cent. and 34 per cent. in single manager funds and 56 per cent., 60 per cent. and 48 per cent. in customised accounts. In the financial statement disclosures, customised accounts are further split between fund of funds and structured products for presentation purposes. The client focus of Investcorp's hedge fund products are High Net Worth individuals and institutional investors in the GCC region and institutional investors in North America.

In 2004, Investcorp launched the single manager platform to identify and partner with talented hedge fund managers. Unlike other single manager programs, Investcorp provides single manager funds with significant seed capital, risk oversight and distribution support. Investcorp typically invests U.S.$50 to U.S.$100 million with each manager and is one of the few hedge fund groups that can commit such large amounts of capital up front to new funds. The objective of the platform is to create attractive co-investment opportunities through direct investments in hedge funds, in which clients leverage Investcorp's investment due diligence and investment and operational risk management expertise and systems. As of 30 June 2012, Investcorp had six hedge fund managers on its single manager platform. Ballast Capital Management and Prosiris Capital Management were added to Investcorp's single manager platform in January 2011 and June 2011, respectively.

Investcorp's structured products include collateralised fund obligations, leveraged fund of funds, principal protected and index linked fund of funds.

Investment Process

Investcorp uses its established investment philosophy of conducting thorough due diligence and careful assessment to select the hedge fund managers which will manage the AUM. The primary elements of Investcorp's investment process are described below.

Asset Allocation. Asset allocation is a key value added process by which the hedge funds team determines how the assets of a particular fund product are invested across different hedge fund investment strategies. Investcorp's approach to asset allocation involves both a top down and bottom up qualitative and quantitative analysis using a proprietary system to create model allocations. Investcorp's diversified products combine hedge fund strategies to produce portfolios that are relatively uncorrelated in their return generation to each other and to global bond and equity markets. Investcorp's strategic asset allocation establishes long term views (a three to five year horizon). It is reviewed annually by the investment committee. Another key component is tactical asset allocation, which establishes six to 12 month views on hedge fund strategy opportunities. It is reviewed on an ongoing basis by the investment committee. This process quantitatively integrates Investcorp's views in order to develop a framework for portfolio construction and to achieve specific risk and return objectives.

- Strategic asset allocation is the development of investment guidelines that meet a fund product's objective of generating returns while ensuring that the expected volatility corresponds to the fund products philosophy. These guidelines take into account strategy-specific risks, such as illiquidity, a medium-term market outlook and insights from proprietary research on hedge fund strategies. They also place allocation constraints on individual strategies within a product.

- Tactical asset allocation is the determination of actual investment allocations for each strategy within a fund product. It utilises the investment committee's senior strategy analysts who present their near term return forecasts (6 to 12 month forecast horizon) for their respective strategies. For each strategy, different environment variables and factors relevant to the strategy are monitored, and the quantitative research team supports this work with its ongoing analysis of primary drivers of hedge fund strategy returns.

Once strategic allocation bands are established and a core portfolio determined as described above, allocations are made tactically within the strategic ranges, based on a thorough review of the macro-economic environment and a bottom-up review of each strategy. The tactical views are translated into specific allocation shifts by a robust quantitative model, based on Black-Litterman methodology. This model determines through the correlation structure which strategies to underweight in order to offset positive views on other strategies. This process provides the flexibility to take advantage of short-term macro-economic opportunities or to manage risks emanating from unfavourable market conditions. Adjustments are made at regular intervals throughout the year.

Manager Selection. Manager selection is based on due diligence with an emphasis on investment style, philosophy and risk management discipline, using both qualitative and quantitative approaches. Investcorp's in-house database tracks more than 7,000 hedge funds on a monthly basis using public hedge fund databases, prime broker relationships and other industry contacts. Maintenance of the proprietary database for completeness and accuracy of the strategy category designation is pursued with dedicated resources. Investcorp's process is designed to select a relatively small group of top-tier hedge fund managers for the hedge funds program. In order to accomplish this goal, Investcorp utilises its large network of hedge fund relationships established over its 16-year investment history. Extensive and well-tested investment risk and operational risk due diligence processes form the baseline for identifying top-tier managers. In turn, Investcorp's reputation as a value-added investor provides it with a sustainable competitive advantage in identifying talented managers.

Each manager's track record is analysed, focusing on profit attribution and performance in periods of market volatility. The strategies used by the managers and their investment exposures are also analysed and correlated to others in the portfolio. Once Investcorp have short-listed potential managers that might meet its investment objectives, it typically holds a series of meetings with each manager to review their business, risk management processes and operational infrastructure. The team completes the due diligence process by conducting a background investigation on managers and their underlying fund vehicles.

Portfolio construction. Portfolio construction is a combination of asset allocation (quantitative) and manager selection (quantitative and qualitative).

The asset allocation and manager selection process allows the construction of a range of diversified and theme funds using the 30 to 40 selected managers. Ultimately, Investcorp aims to integrate seamlessly a diversity of hedge fund products and services, often on a customised basis, from a single investment platform.

Investcorp continues to monitor the performance of the third party managers with whom investments are placed partly through its sophisticated use of IT systems and through a constant dialogue between its hedge fund team and these managers, but Investcorp does not manage the funds themselves in the way that it actively manages the investments it makes in its other product lines. Investcorp's quality assurance team, which has accounting and financial control backgrounds, performs the monitoring process. In the monitoring process Investcorp continues valuation and reconciliation based processes on ongoing and regular transaction-level data feeds from the prime brokers and fund administrators. Investcorp also conducts risk measurement, using tools that analyse the risk of the entire portfolio. The risk measurement teams have backgrounds in risk analysis and quantitative research.

Investment Structure

In certain circumstances, Investcorp's voting and Economic Co-Investors invest with Investcorp in its hedge funds product line. When investing with these co-investors, Investcorp acquires equity in certain special purpose vehicles which hold the hedge fund assets using its own financial resources and the assets of the co-investors (including funds Investcorp lends to its Economic Co-Investors). Investcorp and its Economic Co-Investors acquire non-voting interests in such special purpose vehicles. Investcorp's Voting

Co-Investors acquire the voting interests in such special purpose vehicles or grant proxies to the entity controlled by the proxyholder committee. Subsequently, Investcorp places or intends to place with its clients a significant portion of the underlying hedge fund products. Investcorp enters into asset-backed and derivative collar arrangements with its Economic Co-Investors. As a result of these arrangements, Investcorp bears certain financial risks and enjoys certain financial benefits with respect to assets held by its Economic Co-Investors and includes a portion of these assets, as well as a portion of the gains and losses on these assets, in its consolidated balance sheets, cash flows statements and income statements included elsewhere in this Prospectus. In addition, an entity controlled by Investcorp's Proxyholder Committee enters into revocable proxy arrangements with shareholders of its Voting Co-Investors. As a result of these proxy arrangements, Investcorp's Proxyholder Committee secures the power to vote with the shares of the special purpose vehicles discussed above. These arrangements, however, are revocable, but to date none of these arrangements have been revoked.

In 2008, Invescorp was a finalist in the Fund of Hedge Funds Leader of the Year category at the Institutional Investor Hedge Fund Industry Awards. In 2009, Investcorp was a finalist in the Newcomer-Equity category for the Investcorp Silverback Arbitrage Fund and, in 2009, Investcorp was a finalist in the Multi-Strategy under U.S.$1 billion category for the Investcorp Interlachen Multi-Strategy Fund and in the Convertible Arbitrage category for the Investcorp Silverback Arbitrage Fund. In 2011, Investcorp was a winner in the Hedge Fund Manager of the Year and in the Special Merit Award for Outstanding Industry Contribution catgegories at the Hedge Funds World Awards (Middle East 2011).

Real estate investment

Investcorp made its first real estate investment in 1983 and since then it has developed a strong real estate investment capability, targeting properties in the United States across all sectors and in all geographical areas. In the future, if attractive opportunities are presented, Investcorp may also invest in properties in Europe. Investcorp began offering its clients equity investments in property in 1995 and debt investments in 2006. Investcorp had U.S.$1,219 million as at 30 June 2012, U.S.$1,195 million as at 30 June 2011 and U.S.$ 1,365 million as at 30 June 2010 of real estate investment AUM, which represented 10.6 per cent. as at 30 June 2012, 10.1 per cent. as at 30 June 2011 and 10.8 per cent. as at 30 June 2010 of Investcorp's total AUM.

As at 30 June 2012, the carrying values of Investcorp's real estate co-investments consisted of approximately 23 per cent. in opportunistic, 20 per cent. in office, 22 per cent. in hotel, 17 per cent. in Mezzanine debt, 7 per cent. in retail, 3 per cent. in industrial, 1 per cent. each in diversified and residential and 5 per cent. in strategic portfolios. As at 30 June 2012, the proportion of the carrying value of Investcorp's real estate co-investments was approximately 49 per cent. in the Eastern United States, 19 per cent. in the Southwest, 17 per cent. in the West, 8 per cent. in the Midwest and 7 per cent. in the Southeast.

Since 1995, Investcorp has completed an aggregate of 246 real estate investment acquisitions with an aggregate value of over U.S.$10 billion in value and today oversees a portfolio with an aggregate value of approximately U.S.$4 billion (unaudited).

As at 30 June 2012, Investcorp had 19 employees within its real estate investment product line, including 16 professionals. The team also advises on the real estate aspects of its private equity investments. The real estate investment team, based in New York, is responsible for sourcing and providing advice with respect to the acquisition, disposition and ownership of Investcorp's real estate investments. Although Investcorp made its first real estate investment in 1983, its current real estate investment team was assembled starting in 1995.

Investcorp's real estate investment team sources, performs due diligence on and arranges financing and the acquisition of properties that are expected to offer its clients investment opportunities with the potential for both strong cash flow and attractive capital gains over a five year investment period. Investcorp invests in properties in all sectors including residential, hotel, commercial and industrial properties. Properties are typically aggregated in a series of multi-property portfolios, under both conventional structures and Shari'a law-compliant structures to fit Investcorp clients' requirements. The real estate investment team has traditionally focused on acquiring controlling interests in properties to guarantee unimpeded decision-making on leasing, capital investment and realisation.

In addition to traditional sources such as real estate brokers, other intermediaries, and industry contacts, several of Investcorp's investment opportunities are sourced through its strategic partnerships that complement the real estate investment team. Investcorp's strategic real estate investment partners have strong local presences in different parts of the U.S. and are therefore the source of many of its leads for potential investments. Investcorp's strategic real estate investment partners generally receive compensation (including in some cases, carried interests or other performance based compensation) in connection with Investcorp's acquisitions.

The real estate investment team invests in properties and mortgage debt instruments throughout the United States in all sectors including office, retail, residential, hotel and industrial as well as commercial, residential, medical and lifestyle/resort development. The team focuses on acquiring controlling equity interests in properties to guarantee unimpeded decision-making on leasing, capital investment and realisation. Properties are typically aggregated in a series of multi-property portfolios for placement with clients. Portfolios are categorised by level of risk, and these portfolios are then offered to clients on a deal-by-deal basis, in which no advance long-term blind commitment from the client is required. Instead, real estate investment assets are initially acquired using Investcorp's own financial resources. A significant portion of the economic interests in the real estate investment assets are then placed with clients. In addition to the team's controlling equity investments, Investcorp's real estate investment group has over the last few years steadily expanded its investment activities to include originating and acquiring mezzanine debt, subordinated debt and commercial mortgage-backed securities in U.S. commercial and residential real estate.

Product Structures

Investcorp categorises its real estate investment products in terms of risk. Investcorp has three groups of product in the real estate investment product line, the ''Senior Debt, Mezzanine Debt and Preferred Equity'' products, ''Core Plus and Value-Add'' products and ''Opportunistic'' products. Each product group could involve investments in properties dedicated to residential, commercial, and industrial or leisure use.

''Senior Debt, Mezzanine Debt and Preferred Equity'' is Investcorp's lowest risk profile real estate investment product, principally investing in stable assets demonstrating high income security and capital preservation. As of 30 June 2012 Investcorp had U.S.$0.2 billion AUM within its Senior Debt, Mezzanine Debt and Preferred Equity product (unaudited).

''Core Plus and Value-Add'' is Investcorp's flagship real estate investment product and is its medium risk profile product, principally investing in well-located, high-quality, functional product with an opportunity for improvement through leasing, expense management and capital upgrades and where there is an emphasis on current cashflow. The focus of Investcorp's Core Plus and Value-Add product has been consistent. The majority of its real estate investment AUM is in this product. As of 30 June 2012 Investcorp had U.S.$0.8 billion AUM within its Core Plus and Value-Add product (unaudited).

The ''Opportunistic'' product offers higher risk with potentially higher returns, principally investing in development projects, major refurbishment or asset repositioning opportunities. Investcorp first offered its Opportunistic product in 2003 with the aim to deliver higher capital gains by investing in slightly higher risk projects. As of 30 June 2012, Investcorp had U.S.$0.2 billion of AUM within its Opportunistic product. Opportunistic product offerings are no longer a focus for Investcorp (unaudited).

As with its Corporate Investment – North America and Europe product line, Investcorp packages its real estate investment offerings in a variety of ways in order to satisfy the varying investment goals and preferences of its clients. In general, the properties are acquired using a variety of holding companies in order to provide flexibility, and assembled into portfolios held by Investcorp and its voting and Economic Co-Investors prior to equity placement to its clients. The real estate investment portfolios are then offered to clients on a deal by deal basis in order to provide diversification across properties and geographies. Investcorp typically aims to retain around 5 per cent. for its own balance sheet as a co-investment. Investcorp are able to package certain of its deal by deal real estate investment portfolios as Shari'a-compliant investments. Investcorp will typically approach its clients with approximately four to five real estate investment portfolios in a given year. On average the placement and relationship management team will complete the placement of a real estate investment portfolio to Investcorp's clients within six to eight weeks after completion of the portfolio. The client focus on Investcorp's deal by deal products is High Net Worth individual and institutional investors in the GCC region.

Investment Approach

Investcorp is focused on equity and debt investments in properties across all sectors and geographies in the United States, targeting top tier risk-adjusted returns. Investcorp aims to invest in properties via common equity, preferred equity, mezzanine debt or a combination of those. The group aims to invest between U.S.$100 million to U.S.$300 million per year.

Transaction sizes typically range from U.S.$75 million to U.S.$250 million (total capitalisation), although the group may pursue transactions well in excess of this range. For example, in fiscal 2007, the group completed a transaction with an equity investment of approximately U.S.$180 million and a gross transaction value of approximately U.S.$900 million. For its equity investment program, the group today targets assets with a value-added or opportunistic profile. Value added investments aim to produce current yield, based on strong occupancy rates and good tenancy, as well as solid capital gains. Opportunistic investments aim to produce higher capital gains by investing in slightly higher risk projects involving renovation, refurbishment, conversion or ground-up development.

Investment Structure

Generally, Investcorp's voting and Economic Co-Investors invest with Investcorp in each U.S. real estate investment acquisition. When investing with these co-investors, Investcorp acquires the target real estate investment asset using its own financial resources and the assets of the co-investors (including funds that Investcorp lends to its Economic Co-Investors). Investcorp and its Economic Co-Investors acquire non-voting interests in a holding company that indirectly invests in the target real estate investment asset. Investcorp's Voting Co-Investors acquire the voting interests in the holding company, although Investcorp directly controls the target real estate investment asset through managing interests in lower tier entities. Subsequently, Investcorp places a significant portion of the interests in the target held by Investcorp and these co-investors with its clients. Investcorp enters into asset-backed and derivative collar arrangements with its Economic Co-Investors. As a result of these arrangements, Investcorp bears certain financial risks and enjoys certain financial benefits with respect to assets held by its Economic Co-Investors and include a portion of these assets, as well as a portion of the gains and losses on these assets, in its consolidated balance sheets, cash flows statements and income statements included elsewhere in this Prospectus. In addition, an entity controlled by Investcorp's Proxyholder Committee enters into revocable proxy arrangements with shareholders of its Voting Co-Investors. As a result of these proxy arrangements, Investcorp's Proxyholder Committee secures the power to vote with the shares of the entities that invest in the target real estate investment assets. These arrangements, however, are revocable, but to date none of these arrangements have been revoked.

In fiscal 2007, Investcorp launched and closed Mezzanine Fund I, which is dedicated to mezzanine-type investments and jointly managed by Investcorp and TriLyn, LLC, an established operating partner with expertise in the area of debt investments. The total size of the fund is U.S.$108 million, including a commitment of U.S.$88 million from Investcorp and its GCC clients and the balance of U.S.$20 million committed by a large European financial institution. In June 2008, Investcorp launched the Investcorp Real estate investment Credit Fund with U.S.$150 million in client commitments from a major Gulf institution. Both of these funds are currently fully deployed. Investcorp's third real estate debt fund, established to invest in and originate commercial real estate debt, had its first close in May 2012 at U.S.$100 million. It received commitments from several large European and U.S. institutional investors, including Akard Street Partners, an investment partnership operated by Hunt Realty Investments, Inc. with substantial funding from the Teacher Retirement System of Texas, as well as from a significant UK-based pension scheme (foregoing unaudited).

The group is exploring opportunities to broaden the profile of capital under management for both its equity and debt investment activities to include institutional investors from the United States, Europe and elsewhere. The group is also actively exploring opportunities to expand its investment footprint beyond the United States and is, in particular, focused on establishing an investment presence in Europe.

Investment Process

Acquisition. Investcorp's real estate investment team identifies potential real estate investments, evaluates such targets and ultimately determines whether or not to complete an acquisition thereof using a derivative of the same rigorous process as is applied by the private equity team in their evaluation and execution of private equity investment opportunities. As with Investcorp's other product lines, it believes its stringent investment selection process is a competitive advantage that enhances its ability to successfully market Investcorp's real estate investment portfolios to its clients and increases the potential for attractive exit gains. Potential real estate investments undergo a detailed and extensive selection process intended to identify investments which meet Investcorp's criteria and those of its clients and provides the potential for ongoing yield and, particularly in the case of Investcorp's opportunistic product, sizeable capital gains at exit, including extensive pre-investment due diligence on all aspects of the property and the relevant market and detailed valuation modelling.

Prior to the determination to proceed with any potential real estate investment acquisition, Investcorp's Real Estate Investment Committee, which is comprised of the two co-heads of the real estate investment team, the global head of direct investments and its COO, must review and issue final approval.

Post acquisition. During the post-acquisition phase, Investcorp's real estate investment team involved in the initial acquisition closely cooperates with the operating manager of a property to actively manage and maximise the yield from the property. Additionally, the real estate investment team seeks to identify capital improvements and refurbishment initiatives that will add value or allow the strategic repositioning of a property in order to minimise its vacancy rate and increase operating income.

Realisation. Investcorp begins planning for realisation prior to acquisition when it first evaluates the likely timing and positioning for a profitable divestiture. Throughout the life of an investment, Investcorp evaluates market conditions and exit alternatives, and takes an opportunistic approach to realisation, taking advantage of strong markets and property valuations when they arise. Investcorp seeks to exit an investment when maximum IRR for investors may be achieved. Investcorp's typical holding period is between three and seven years.

Employees

Investcorp had a total of 304 employees deployed across the Bahrain, London and New York operational centres, as at 30 June 2012. The New York office had 100 employees, including 61 alternative investment professionals, the London office had 53 employees, including 24 alternative investment professionals and the Bahrain office had 151 employees, including 72 alternative investment and placement professionals as at 30 June 2012.

Investcorp focuses its hiring strategy for alternative investment professionals on top graduates from the leading universities, who it trains internally, and on top candidates from other leading asset management and alternative investment firms who are hired laterally. Most of the alternative investment professionals hold advanced degrees or professional qualifications in the speciality on which they focus.

As at 30 June 2012, Investcorp employed 50 professionals in the corporate investment product line, 40 professionals in the hedge funds product line, 16 professionals in the real estate investment product line, 45 professionals in the corporate support areas and 22 professionals in the Bahrain -based placement and relationship management team.

Investcorp professionals receive a balanced compensation package designed to provide the optimal mix of cash compensation, long and short term incentives in order to align the interests of the professionals and those of the clients and to encourage loyalty and retention. Many of Investcorp's professionals receive a combination of a fixed salary, variable cash bonuses based on annual performance, interests in 'carry-based' incentive schemes, the option to invest alongside Investcorp's clients, and the opportunity to participate in equity-based plans involving indirect interests in Investcorp's shares. The aggregate amount of compensation paid to members of senior management and other Investcorp executives is highly correlated with Investcorp's net income. The 'carry-based' programmes that Investcorp's investment professionals participate in provides that a certain variable portions of exit proceeds otherwise due to investors (or Investcorp with respect to any retained investment) will be shared with the professionals, provided that certain pre-established minimum performance objectives on the underlying investments are satisfied. Certain of Investcorp's hedge fund professionals participate in an incentive programme that is linked to the risk-adjusted performance of the hedge funds product line over a rolling four-year period that will terminate in October 2012. Management may also co-invest alongside Investcorp and its clients in various investment products: Under these investment programmes, employees allocate a portion of their annual compensation each year for participation in the investments. Finally, through ownership in the SIPCO Group and through programmes arranged by the SIPCO Group which offer the employees indirect economic interests in Investcorp's shares, employees are able to indirectly own beneficial interests in Investcorp's shares. Such SIPCO Group ownership and such indirect economic interests are purchased or acquired by employees by using a portion of their annual bonus amounts. Professionals at the level of Managing Director and Principal are required to defer a percentage of their cash bonuses in excess of a specified threshold into the SIPCO program. For additional information regarding Investcorp's employee compensation objectives and arrangements, see note 24 to the fiscal year 2012 consolidated financial statements included elsewhere in this Prospectus.

Competition

Since Investcorp's inception, as a result of the significant investable wealth created by the oil and gas sector, the GCC region has been a geographic area that has attracted North American and European, as well as local financial institutions, seeking to secure investment management mandates. The competition for placement of alternative investment assets has steadily grown in the GCC region as the asset class has become more developed and mainstream, GCC region investors became more familiar and comfortable with the asset class and the number of global providers of alternative asset products has grown. Investcorp's competitors in the GCC region include all those institutions that seek to tap into the pool of investable wealth for placement of private equity investments either on a deal by deal or on a committed fund basis, including but not limited to, Blackstone, Kohlberg, Kravis & Roberts, The Carlyle Group, Texas Pacific Group, Permira, BC Partners and Abraaj Capital. In hedge funds, Investcorp's competitors are the leading global fund of hedge funds providers including, but not limited to, Man Group plc, Union Bancaire Privee, HSBC and Gottex, as well as the fund of hedge fund groups within the leading global investment banks such as Credit Suisse, J.P. Morgan and Credit Agricole.

Investcorp may face increasing competition in the GCC region from existing and new competitors who may perceive the substantial growth recorded in recent years in the region as an opportunity to expand further their placement activity of investments. Furthermore, private wealth management groups of global investment and commercial banks increasingly are establishing local offices in the major GCC region metropolitan areas. However, Investcorp believes that the increased presence of these institutions offering high quality alternative asset investment products and services will benefit the market generally, including Investcorp, by increasing the awareness of alternative assets as a component of diversified investment portfolio, growing investors familiarity, comfort and ultimately their allocations to the asset class.

Whereas the growing focus on the GCC region by North American and European institutions and the increased development of local providers of investment management services will likely increase competition, Investcorp believes that the strength of its brand and the depth of its contacts and client relationships developed over 30 years in the GCC region will allow it to continue to successfully compete against such institutions for placements of investments with GCC region clients. Moreover, Investcorp is one of the few firms active in the GCC region that has emphasised penetration of and service to the private, Ultra High Net Worth investor universe. With very few exceptions, none of Investcorp's competitors have focused on this segment with the same degree of high quality and intensive service provision, product customisation based on client needs and depth of market penetration.

Investcorp's products have been distributed primarily to its clients in the GCC region. Investcorp plans to grow its business outside the GCC region, in particular in North America and to a lesser extent in Europe, where Investcorp believes its hedge funds products will be attractive to institutional investors. The North American and European private equity and hedge fund markets are very well-established and highly competitive with an increasing number of participants.

In addition to competition for clients, Investcorp also competes for investment targets in the corporate investment and real estate investment product lines in North America and Europe where it compete with a broad range of investment firms and other investors with whom it has overlapping investment strategies. Investcorp believes that its experience and past success in terms of screening, analysis and due diligence, assessing the correct price for targets and its reputation in the industry indicates that it is competitive and will continue to be successful in acquiring targets at attractive prices.

Organisational Structure

The Guarantor, Investcorp Bank B.S.C., is domiciled and registered in Bahrain as a wholesale bank under the regulatory oversight of the CBB. The Guarantor has a 100 per cent. economic interest in Investcorp Holdings Limited, a Cayman Islands subsidiary, which in turn is the parent of the Issuer Investcorp S.A., domiciled in the Cayman Islands, which is the principal financial holding company and asset owning entity within Investcorp. As at 30 June 2012, the Issuer owned 97.8 per cent. of the assets of the Group.

Other than Investcorp Holdings and the Issuer, the Guarantor has the following wholly-owned significant subsidiaries, which, unless otherwise indicated, are in turn each wholly-owned by the Issuer.

Name	Jurisdiction of Incorporation	Activities
Investcorp Capital Limited	Cayman Islands	Company that issues the Group's long-term notes and other capital market financings
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 non-United States client investment holding companies for corporate and real estate investment investments
Investcorp Investment Advisers Limited	Cayman Islands	Company that provides investment management and advisory services to investment funds including hedge funds and is an 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 Equities Limited (wholly-owned by Investcorp Trading Limited)	Cayman Islands	Company that manages the Group's excess liquidity.
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 & Investment Services S.A.	Switzerland	Company that provides M&A advisory services for deal execution in Western Europe
Investcorp International Limited	United Kingdom	The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) arranges M&A transactions in UK
Investcorp International Holdings Inc.	Delaware (United States)	The Group's holding company in the United States of America

Name	Jurisdiction of Incorporation	Activities
Investcorp International Inc. (wholly-owned by Investcorp International Holdings Inc.)	Delaware (United States)	Company that employs United States based employees
N.A. Investcorp LLC (wholly-owned by Investcorp International Holdings Inc.)	Delaware (United States)	Company that provides marketing services in the United States for the HFP and is a SEC registered broker dealer
Investcorp Investment Advisers LLC (wholly-owned by Investcorp International Holdings Inc.)	Delaware (United States)	Company that provides investment management and advisory services in the United States for investment funds including hedge funds and is an SEC registered investment advisor
Investcorp Saudi Arabia Financial Investments Co (wholly-owned by the Guarantor)	Saudi Arabia	Company that acts as a principal agent of the Bank in Saudi Arabia for placements of the products offered by the Group

Legal and Regulatory Proceedings

From time to time Investcorp is involved in litigation in connection with its business activities. A description of risks Investcorp is subject to in relation to litigation is set out in ''*Risk Factors – Investcorp is exposed to significant legal risks that may arise in the conduct of its business and the outcome of related legal claims may be difficult to predict*''. The following litigation involving material claims against the Investcorp Group is currently pending:

Al Sadik: In December 2009, an investor in Investcorp's hedge fund program issued proceedings against a number of Investcorp companies claiming compensation for losses that he had incurred and payment of the investment return that he alleges was orally guaranteed to him. Investcorp vigorously contested the litigation and the case was tried in the Cayman Islands early in 2012. The judge issued a judgment in which he dismissed all of the plaintiff's claims. The plaintiff has appealed the dismissal of his claims and the appeal will be argued in an appellate proceeding in the latter part of November 2012.

Werner: In November 1997, Investcorp and its clients acquired a majority interest in Werner Holding Co. (PA), Inc. (with affiliates, ''**Werner**''), the largest manufacturer of ladders and climbing products in the United States, and, thereafter, Investcorp designees comprised a majority of the Werner board of directors. Starting in late 2003, Werner suffered a material downturn resulting from, among other things, the loss of its largest customer, increased foreign competition and record increases in raw material costs. Werner filed for bankruptcy protection in June 2006.

In the bankruptcy proceeding, a trustee, Old Ladder Litigation Co., LLC (''**Old Ladder**'' or the ''**plaintiff**''), was appointed to pursue litigation claims on behalf of Werner's creditors. In January 2008, Old Ladder filed a lawsuit in federal court in which more than 500 defendants are named, including Investcorp, certain of its corporate affiliates, its designees to the Werner board, and its clients who participated in the Werner investment, as well as other former Werner directors, officers, shareholders and advisors who are not affiliated with Investcorp. The lawsuit primarily concerns Investcorp's initial investment transaction in November 1997, and a June 2003 recapitalization in which a portion of Investcorp's and its clients' equity was redeemed for approximately U.S.$100 million and the other Werner shareholders received about U.S.$50 million in redemption payments. The plaintiff also seeks to recover fees paid to Investcorp in connection with these transactions and for management advisory services.

A large number of the defendants, including Investcorp, have moved to dismiss the lawsuit and are awaiting a decision on the motion. Investcorp believes the plaintiff's claims against it and its affiliated defendants are without merit and, if all of these claims are not dismissed on the pending motion, Investcorp intends to vigorously defend against them. Since March 2012, the plaintiff and Investcorp have exchanged written discovery and responses/objections thereto, and discovery is ongoing.

The Investcorp Group's insurers are paying the costs of defending these claims.

RISK MANAGEMENT

Investcorp takes an enterprise wide approach to risk management, and the proactive identification and mitigation of all embedded risks. The identification, assessment, mitigation and control of risks is an integral part of Investcorp's corporate decision making process.

Investcorp has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analysis, specifically addressing the investment and concentration risks of each individual line of business.

In compliance with regulatory requirements in Bahrain, Investcorp has established a comprehensive risk supervision framework.

Risk Management Organisation

Board of Directors

The Board of Directors carries the ultimate responsibility for the management of risk within Investcorp. They review decisions made by the board committees and senior management, and also approve all corporate policies, including those relating to risk management, which have been recommended by the board committees and senior management. In discharging their duties and responsibilities the Board of Directors are supported by a number of board committees.

Board Audit Committee

The Board Audit Committee (''**BAC**'') evaluates all components of the internal audit function of Investcorp. It recommends to the BoD the appointment of the external auditors and the head of internal audit and it oversees other audit matters in accordance with policies established by the BoD. The BAC also reviews compliance with all applicable laws and regulations. The BAC makes decisions within the authorities granted to it by the BoD. It reviews internal audit findings and refers them to the BoD for review. The Internal Audit Council and the Internal Audit Department support the BAC. The Internal Audit Council is a body established to ensure that Internal Audit Department provides the BAC with an independent professional service to review, monitor, assess and report on the adequacy and effectiveness of Investcorp's internal controls. The Risk Manager presents to the BAC at each BAC meeting an update on all risk issues for the whole bank.

Financial and Risk Management Committee

The Financial and Risk Management Committee (''**FRMC**'') is responsible for performing a review of balance sheet risks from a company-wide perspective. The FRMC evaluates risk planning and discusses all major actions undertaken to manage risks from the standpoint of Investcorp's business model, capital base and ongoing operations. The FRMC is comprised of the Chief Financial Officer, other senior members of the corporate financial management group and the heads of several lines of business.

Asset and Liability Council

The Asset and Liability Council (''**ALCO**'') assesses and reviews various balance sheet risks arising from treasury activities and decides on mitigation strategies for these risks, operating under the guidelines agreed by the FRMC. Balance sheet risks include counterparty credit risk, proprietary co-investments in each line of business, liquidity and funding, exposures to (non-USD) foreign currencies, adverse movements in interest rates, and operational risk arising from Treasury activities. The ALCO is chaired by the Chief Financial Officer and includes the head of risk management and other senior members of the corporate financial management group.

Types of Balance Sheet Risk

Investcorp groups its predominant balance sheet risks under the following categories:

- line of business investment or equity price risk;
- counterparty credit risk;
- funding liquidity risk
- concentration risk;
- foreign currency risk;

- interest rate risk; and
- operational risk

Line of business or equity price risk

Investcorp's investment risk arises primarily from the initial underwriting and the subsequent co-investment in each of the product lines of corporate investment, real estate investment and hedge-funds.

Corporate Investment and Real estate investment

The investment risk that is particular to both the Corporate Investment-North America and Europe business and the real estate investment business is mitigated by a set of tools that are used at all stages of the investment process. At pre acquisition, the risk management team works alongside the deal team to implement a proprietary risk model based on the target company's business plan and financial projections. The risk management team assesses the soundness of the base case assumptions and the robustness of the investment thesis using stress testing and scenario analysis. The risk team also assesses the deal's risk return profile given growth plans and assumptions; and macroeconomic risks such as: recession, inflation, raw material costs, foreign exchange, interest rates etc. Lastly, the risk team assesses any industry correlation of portfolio assets as well as the fit of the target asset from a client portfolio and balance sheet retention perspectives.

Once a company or real estate investment asset is acquired, the risk management team takes a portfolio approach to evaluate the risk impact of the investment on the balance sheet. The risk management team regularly performs such risk analyses to ascertain how the risks of the portfolio change over time and how such risk relates to internal limits and guidelines. Factor and correlation analysis among the portfolio holdings is conducted on a regular basis in order to identify any over concentration in a specific sector and evaluate hedging of any undue downside risk. Finally, when exiting a portfolio asset, hedging strategies may be used to mitigate risks associated with the exit process and to protect the expected realisation proceeds from downside risks.

Hedge Funds

Investcorp manages its hedge funds portfolio risk both from market strategy and manager selection perspectives. The most prevalent market risks emanate from an unfavourable market environment or from strategy specific risks such as illiquidity. Investcorp mitigates manager risks through manager due diligence, diversification, use of separate accounts, exposure monitoring, stress testing, transparency and control of leverage. Manager selection is based on due diligence with an emphasis on investment style, philosophy and risk management discipline.

The availability of portfolio details through the use of separate accounts and pre negotiated transparency with hedge funds managers enables a more complete VaR and risk-factor analysis, as well as meaningful strategy specific exposure and profit attribution analyses.

The various risks related to the hedge funds portfolio are managed through strategic asset allocation, which generates a core portfolio range with expected volatility; and tactical asset allocation, which provides flexibility to adjust within a range set by the strategic allocation process in light of prevailing macro-economic opportunities.

Investcorp's risk management philosophy is to diversify the hedge funds portfolio across managers and strategies. Allocations to individual managers are capped at less than 10 per cent. of the portfolio to protect against manager concentration risks. Investcorp maintains a 'watch list' for those managers whose risk profiles or performance levels deviate from targeted guidelines, with a view to redeeming the investment with such managers if the deviations are not corrected.

While investment in hedge funds is designed to have a low level of correlation to various markets, liquidity can temporarily decrease during periods of extreme stress, and correlations between previously independent strategies may increase, as occurred during the first half of 2009. Asset allocation, monitoring guidelines and separate accounts are used to cushion or mitigate these risks during periods of extreme market volatility and stress.

Counterparty Credit Risk

Investcorp manages its credit risk by establishing counterparty exposure limits based on an analysis of the counterparty's creditworthiness. Compliance with such limits is monitored.

Funding Liquidity Risk

Investcorp manages liquidity and funding risk by forecasting cash needs and managing cash flow as well as maintaining diversified sources of funding with lengthy maturities, in excess of Investcorp's average asset maturity.

Using a combination of on-balance sheet liquidity, held in the form of invested liquid assets, and off-balance sheet liquidity, in the form of un-drawn committed revolving bank facilities, Investcorp targets a high level of accessible liquidity. Liquid assets provide diversification from the illiquidity risks of Investcorp's second dominant category of balance sheet assets, its co-investments in corporate investments and real estate investments.

Investcorp stress tests its liquidity on a regular basis to ensure that it has sufficient cash in the near-term to meet unforeseen obligations and provide adequate coverage, in a worst-case scenario, for all near- and medium-term debt repayments.

Investcorp adopts a deliberate strategy to secure long- and medium-term funding from a geographically diverse lender base. Refinancing requirements are managed to avoid maturity concentration in any given period, and the Company continually reviews opportunities to access new financing markets or sources with new funding products.

Foreign Currency Risk

Investcorp does not take any material foreign exchange positions on its assets and liabilities denominated in currencies other than U.S. dollars. Investcorp systematically hedges significant non-dollar asset and liability exposures in the forward foreign exchange market or by using currency derivatives.

Interest Rate Risk

Investcorp maintains a floating rate funding strategy. This strategy is supported by research of both practitioners and academics. Overlaying this strategy, Investcorp uses a combination of interest rate swaps and other interest rate derivatives in order to protect against large movements in interest rates, while at the same time preserving the benefit of potential lower rates.

The exposure of Investcorp's balance sheet to interest rate risk is frequently measured and monitored using sophisticated risk management tools that provide in depth analysis across all investment and funding sources.

Operational Risk

Investcorp has implemented the basic indicator approach as part of the CBB and Basel II's requirements for Operational Risk. The risk management team has also conducted risk and control self assessments in every line of business to identify and assess the major operational risks and the relevant controls which mitigate these risks. Business support teams are also delegated the task to identify, assess and report operational risk and implement controls to mitigate any potential operational risk issues.

Exposure to Bahrain and the MENA Region

Many of Investcorp's clients and part of its business are based in the MENA region. As of 30 June 2012, approximately 62 per cent. of Investcorp's client assets under management were from GCC clients and 8 per cent. of Investcorp's total assets under management were corporate investment in the MENA region. Investcorp's main office in the GCC region and certain strategic investments are located in Bahrain. Since the beginning of 2011, there has been significant political and social unrest, including violent protests in a number of countries in the MENA region, including Bahrain. Beginning in February 2011, protests and demonstrations were held in Bahrain, protesting against the Government. In March 2011, protestors occupied and blockaded the key transportation arteries leading into the centre of Manama causing significant economic and social disruption. Following a period of coordinated security measures within GCC member states (including the government of Bahrain declaring a State of National Safety for three months starting in March 2011), in June and July 2011 Bahrain established an independent commission to report on the demonstrations and held a National Consensus Dialogue to discuss recommendations for constitutional and legislative reform. During the unrest in Bahrain, Investcorp's office remained operational without any delays in payments, placement activity in the region or any other transaction handling. Although there has continued to be sporadic unrest in 2012, the level of unrest has continued to decline.

Prolonged instability in the MENA region, and particularly in Bahrain, could impact Investcorp's MENA-based operations and investments, however, Investcorp believes that any such impact should be limited as the Issuer is the principal asset-holding operating entity within the Group and, consistent with covenants contained in Investcorp's medium and long-term debt, Investcorp holds at least 95% of its assets through the issuer or subsidiaries that are owned directly or indirectly by the Issuer. As at 30 June 2012, assets comprising 97.8 per cent. of the book value of Investcorp's consolidated assets were owned directly or indirectly by the Issuer. The actual exposure of Investcorp to the MENA region is only limited to its office property in Bahrain, certain strategic investments in Bahrain and minor indirect investment exposure through Gulf Opportunity Fund I.

Investcorp's placement teams in the GCC region operate independently in each country and hence significant interruption in any one country should not impact its relationships managers in other countries.

Furthermore the following are intended to mitigate any impact of any regional unrest upon Investcorp's operations:

- Under the articles of association of Investcorp Holdings, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair the Guarantor's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of the Guarantor's senior executive officers and members of the Guarantor's Board of Directors, have the power to declare that an ''investment protection event'' has occurred. See ''*Ownership – Shareholding Structure*''.
- Investcorp's main office in the GCC region is located in Manama, but Investcorp has the ability to operate out of the London office or other locations within the region, which can be activated in case of a significant disruption in Bahrain.
- Investcorp has secure operating systems in place which allow Investcorp employees to work remotely from anywhere in the world in case required.

Adequacy of Economic Capital

In order to conduct business over the long run in varying economic environments, Investcorp risk management evaluates how risks taken by the various business lines may impact overall balance sheet earnings and capital. There should be enough allocatable capital to allow Investcorp to be in a position to conduct its activities even through unfavourable investment environments that may adversely impact earnings or balance sheet valuations. The capital required to sustain these activities within a determined risk tolerance level is denoted as the ''risk or economic capital''. Risk management uses a proprietary model for this capital planning that will then provide a measure of risk adjusted performance. Risk capital allocation and planning represent a complement to the regulatory capital requirements as determined by the regulator.

The Internal Economic Capital model uses two complementary approaches to determine the adequacy of capital for Investcorp. The first approach is based on an economic capital requirement over a one year horizon. This aggregate economic capital requirement over a one-year horizon is based on multifactor and credit models for private equity and real estate. On the other hand, it employs a Monte Carlo simulation for hedge funds. The second approach is based on a dynamic long-term economic capital Monte Carlo model that considers organic business objectives and capital requirements to support these objectives. This model estimates the equity capital cushion at the 99th percentile loss over a five-year horizon across varying economic and operating environments. The model incorporates bottom-up input from all business lines using base case expectations and corresponding variability around these base cases and is then used to project the financial condition of the Company at the end of each of the next five years. The Monte Carlo simulations then project several thousand P&L and balance sheet scenarios, with the focus being on the amount of economic capital in the bottom 1 per cent. of simulated projections (termed the ''stress-case''). A stress-case scenario represents multiple and simultaneous stressed conditions across all lines of business over an extended period of time. The objective is to maintain a target capital cushion even in such stress-case scenarios, to ensure solvency and flexibility for business initiatives.

MANAGEMENT

Board of Directors

According to the Guarantor's articles of association the Board of Directors consists of at least five, but not more than 20 members. There are presently 14 members of the Board of Directors. The number of members on the Board of Directors is set by shareholders by resolution adopted at a shareholders' meeting. Each member of the Board of Directors is elected by ordinary shareholders acting at an ordinary general meeting for a term of three years, unless earlier terminated by action of the shareholders. Re-election of a member of the Board of Directors is permitted.

Under the Guarantor's articles of association, the Board of Directors has the ability to exercise all the powers and do all the acts necessary for the management of the business in conformity with the purposes stated in the Guarantor's memorandum of association and, to the extent limited by the Commercial Companies Law of Bahrain, the articles of association and any resolutions of the shareholders adopted at a general meeting.

The Chief Executive Officer is the only management member of the Board of Directors. Many members of the Board of Directors are also Strategic Shareholders. For additional information regarding Investcorp's relationship with its Strategic Shareholders, see "*Related Party Transactions*".

The following table shows the current members of the Board of Directors:

Name	Director Since	Date of Birth	Position
Mr. Abdul Rahman Salim Al-Ateeqi	20/06/1982	04/05/1928	Chairman of the Board
Mr. Abdul Aziz Jassim Kanoo	20/06/1982	20/10/1933	Vice Chairman of the Board; Member of the Administrative Policy Committee;
Mr. Nemir Amin Kirdar	20/06/1982	28/10/1936	Executive Chairman and Chief Executive Officer;
Mr. Abdullah Mohamed Alireza	23/02/1998	05/08/1940	Director; Member of the Audit Committee
Mr. Farouk Yousuf Khalil Almoayyed	31/07/2004	26/05/1944	Director; Chairman of the Corporate Governance Committee
Mr. Mohammed Bin Mahfoodh Bin Saad Al Ardhi (Air Vice Marshal)	03/09/2008	25/5/1961	Director; Member of the Investment Policy Committee; Member of the Corporate Governance Committee;
Mr. Mustafa Jassim Boodai	18/06/1986	08/02/1936	Director; Chairman of the Investment Policy Committee; Member of the Administrative Policy Committee;
Mr. Hussain Ibrahim Al-Fardan	20/06/1982	21/09/1933	Director; Chairman of the Administrative Policy Committee;
Mr. Majid Saif Al Ghurair	03/09/2008	31/1/1965	Director; Member of the Audit Committee; Member of the Corporate Governance Committee;
Mr. Abdulla Mohammed Mazrui	05/02/2006	10/04/1952	Director; Member of the Audit Committee
Mr. Abdul Rahman Ali Al-Turki	18/06/1986	12/11/1931	Director; Chairman of the Audit Committee
Mr. Khalid Rashid Al Zayani	20/06/1982	22/05/1944	Director; Member of the Administrative Policy Committee; Member of the Investment Policy Committee
Mr. Mohamed Bin Isa Al Khalifa	15/12/2009	31/12/1965	Director; Member of the Investment Policy Committee; Member of the Corporate Governance Committee
Mr. Jassim Bin Abdulaziz Al Thani	03/09/2008	24/12/1978	Director

The business address of each of the above directors is Investcorp Bank B.S.C., Investcorp House, P.O. Box 5340, Manama, Kingdom of Bahrain.

Mr. Abdul-Rahman Salim Al-Ateeqi is the Advisor to H.H. The Amir of the State of Kuwait. Prior to this, Mr. Al-Ateeqi served as Minister of Finance, Minister of Finance & Oil, Under Secretary at the Ministry of Foreign Affairs of Kuwait, Kuwaiti Ambassador to the U.S., Permanent Representative of Kuwait to the United Nations, Director General of Kuwait Health & Medical Services, Secretary General for the Police, Representative at the IMF/World Bank, Islamic Development Bank, Gulf Organisation for Development of Egypt, and Islamic Finance House Universal Holdings, Luxembourg.

Mr. Abdul Aziz Jassim Kanoo is the Vice Chairman of the Board of the Guarantor. Mr. Kanoo serves as Deputy Group Chairman of Yusuf Bin Ahmed Kanoo group of Companies and serves as the Chairman of Yusef Bin Ahmed Kanoo Company Limited Saudi Arabia, Bariod (Saudi Arabia) Ltd, Saudi Arabian Lube) Additives Company, Al Jazeera Tourism Company, Bahrain; and Novotel Al Dana Resort, Bahrain. He serves as the Deputy Chairman of Education Services Company (Taleem) (Prince Mohamed bin Fahd University). He serves as Director of United Arab Shipping Agencies (SA) Limited, Gulf Union Insurance Group, CIMB Islamic Investment House BSC, Family Investment Co. Limited and the Arab Thought Foundation. Previously, Mr. Kanoo served as Chairman and Director of Gulf Air Company G.S.C.

Mr. Nemir Amin Kirdar founded Investcorp in 1982. He began his banking career in 1969 with Allied Bank International in New York. In 1974, he joined Chase Manhattan Bank as Vice President and, between 1976 and 1981, he was posted to the Middle East to direct the bank's activities in the Gulf. Mr. Kirdar holds degrees from the University of the Pacific in California and Fordham University in New York, and honorary degrees from Georgetown University, the University of the Pacific and Richmond, the American International University in London. He also completed Harvard Business School's Senior Management Program.

Mr. Abdullah Mohamed Alireza is the Chairman and Owner of the Alireza Investment Co. He is the Chairman of Reza Investment Co, Jeddah; Reza Food Services Co., Jedda; and International Chemical Industries & Trading Co., Jeddah. He is a Director and Chairman of the Executive Committee of Haji Abdullah Alireza & Co., Jeddah. He is the President of the Board of Trustees, Mohamed & Ali Alireza Trust, Jeddah.

Mr. Farouk Yousuf Khalil Almoayyed is Chairman of Y.K. Almoayyed & Sons BSC, Almoayyed International Group, National Bank of Bahrain, Bahrain Duty Free Shop Complex BSC, Bahrain National Holding BSC, National Finance House, Ahila University, Ashrafs and the Gulf Hotels Group. Mr. Almoayyed also serves on the Board of Trustees of Ibn Khuldoon School, Bahrain.

Mr. Mohammed Bin Mahfoodh Bin Saad Al Ardhi formerly held the position of Commander in Chief of the Royal Air Force of Oman. In 2000, in recognition of his services, he was awarded the Order of Oman by His Majesty Sultan Qaboos Bin Said Al Said. Following his time in the air force, Mr. Al Ardhi joined the family business, a group of companies with investments in sectors including real estate development, oil and information technology. Mr. Al Ardhi is currently Chairman of Rimal Investment Projects, the Vice Chairman of the National Bank of Oman and also serves on the International Advisory Board of the Brookings Institute. He holds a Masters in Public Administration from the John F Kennedy School of Government, Harvard University.

Mr. Mustafa Jassim Boodai serves as Chairman of the Boodai Corporation, which comprises Boodai Trading Company Ltd. WLL, Gulf Engineering Company WLL, Boodai Construction WLL.

Mr. Hussain Ibrahim Al-Fardan serves as Chairman of Alfardan Group Holding Co. LLC, which holds a large number of operating subsidiaries, and United Development Co. Mr. Al-Fardan also serves as Vice-Chairman of Gulf Publishing and Printing Organisation, Managing Director of The Commercial Bank of Qatar, and is a Member of the Board for Qatar Insurance Co., Shati AI Jazeera Real Estate Development Co-Soc and Wahat Al-Shafalahia, Doha, Qatar-SOC.

Mr. Majid Saif Al Ghurair serves as Chief Executive Officer of Al Ghurair Group and Chairman of Drake and Scull International. He is a Director of Dubai Economic Council, Mashrek Bank, National Cement Co. and NASDAQ Dubai.

Mr. Mohamed Bin Isa Al Khalifa serves as Chief Executive Officer of Batelco Group. He also serves as Chairman of Oasis Capital Bank and is a Director of Etihad Atheeb.

Mr. Abdullah Mohammed Mazrui serves as Chairman of Emirates Insurance Company, Mazrui Holding Company, The National Investor, International School of Choueifat, Abu Dhabi, Arab International Logistics Company (Aramex), Jashanmal National Company, Depa United Group, Chemanol and Modern Décor & Wood Products Manufacturing Co. Ltd. He also serves as Director of National Investment Corporation, Dun & Bradstreet, Abu Dhabi Education Council, Education Coordination & Integration Council (ECIC), Abu Dhabi Economic Council, Emirates Specialities Co, Sigma Qatar, Petrochem Qatar and MENA Petro Services LLC as well as being a Member of the Advisory Board of INSEAD, Abu Dhabi and the EDHEC Business School, France. Prior to this, Mr. Mazrui served, among other positions, as Managing Director and Chief Executive of the National Bank of Abu Dhabi.

Mr. Jassim Bin Abdulaziz Al Thani is Minister of Business Qatar and Trade (State of Qatar). He serves as the chairman of the board of Qatar Foundation Endowment Fund and the Chairman of the Executive Committee of Qatar Small and Medium Enterprise Authority. He is the Deputy Chairman of the Qatar Financial Centre Authority, Ict Qatar (Supreme Council of Information Communication and Technology), Qatar National Bank and Qatar National Broadcasting Company. He also sits on the supervisory board of Porsche Automobil Holding SE.

Mr. Abdul Rahman Ali Al-Turki owns and chairs the ATCO Group, one of the largest firms in Saudi Arabia. Mr. Al-Turki is also Chairman of, among others, Al Sagr Saudi Insurance Co. E.C., Bahrain, Al Sagr Company for Co-Operative Insurance, Saudi Arabia and Abraaj Capital Limited, Dubai, U.A.E. and the Bahrain Specialist Hospital. He serves as a member of the Executive Committee of the Saudi British Business Council and the Founders' Council of Prince Salman Institute for Disability Research, Saudi Arabia. Previously, Mr. Al-Turki served for the Ministry of Communications of Saudi Arabia.

Mr. Khalid Rashid Al Zayani serves as Group Honorary Chairman/Chairman of Al Zayani Investments Group of Companies and as Honorary Chairman of Al Zayani Investments WLL, Zayani Motors WLL, Euro Motors WLL, Zayani Properties WLL, Zayani Leasing WLL and Orient Motors. In addition, he serves as Chairman of Midal Cables Ltd., Aluwheel WLL, Metal Form WLL, Intersteel WLL, Gulf Closures WLL, First Motors WLL, Al Baraka Islamic Bank, Bahrain British Business Forum and CISI – Bahrain. He is the Founder and Co-Chairman of the Bahrain British Business Council and President of the Bahrain Technology Transfer Society. Prior to this, Mr. Al Zayani served, among other positions, as Founding Member, Vice Chairman and Chairman of the Executive Committee of the Bahrain Islamic Bank and as Founding Member and President of the American Chamber of Commerce in Bahrain.

Board of Director Committees

Investcorp's Board of Directors has established four committees, collectively called Executive Committees, each of which meet several times each year. Each committee advises the Board of Directors on the matters identified below, often with the assistance of members of management. Seven directors sit on each of these committees. See "— *Board of Directors*" above for a list of the members of these Executive Committees.

Administrative Policy Committee

The Administrative Policy Committee functions as both a remuneration committee and a nominating committee. It is also responsible for oversight of Investcorp's administrative policies. The Administrative Policy Committee presently comprises Mr. Hussain Ibrahim Al-Fardan (Chairman), Mr. Abdul Aziz Jassim Kanoo, Mr. Mustafa Jassim Boodai and Mr. Khalid Rashid Al Zayani.

Audit Committee

The Audit Committee is responsible for the oversight of risk management, internal audit, external audit and compliance activities. The Audit Committee charter calls for it to ensure the independence of both the internal and external audit functions, to review the adequacy and effectiveness of accounting and financial controls, to oversee the activities of the internal and external auditors, to review the adequacy and effectiveness of risk management policies and methodologies and to oversee compliance. The head of internal audit and the head of risk management report directly to the Audit Committee. The Audit Committee presently comprises Mr. Abdul Rahman A. Al-Turki (Chairman), Mr. Abdulla M. Alireza, Mr. Majid S. Al Ghurair and Mr. Abdulla M Mazrui.

Investment Policy Committee

The Investment Policy Committee is responsible for overseeing investment policies. The Investment Policy Committee charter calls for it to review and improve Investcorp's budget and corporate funding plan for each fiscal year, to review and approve recommendations for investment strategies and products and services, to evaluate investment, processes and to recommend enhancements and to take action with respect to any other matter relating to the oversight of Investcorp's investment processes. The Investment Policy Committee presently comprises Mr. Mustafa Jassim Boodai (Chairman), Mr. Mohamammed M. Al-Ardhi, Mr. Mohamed I. Al-Khalifa and Mr. Khalid R. Al-Zayani.

Corporate Governance Committee

The Corporate Governance Committee is responsible for developing and submitting to the Board of Directors Investcorp's corporate governance guidelines, which serve as Investcorp's corporate governance framework, and from time to time thereafter recommend revisions to the framework, the implementation of the newly adopted Bahrain Corporate Governance Code, overseeing director education activities and developing and overseeing an induction program for new directors. The Corporate Governance Committee presently comprises Mr. Farouk Y. Almoayyed (Chairman), Mr. Mohamed M. Al-Ardhi, Mr. Majid S. Al-Ghurair and Mr. Mohamed I. Al-Khalifa.

Senior Management

Investcorp's management structure is non-hierarchical and comprises a number of management committees. Significant decisions are made collaboratively by teams, rather than by individuals. No individual member of the senior management has a veto right or is in a position where, acting alone, the member could override the decision made by others.

The following table sets forth the most senior members of Investcorp's management. Each of the members of Investcorp's senior management is a managing director of Investcorp.

Name	**Joined In**	**Date of Birth**	**Position**
Nemir Amin Kirdar	07/01/1981	28/10/1936	Founder, President, Chief Executive Officer
Mohammed Al Shroogi	01/09/2009	23/07/1952	President – Gulf Businesses
Rishi Kapoor	06/06/1992	06/09/1966	Chief Financial Officer
Michael Merritt	09/02/2011	13/10/1945	Founding member, Chief Administrative Officer
Scott Freidheim	13/11/2011	21/07/1965	Chief Executive Officer – Europe
Savio Tung	01/09/1984(1)	03/05/1951	Chief Executive Officer – North America
Stephanie Bess	06/04/2005	09/12/1952	General Counsel and Head of Compliance
James Tanner	07/09/2008	03/11/1960	Head Corporate Investment – MENA
Steven G. Puccinelli	05/07/2000	09/05/1958	Head of Corporate Investment – North America and Europe
Deepak B. Gurnani	01/02/1993	14/03/1963	Head of Hedge Funds
F. Jonathan Dracos	28/04/1995	11/07/1961	Head of Real Estate Investment
Hazem Ben-Gacem	18/07/1994	06/09/1970	Head of Corporate Investment – Europe

(1) Savio Tung left the firm in January 2009 and rejoined in August 2011.

The business address of each of the above members of Investcorp's senior management is Investcorp Bank B.S.C., Investcorp House, P.O. Box 5340, Manama, Kingdom of Bahrain.

In July 2012, Yves Alexandre, previously Head of Corporate Investment – European Business became an Advisory Director and Hazem Ben-Gacem, previously the Co-Head of Corporate Investment – Technology Business was appointed Head of Corporate Investment – European Business.

Set out below is certain biographical information regarding the members of Investcorp's management listed above, including relevant education and experience and certain current employment commitments and business interests outside of Investcorp.

Nemir Amin Kirdar is the President and Chief Executive Officer of Investcorp. He founded Investcorp in 1982. He began his banking career in 1969, and following two years of internal credit training, he covered South East Asia and Japan for Allied Bank International in New York. In 1974, he joined Chase

Manhattan Bank as Vice President and, between 1976 and 1981, he was posted to the Middle East to direct Chase's activities in the Gulf. Nemir graduated in Economics from the University of the Pacific in California and holds an MBA from Fordham University in New York. He also completed Harvard Business School's Senior Management Program. He has been awarded an honorary Doctor of Humane Letters degree from Georgetown University, Washington D.C., a Doctor of Laws degree from the University of the Pacific, California and an honorary Doctor of Economics degree from Richmond, the American International University in London.

Mohammed Al-Shroogi is the President – Gulf Businesses. He joined Investcorp in 2009 from Citigroup where he was Division Executive for the Middle East and North Africa region and CEO for the United Arab Emirates. Mohammed had a 30 year career with Citigroup in Bahrain, London and the UAE. Amongst his many achievements at Citigroup was establishing Citibank Bahrain as a major trading room between Asia and Europe. He was also Chairman of Citi Islamic Investment Bank. Mohammed holds a BA in Commerce from Kuwait University and attended the Executive Program at Harvard Business School. He is a Member of the Bahrain Economic Development Board, a Member of the Board of Trustees at Bahrain University, a Member of the Board of the National U.S.-Arab Chamber of Commerce in Washington D.C. and a Member of the Board of Injaz Al Arab.

Rishi Kapoor is the Chief Financial Officer. He joined Investcorp in 1992 from Citicorp, where he spent four years as a project manager in their systems consulting subsidiary for global financial institutions. Rishi has held several positions at Investcorp including Senior Internal Auditor, Head of Applications Development, Head of Business Analysis, Planning and Reporting and Head of Financial Management. Rishi holds a BTech in Electrical and Computer Engineering from the Indian Institute of Technology in Kanpur, India, and an MBA from Duke University, North Carolina. In connection with his role as a member of Investcorp's senior management, Rishi is also a member of the boards of certain of Investcorp's subsidiaries and portfolio companies.

Michael Merritt is the Chief Administrative Officer. He is one of the founders of Investcorp. He joined Investcorp in 1981 from Chase Manhattan Bank where he had spent 13 years in several positions, the last of which being Senior Credit and Marketing Officer for the company's Gulf division. Michael spent 15 years at Investcorp before leaving Investcorp in 1996 to become a self-directed trader of equities and financial futures. At the time that he left Investcorp, Michael was a Co-Chief Operating Officer. Michael returned to Investcorp as Chief Administrative Officer in 2011. Michael holds an MBA in Finance and a BSc in Management, both from New York University.

Scott Freidheim is the Chief Executive Officer – Europe. Before joining Investcorp in 2011, Scott Freidheim was Executive Vice President, Sears Holdings Corporation. He was President of Kenmore, Craftsman & Diehard and served on the Holdings Company Business Unit Board. Previously, Scott worked at Lehman Brothers for more than 17 years, most recently as Chief Administrative Officer and Executive Vice President, with oversight of the company's corporate division. Over the years, he held officer positions in Lehman's investment banking, private equity and corporate divisions. Scott is a Member of the World Economic Forum's Global Agenda Council and Forum of Young Global Leaders, a Member of the Council on Foreign Relations, a Member of the Executive Advisory Board of Sponsors for Educational Opportunity, a Member of Young Presidents' Organization and a Member of the Economic Club of New York. He is also actively involved with the Institute of International Education, which administers the Fulbright scholarship program, where he is a member of the Board of Trustees and the board of the Scholar Rescue Fund. Scott holds a BA in Economics from Northwestern University and an MBA from Northwestern University's Kellogg School of Management.

Savio Tung is the Chief Executive Officer – North America. Before joining Investcorp for the first time in 1984, Savio Tung was a senior banker at Chase Manhattan Bank and worked in its offices in New York, Bahrain, Abu Dhabi and London. He was also a key executive in establishing Chase's Bahrain office and marketing presence in the Gulf. Savio left Investcorp in January 2009, but continued to act as a consultant to the Corporate Investment – Technology team until he rejoined Investcorp in August 2011. Savio holds a BS in Chemical Engineering from Columbia University. He is a trustee emeritus of Columbia University and serves on the board of the Columbia University Investment Management Company, an endowment of over U.S.$7 billion. He is a member of the Council on Foreign Relations. Savio is also an independent non-executive director of Bank of China, Hong Kong Limited and a board member of Tech Data Corporation (NASDAQ: TECD).

Stephanie Bess is the General Counsel and Head of Compliance. She joined Investcorp in 2005 as a senior legal adviser. Stephanie spent the previous eight years as a partner of law firm Gibson, Dunn & Crutcher where, as well as managing their London office for several years, she worked on a wide range of transactions for Investcorp. Prior to joining Gibson, Dunn & Crutcher, Stephanie was a partner of the law firm Dechert. Stephanie holds a Juris Doctor degree from Harvard Law School (*cum laude*) and a BA in Political Science from the University of Pennsylvania (*magna cum laude*).

James Tanner is the Head of Corporate Investment – MENA. He joined Investcorp in 2008 from Morley Fund Management, the leading London-based investment house, now Aviva Investors, where he served on the firm's Executive Committee. Previously, James was managing director, Global Markets at HSBC in London for three years. James also spent 19 years at Morgan Stanley in London, New York and Hong Kong where his roles included serving as CEO of Morgan Stanley Investment Management, Europe and as Head of the International Private Client Group, Asia Pacific. James holds an MBA from Indiana University Graduate School of Business and a BSc in Finance from Indiana University. He is also a Fellow with the Securities & Investment Institute, UK and a member of the Institute of Directors.

Steven G. Puccinelli is the Head of Corporate Investment – North America and Europe. He joined Investcorp in 2000 from Donaldson, Lufkin and Jenrette, where his career spanned 15 years. Steven held several positions while there, most recently Managing Director and Head of the Retail and Consumer Industry Group. Steven is currently on the Board of Directors of KI, a manufacturer of office furniture, and Jostens, a manufacturer of school year books and jewellery items. Steven holds a Bachelor of Science in Business Administration from the University of California, Berkeley and an MBA from Harvard Business School.

Deepak B. Gurnani is the Head of Hedge Funds. He joined Investcorp in 1993 from Citicorp where he spent six years engaged in various management/information technology consultancy assignments with Citicorp and Citigroup offices in Europe. He specialised in Treasury and Risk Management systems and practices within Citicorp Investment Bank. His most recent position was Senior Consultant. Deepak holds a BTech from the Indian Institute of Technology, Delhi and an MBA (specialising in banking, finance and systems) from the Indian Institute of Management, Ahmedabad.

F. Jonathan Dracos is the Head of Real Estate Investment. He joined Investcorp in 1995, before which he was on the Executive Committee of the U.S.$1.2 billion George Soros Quantum Realty Fund, where he was Head of Disposition and Asset Management. He also previously served as a Senior Vice President for Jones Lang Wootton Realty Advisors, overseeing a U.S.$500 million portfolio of real estate assets, and as a real estate lending officer for Chemical Bank. Jonathan holds a BA in Economics from Duke University, North California and an MBA from the Wharton School of the University of Pennsylvania.

Hazem Ben-Gacem is the Head of Corporate Investment – Europe. He joined Investcorp in 1994 as a member of the European private equity team. Hazem is currently a board director of Wireless Telecommunication Group, kgb (previously InfoNXX), Utimaco Safeware AG, Moneybookers Limited, TDX Group and Sophos plc. Prior to joining Investcorp, Hazem was a member of Credit Suisse First Boston's mergers and acquisitions team in New York. Hazem holds a BA (Hons) in Economics from Harvard University. He also serves on the Dean's Council for the Harvard Kennedy School of Government.

There are no potential conflicts of interest between any duties to Investcorp of the members of its Board of Directors and senior management and their private interests or other duties.

Senior Advisory Groups

In connection with Investcorp's due diligence of target companies for its corporate investments, it employs the services of people who are veteran industry leaders who bring a wealth of business experience, strategic advice and networking contacts, and provide valuable input to the deal team. These ''Advisory Directors'' include former chairmen, chief executive officers, division presidents and other senior executives from diverse industries in Europe and North America. The Advisory Directors are not involved in the management of Investcorp, have no legal or corporate governance obligations and work with Investcorp in a purely advisory capacity.

The following table identifies a selection of Investcorp's current Advisory Directors:

Name	Position
Anders Pälsson	Advisory Director, Corporate Investment- Europe
Brian Dickie	Advisory Director, Corporate Investment-North America and Europe
Charles Marquis	Advisory Director, Corporate Investment-Technology
Claire Kent	Advisory Director, Corporate Investment- Europe
Dick Jalkut	Advisory Director, Corporate Investment-North America and Europe
James Hardymon	Advisory Director, Corporate Investment-North America and Europe
Klaus Martin Bukenberger	Advisory Director, Corporate Investment-North America and Europe
Martin Maleska	Advisory Director, Corporate Investment-North America and Europe
Maurice Marchand-Tonel	Advisory Director, Corporate Investment-North America and Europe
Richard Fuller	Senior Advisor, Corporate Investment-North America and Europe
Stephan Kessel	Advisory Director, Corporate Investment-North America and Europe
Thomas Burchill	Advisory Director, Corporate Investment – North America
Yves Alexandre	Advisory Director, Corporate Investment- Europe

The business address of each of the Advisory Directors is Investcorp Bank B.S.C., Investcorp House, P.O. Box 5340, Manama, Kingdom of Bahrain.

In addition to the Advisory Directors listed above, Investcorp may engage, on an as-required basis, other senior executives as industry specialist advisors during due diligence and post acquisition management, using its alumni network and its close relationships with executive search firms to source additional industry experts to assist its diligence on its deals or focus on specific portfolio companies.

Investcorp has also formed a European Advisory Board to provide senior counsel and guidance on high-level European business and policy issues. Members of the European Advisory Board are not involved in the management of Investcorp, have no legal or corporate governance obligations and work with Investcorp in a purely advisory capacity.

The members of Investcorp's European Advisory Board are:

- Giuliano Amato, Professor Emeritus of the European University Institute in Florence and former Prime Minister of Italy (1992-1993 and 2000-2001);
- Kofi Annan, President of the Global Humanitarian Forum, former Secretary General of the United Nations;
- Dr. Wolfgang Ischinger, Global Head of Government Relations and Public Policy for Allianz, former German Ambassador to the UK and the USA;
- Pierre Keller, Advisory Committee of Weatherhead Center, Harvard University, former Chairman of Lombard Odier & Cie, Geneva;
- Ana Palacio, Senior Vice President of International Affairs and Marketing for Areva, former Foreign Minister of Spain;
- Dr. Otto Schily, Member of the German Bundestag, former German Federal Minister of the Interior;
- Dr. Wolfgang Schüssel, Member of the Austrian Parliament, former Chancellor of Austria;
- Professor Klaus Schwab, KPMG, Founder & Executive Chairman of the World Economic Forum; and
- Lord Weidenfeld of Chelsea, President of the Institute for Strategic Dialogue, Founder and Chairman of Weidenfeld & Nicholson.

OWNERSHIP

Overview

Investcorp's ownership and subsidiary structure is designed to ensure that:

- the interests of the Strategic Shareholders, together with the public shareholders, are closely aligned with those of management; and
- Investcorp effectively operates as a management controlled entity.

Substantially all of the Group's assets and operations are owned and controlled by the Issuer. As a result, substantially all of Investcorp's commercial risks are held outside the Middle East.

Shareholding Structure

Investcorp's shareholding structure is designed to ensure that its assets are protected against Middle East regional risk. As at 30 June 2012, assets comprising 97.6 per cent. of the book value of Investcorp's assets were owned directly or indirectly by the Issuer, which is wholly-owned by Investcorp Holdings. In order to separate voting control from economic ownership, Investcorp Holdings has issued both voting shares and non-voting shares.

Currently 69.1 per cent. of the voting shares of Investcorp Holdings are owned directly by 3 Cayman Islands companies that are owned by Investcorp's management and the Strategic Shareholders. A majority of the Proxyholder Committee have voting control of those companies and, therefore, control of Investcorp Holdings. The Guarantor directly holds 23.1 per cent. of the voting shares of Investcorp Holdings and 100 per cent. of the non-voting shares of Investcorp Holdings. A wholly owned subsidiary of the Guarantor owns 7.8 per cent. of the voting shares of Investcorp Holdings. The non-voting shares owned by the Guarantor give it 100 per cent. of the economic ownership of Investcorp Holdings and, therefore, of Investcorp Group's consolidated assets.

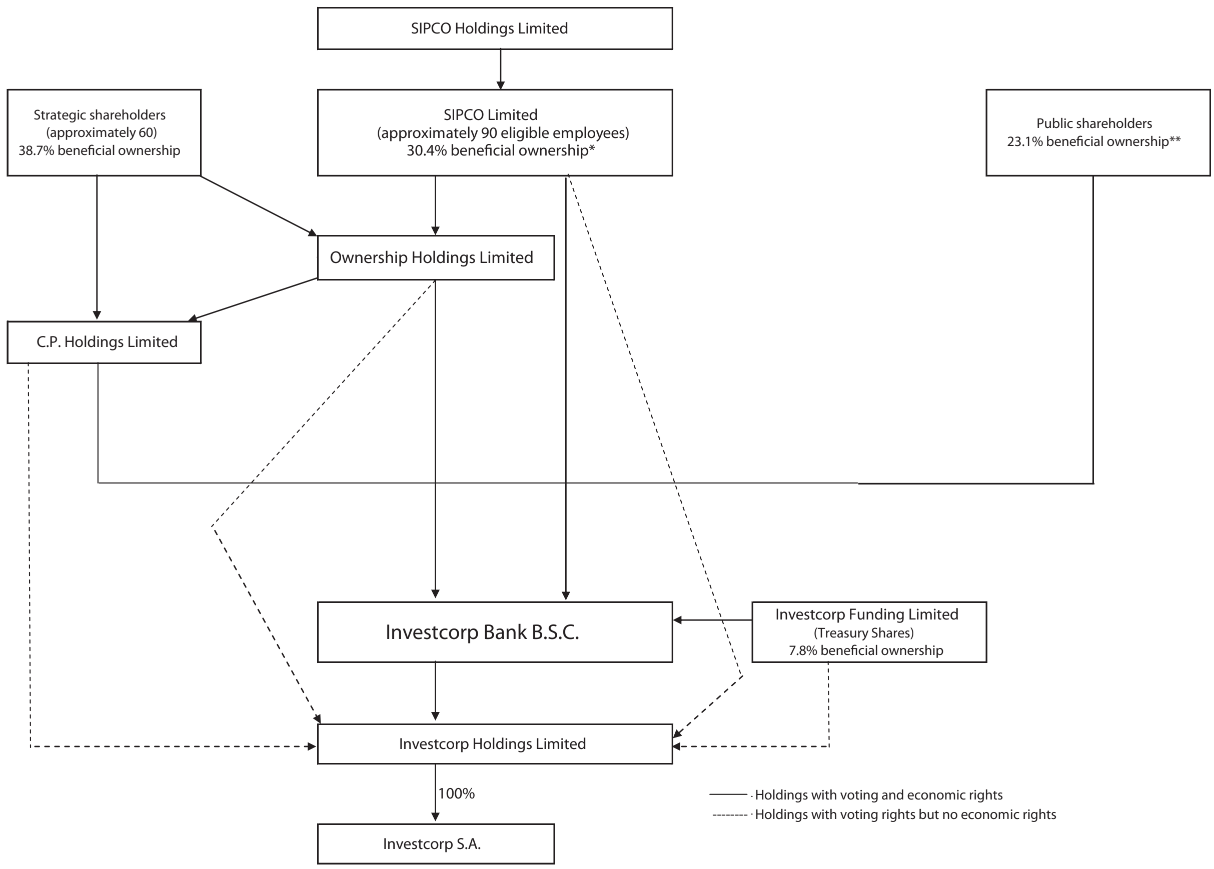
Under the articles of association of Investcorp Holdings, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair the Guarantor's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of the Guarantor's senior executive officers and members of the Guarantor's Board of Directors, have the power to declare that an ''investment protection event'' has occurred. Examples of circumstances that would constitute an ''investment protection event'' include the hostile invasion of Bahrain by the forces of a foreign state, the nationalisation of the Guarantor or interference in the conduct of business that is reasonably likely to result in a material adverse change in the business, operations, assets or financial condition of the Guarantor. Should the Designated Representatives declare that an investment protection event has occurred, the Guarantor's shares in Investcorp Holdings will be automatically redeemed for nominal consideration. If the Event is not temporary, Investcorp Holdings will issue shares and cause them to be delivered to the shareholders of the Guarantor so that each shareholder will own shares directly in Investcorp Holdings that are economically equivalent in all respects to the shares that they own in the Guarantor.

Under an agreement between the Guarantor, the Issuer and a subsidiary of the Issuer, upon the occurrence of an investment protection event: (i) such subsidiary of the Issuer guarantees certain deposit liabilities of the Guarantor to its depositors and the Issuer provides a supporting counter-guarantee of the subsidiary's guarantee obligations and (ii) intercompany indebtedness owed by the Issuer to the Guarantor at that time ceases to be repayable until such time as the Issuer's counter-guarantee obligations expire or have terminated.

Furthermore, under the terms of certain of Investcorp's financing agreements where the Guarantor has provided a guarantee, such guarantee will automatically terminate following the occurrence of an ''investment protection event'' (as defined in the articles of incorporation of Investcorp Holdings, and which is defined the same way as a ''Force Majeure Event'' in the Conditions). The Guarantee in respect of the Notes will terminate in such circumstances. See Condition 8.2 (*Release of Guarantor*).

Shareholders

The following diagram illustrates the Group's shareholder structure as at 30 June 2012:



* Includes 13.5 per cent. in shares that are held for potential future allocation to the Employee Share Ownership Plan and 2 per cent. un-vested shares under the Employee Share Ownership Plan. The Group has approval from the CBB to hold up to 40 per cent. of shares for the SIP Plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

** Includes 0.3 per cent. beneficial ownership held in the form of unlisted Global Depositary Receipts.

Ordinary Shares

The Guarantor is owned by public shareholders, management and Strategic Shareholders.

Public shareholders own 23.1 per cent. of the Guarantor's ordinary shares. 22.8 per cent. of these shares are traded on the Bahrain Bourse and are held by Gulf based nationals or institutions. Approximately 60 Strategic Shareholders, who are Gulf based nationals or institutions, indirectly own 38.7 per cent. of the Guarantor's ordinary shares. SIPCO Limited directly and indirectly owns 30.4 per cent. of the Guarantor's ordinary shares. Investcorp Funding Limited, a subsidiary of the Guarantor, holds 7.8 per cent. of the Guarantor's ordinary shares.

The 38.2 per cent. of the Guarantor's ordinary shares owned directly and indirectly by SIPCO Limited and Investcorp Funding Limited represents:

- management and other employees (approximately 90 employees) ownership of beneficial interests in 14.9 per cent. of the Guarantor's ordinary shares through Investcorp's Employee Share Ownership Plans (the "**ISOPs**")
- treasury shares, amounting to 13.5 per cent. of the Guarantor's ordinary shares, reserved for management to acquire beneficial interests through ISOP and 2% unvested shares under an ISOP
- treasury shares, amounting to 7.8 per cent. of the Guarantor's ordinary shares, available for future sale to strategic shareholders or for management to acquire beneficial interests in Investcorp Bank's Ordinary Shares through ISOPs.

Investcorp management's ownership of beneficial interests in the Group is implemented through the ISOPs. The ISOPs provide for management to buy their allocated beneficial interest in the Group for cash. These plans are intended to promote stakeholder alignment, encouraging management to focus on long term value creation and prudent control of balance sheet risks. The Group has approval from the CBB to hold up to 40 per cent. of the Guarantor's ordinary shares for the ISOPs.

Ownership Holdings Limited, a Cayman Islands company, has control of 65.5 per cent. of the Guarantor's ordinary shares directly and through C.P. Holdings Limited, a Cayman Islands company. C.P. Holdings Limited is majority owned by Ownership Holdings Limited which, in turn, is majority owned by SIPCO Limited. Strategic Shareholders own the balance of C.P. Holdings Limited and Ownership Holdings Limited. SIPCO also holds 3.6 per cent. of the Guarantor's ordinary shares directly.

As a result of certain proxy arrangements and the Guarantor's ownership structure, the Proxyholder Committee controls the voting of 69.1 per cent. of the ordinary shares of the Guarantor.

Without taking into account treasury shares, holders of beneficial interests in Investcorp comprise sovereigns and quasi-sovereign entities, holding approximately 30 per cent., management, holding approximately 22 per cent., merchant families, holding approximately 22 per cent., and public shareholders, holding approximately 26 per cent.

Without taking into account treasury shares and excluding Investcorp's management's approximately 22 per cent. beneficial interest in Investcorp, the holders of beneficial interests in Investcorp are primarily resident in Bahrain (24 per cent.), Qatar (17 per cent.), Saudi Arabia (17 per cent.), Kuwait (6 per cent.) and the UAE (5 per cent.).

Preference Shares

During its 2009 and 2010 fiscal years, Investcorp obtained shareholder and regulatory approvals to issue preference share capital of an aggregate of up to U.S.$540 million. As at 30 June 2012, 515,132 preference shares were issued amounting to U.S.$515.1 million. This also includes 3,667 Series D preference shares forfeited from outgoing employees amounting to U.S.$3.7 million

The table below summarizes the preference shares in issuance as of the balance sheet date:

	First call date	No of Shares	Par value
			(U.S.$ thousands)
Series B1	30 June 2014	117,270	117,270
Series B2	15 July 2014	204,010	204,010
Series B3	12 August 2014	74,975	74,975
Series C	12 August 2014	100,000	100,000
Series D	21 December 2014	18,877	18,877
Total		**515,132**	**515,132**

Without taking into account forfeited shares, and excluding Investcorp's management's approximately 3 per cent. beneficial interest in Investcorp preference shares, holders of beneficial interests in Investcorp's preference shares are sovereigns and quasi-sovereign entities (64 per cent.) and merchant families (33 per cent.).

These preference shares are non-cumulative, non-convertible, non-voting, non-participating and perpetual in nature and carry a dividend of 12 per cent. per annum up to their respective first call dates and 12-months USD LIBOR + 9.75 per cent. 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.

REGULATION

As a Bahrain based wholesale bank, Investcorp is licensed by the CBB, and all of Investcorp's activities are subject to comprehensive regulation by the CBB. In addition, Investcorp's ordinary shares are listed on the Bahrain Bourse, and Investcorp is subject to the regulations of the Bahrain Bourse.

Investcorp has a UK subsidiary that acts as an arranger of corporate finance transactions. This subsidiary is registered with and regulated by the Financial Services Authority.

In connection with the hedge funds business, Investcorp has one subsidiary that is registered with and regulated by the US Securities and Exchange Commission and the U.S. Financial Industry Regulatory Authority as a broker-dealer. Investcorp also has two subsidiaries that are registered with and regulated by the SEC as investment advisers. One of these subsidiaries is also registered with and regulated by the Cayman Islands Monetary Authority ("**CIMA**").

In addition, all of the funds included in the hedge funds business are registered with and regulated by CIMA and the CBB, and the funds included in the Corporate Investment – MENA business are registered with the CBB.

Investcorp Saudi Arabia Financial Investments Co. a subsidiary of Investcorp, is licensed by the Saudi Arabian Capital Market Authority to market Investcorp's various investment products in Saudi Arabia.

RELATED PARTY TRANSACTIONS

Investcorp's related parties include companies in which it invests, affiliate companies that hold its clients' investments (''**Client Companies**''), client companies associated with its hedge funds products and the company through which Investcorp's employees invest in beneficial ownership of Investcorp's ordinary shares. Transactions entered into between Investcorp and any of Investcorp's related parties may result in a conflict between its interests and those of such related parties. Investcorp enters into management agreements and other advisory agreements on commercial terms with these companies in the ordinary course of business. Investcorp manages these companies as a fiduciary acting on behalf of its client investors, who are third parties and the beneficiaries of a majority of the economic interest from the underlying investments made by these companies.

From time to time Investcorp provides loans or guarantees of third party loans to certain affiliate companies in connection with the SIPCO Group's purchase of shares.

Related parties also include the members of the Proxyholder Committee, members of the Guarantor's Board of Directors and senior management, and their immediate families and entities controlled, jointly controlled or significantly influenced by such parties. The Proxyholders Committee has, as at 30 June 2012 voting control over 76.9 per cent. of Investcorp's shares pursuant to proxy voting arrangements.

Investcorp carries out its investment activity, including corporate investments, hedge funds and real estate investments, using entities beneficially owned by its Strategic Shareholders, including certain members of the Guarantor's Board of Directors. In such role, the Strategic Shareholders are passive investors and are not involved in the management of such investments.

In the normal course of this activity, the entities beneficially owned by Investcorp's Strategic Shareholders have, in addition to their own equity, obtained asset backed financing from Investcorp in connection with the acquisition of certain corporate investments in North America and Europe, real estate investment assets, located in the United States, and hedge funds investments. Investcorp's consolidated balance sheet reflects these amounts under the relevant asset categories funded by such financing. Investcorp has also entered into financing and derivative collar arrangements with these entities. As a result of these agreements, Investcorp bears certain financial risks and enjoys certain financial benefits with respect to assets held by its Economic Co-Investors and Investcorp therefore includes a portion of these assets, as well as a portion of the gains and losses on these assets in its consolidated balance sheets, cash flow statements and income statements. Investcorp does not control these entities and it is possible that the agreements with them could be modified or revoked, in which case the appropriate accounting treatment could change.

Members of the Guarantor's Board of Directors and senior management and certain members of their immediate families and entities controlled, jointly controlled or significantly influenced by such parties may, from time to time, invest in Investcorp's products as clients. In their investments as clients, they are passive investors and are not involved in the management of the investments.

THE ISSUER

General

Investcorp S.A. was originally incorporated as a limited liability company in the Grand Duchy of Luxembourg and qualified as a financial holding company. On 18 May 2010 the Issuer transferred its domicile to the Cayman Islands as an exempted company. The Issuer is registered in the Cayman Islands under registration number 240820 and its registered office is at the offices of Paget-Brown Trust Company Ltd, Boundary Hall, Cricket Square, P.O. Box 1111, Grand Cayman KY1-1102, Cayman Islands.

The Issuer is a holding company which owns a number of subsidiaries and the activities of the Issuer are substantially transacted through its subsidiaries. The Issuer is the financial holding company that is the principal operating and asset owning arm of the Investcorp Group.

Tax on income earned by the Issuer's subsidiaries is paid and provided for in accordance with the fiscal regulations on the countries in which the Issuer's respective subsidiary entities operate.

Principal Activities

The Issuer and its subsidiaries carry on substantially all of the business activity described in the section "*Investcorp's Business*", other than the placement and relationship function and the management of the Corporate Investment-MENA business.

Share Capital

The Issuer's subscribed share capital comprises 200,000 ordinary shares of par value U.S.$1,000 each and 511,465 preference shares of par value U.S.$1,000 each as at 30 June 2012.

Ownership

The Issuer is wholly owned by Investcorp Holdings, a company incorporated in the Cayman Islands. The ownership of Investcorp Holdings is described in "*Ownership*".

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 Issuer is the principal asset holding entity within the Group. Under covenants contained in the Group's medium and long-term debt agreements, the Issuer is required, directly or through its subsidiaries, to be the legal and beneficial owner of at least 95 per cent. of the assets of the Group, determined in accordance with IFRS. Such a requirement for the Issuer to be the legal and beneficial owner of at least 95 per cent. of the assets of the Group is included in Condition 9.8 (*Ownership of Assets*). As at 30 June 2012 the Issuer owned, directly or through its subsidiaries, 97.6 per cent. of the assets of the Group.

The Investcorp Group structure showing the position of the Issuer and its significant subsidiaries is set out in "*Investcorp's Business – Organisational Structure*".

Management

The Issuer has a board of directors, currently consisting of four directors. The directors at present are:

- Nemir Kirdar;
- Rishi Kapoor;
- Stephanie Bess; and
- Jonathan Minor.

The business address of each of the above directors is Investcorp Bank B.S.C., Investcorp House, P.O. Box 5340, Manama, Kingdom of Bahrain.

There are no potential conflicts of interest between any duties of the directors to the Issuer and their private interests and or other duties.

Auditors

The statutory auditors of the Issuer are Ernst & Young, Bahrain, whose registered office is at P.O. Box 140, 14th Floor – The Tower, Bahrain Commercial Complex, Manama, Kingdom of Bahrain.

Annual General Meeting

The annual general meeting of the Issuer takes place at the registered office of the Issuer or at such other place as may be specified in the convening notices within three months after the end of its financial year.

Accounts

The Issuer's financial year begins on 1 July and ends on 30 June of each year. The Issuer prepares annual financial statements in accordance with IFRS. The Issuer's consolidated financial statements as of and for the financial years ended 30 June 2012, 2011 and 2010, which are included in this Prospectus, have been audited by Ernst & Young, Bahrain, independent auditors, as stated in their reports included herein.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Certificate (if issued).

The U.S.$250,000,000 8.25 per cent. Guaranteed Notes due 2017 (the "**Notes**", which expression includes, unless the context otherwise requires, any further notes issued pursuant to Condition 3.2 (*Further Issues*) and forming a single series therewith) of Investcorp S.A. (the "**Issuer**"), are (a) constituted by and subject to a trust deed dated 1 November 2012 (the "**Trust Deed**") made between the Issuer, Investcorp Bank B.S.C. (the "**Guarantor**") and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression shall include all persons for the time being appointed as trustee for the holders of the Notes (the "**Noteholders**") under the Trust Deed) and (b) are the subject of an agency agreement dated 1 November 2012 (the "**Agency Agreement**") between the Issuer, the Guarantor, the Trustee and Deutsche Bank AG, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agents appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and Deutsche Bank Luxembourg S.A. as a transfer agent and non U.S. registrar and Deutsche Bank Trust Company Americas as U.S. registrar, a paying agent and a transfer agent (together, the "**Registrars**" and each a "**Registrar**", which expression shall include any successor registrar(s) appointed from time to time in connection with the Notes, and, together with the Paying Agents and the Transfer Agents, the "**Agents**") Terms used but not defined herein shall have the meanings given thereto in Condition 20 (*Definitions*).

Noteholders should note that the Articles of Association of the Issuer's immediate holding company, IHL, contain provisions whereby, following a Force Majeure Event (as defined below), IHL will cease to be a Subsidiary of the Guarantor. In addition, under the terms of the Trust Deed, the Guarantee shall terminate automatically on the Declaration Date (as defined below) following a Force Majeure Event and thereafter all references in these Conditions and the Trust Deed to the Guarantee and the Guarantor as guarantor of the Notes shall be deemed to be deleted. The occurrence of a Force Majeure Event, and the consequential termination of the Guarantee, shall not constitute an event of default under the Notes.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee for the time being, being at the date hereof at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified office of the Principal Paying Agent, as set out in the Agency Agreement. As used herein, references to the Trust Deed include the Conditions set forth herein.

1. STATUS, FORM, DENOMINATION AND TITLE

1.1 Status of the Notes

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 9.6 (*Negative Pledge*) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

1.2 Status of the Guarantee

The Guarantee constitutes a direct, unconditional, unsubordinated and (subject to Condition 9.6 (*Negative Pledge*) unsecured obligation of the Guarantor which will at all times rank at least *pari passu* in right of payment with all other present and future unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

1.3 Form and denomination of the Notes

The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

1.4 Title

Title to the Notes will pass only by registration in the register of Noteholders. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, ''**Noteholder**'' and (in relation to a Note) ''**holder**'' mean the Person in whose name a Note is for the time being registered in the register of Noteholders kept by the Registrars.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2, business day shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

*The Notes are initially issued in global, fully registered form. Notes sold to QIBs, who are also QPs (as defined below) in the United States in reliance on Rule 144A under the Securities Act will be represented by a restricted global note (the ''**Rule 144A Global Note**''). Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by an unrestricted global note (the ''**Regulation S Global Note**'' and together with the Rule 144A Global Note, the ''**Global Notes**'' and individually, a ''**Global Note**''). Except in the limited circumstances described in the Global Notes, owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Note.*

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer. Neither the part transferred nor the balance not transferred may be less than U.S.$200,000.

2.3 Formalities free of charge

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. MATURITY, FURTHER ISSUES AND INTEREST

3.1 Maturity Date

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 1 November 2017 (the ''**Maturity Date**'').

3.2 Further Issues

The Issuer is permitted, from time to time, without notice to or the consent of the Noteholders, to create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date of and the amount of the first payment of interest), in accordance with the Trust Deed (the ''**Additional Notes**''). The Additional Notes, if any, will be consolidated and form a single series with the Notes. The Additional Notes and the Notes shall be treated as a single class for all purposes of the Trust Deed, including waivers, amendments, redemptions and offers to purchase.

3.3 Interest

(a) Interest on the Notes will accrue from and including 1 November 2012 (the ''**Issue Date**'') at the rate of 8.25 per cent. per annum (the ''**Rate of Interest**'') and will be payable semi-annually in arrear on 1 May and 1 November in each year (each, an ''**Interest Payment Date**''), subject as provided in Condition 4 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an ''**Interest Period**''. The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(b) When interest is required to be calculated in respect of a period of less than a half-year, it shall be calculated on the basis of a 360-day year comprised of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed on the basis of a month of 30 days.

(c) Interest on the Notes will cease to accrue with effect on and from their due date for redemption or repayment unless payment of the redemption monies or accrued interest (if any) is improperly withheld or delayed in which event interest will continue to accrue as provided in the Trust Deed.

4. PAYMENTS

4.1 Principal

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Certificate at the specified office of the Paying Agents.

4.2 Interest

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

4.3 Record Date

''**Record Date**'' means the 15th day before the due date for the relevant payment.

4.4 Payments

Each payment in respect of the Notes pursuant to Conditions 4.1 (*Principal*) and 4.2 (*Interest*) will be made by transfer to a United States dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 4.1 (*Principal*), if later, on the business day on which the relevant Certificate in definitive form is surrendered (or endorsed as the case may be) as specified in Condition 4.1 (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Certificate in definitive form is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

4.5 Payments subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

4.6 Delay in Payment

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 4 (*Payments*) arriving after the due date for payment or being lost in the mail.

4.7 Business Days

In this Condition 4, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and, in the case of surrender of a Certificate in definitive form, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Certificate in definitive form is surrendered.

5. OPTIONAL REDEMPTION AND PURCHASE

5.1 Optional Redemption Prior to Maturity Date

At any time prior to the Maturity Date, the Issuer is entitled, at its option, to redeem the Notes, in whole or in part, upon not less than 30 nor more than 60 days' prior notice to the Noteholders in accordance with Condition 17 (*Notices*) at a redemption price equal to 100 per cent. of the principal amount of such Notes, or part thereof to be redeemed, plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date (subject to the right of Noteholders on the relevant record date to receive interest due on the relevant interest payment date).

For purposes of this Condition 5.1:

(a) "**Applicable Premium**" means, with respect to a Note on any redemption date, the greater of:

  (i) 1.00 per cent. of the principal amount of such Note; and

  (ii) the amount (if any) by which:

    (A) the redemption price of such Note at the Maturity Date plus the present value at such redemption date of all required remaining interest payments due on such Note to and including the Maturity Date (excluding any accrued but unpaid interest to such redemption date), computed using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points.,

  exceeds

(B) the outstanding principal amount of such Note on such redemption date,

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate.

(b) "**Treasury Rate**" means, with respect to any redemption date, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Banking Days (but not more than five Banking Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market date selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to Maturity Date; provided, however, that if the period from the redemption date to Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the United States Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to Maturity Date is less than one year, then the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

5.2 Optional Redemption upon Qualified Equity Offering

At any time, from and after the Issue Date until the Maturity Date, upon not less than 30 nor more than 60 days' notice in accordance with Condition 17 (*Notices*), the Issuer may, at its option, on any one or more occasions redeem up to 35 per cent. of the aggregate principal amount of the Notes at a redemption price of 108.25 per cent. of their principal amount, plus accrued and unpaid interest, if any, to the redemption date, using for this purpose an amount equal to all or part of the net proceeds received by the Issuer from one or more Qualified Equity Offerings; *provided*, *however*, that:

(a) at least 65 per cent. of the aggregate principal amount of Notes would remain outstanding immediately after the occurrence of such redemption; and

(b) the redemption occurs within 45 days of the closing of such Qualified Equity Offering.

For purposes of this Condition 5.2, "**Qualified Equity Offering**" means an issuance and sale (public or private) of Capital Stock (other than Disqualified Stock) of the Issuer or any direct or indirect parent company of the Issuer with gross cash proceeds payable to the Issuer of at least U.S.$25 million (including any sale of Capital Stock purchased upon the exercise of any over allotment option granted in connection therewith).

5.3 Selection; Notice

If the Issuer partially redeems the Notes, the Notes will be redeemed on a pro rata basis or by such other method and Euroclear, Clearstream, Luxembourg or DTC's operational procedures, in compliance with applicable legal and stock exchange requirements). No Note of U.S.$200,000 in aggregate principal amount or less will be redeemed in part. If the Issuer redeems any Notes in part only, the notice of redemption relating to such Notes shall state the portion of the principal amount thereof to be redeemed. In case of any certificated Notes, a new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Noteholder thereof upon cancellation of the original Note. Once notice of redemption is sent to the holders, Notes or portions thereof called for redemption become due and payable at the redemption price on the redemption date (subject to the satisfaction of the conditions precedent stated in the redemption notice), and, commencing on the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption unless payment or the redemption moneys and/or accrued interest is improperly withheld or refused.

Any redemption notice given under this Condition 5 may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions, including in the case of a redemption pursuant to Condition 5.2 (*Optional Redemption Upon Qualified Equity Offering*), the completion of the related Qualified Equity Offering.

5.4 Compulsory Sale

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not both a QIB and a QP.

5.5 Purchase of Notes

The Issuer and/or the Guarantor and/or any of their respective Subsidiaries may at any time purchase or procure others to purchase for its or their account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 5.6 (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer/the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14.1 (*Meetings of Noteholders*).

5.6 Cancellation of Notes

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 5.5 (*Purchase of Notes*) will be cancelled and may not be reissued or resold.

6. TAXATION

6.1 Additional Amounts

(a) All payments payable under or with respect to the Notes and the Guarantee will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other additions related thereto) (hereinafter "**Taxes**") imposed or levied by or on behalf of any governmental authority of Bahrain or the Cayman Islands or (if different) any jurisdiction in which the payor is resident for tax purposes at the time of payment, and any political subdivision or taxing authority thereof or therein (each a "**Relevant Taxing Jurisdiction**"), unless such withholding or deduction is required by law.

(b) If any amounts are required to be withheld or deducted for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes or the Guarantee, the Issuer or the Guarantor, as applicable, to the fullest extent then permitted by law, will be required to pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by a Noteholder (including Additional Amounts) after such withholding or deduction will be equal to the amount such Noteholder would have received if such Taxes had not been withheld or deducted; *provided*, *however*, that the foregoing obligation to pay Additional Amounts does not apply to:

(i) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the relevant holder, if the relevant holder is an estate, trust, partnership or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding outside of the Relevant Taxing Jurisdiction of such Note);

(ii) any payment of or on account of estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge;

(iii) any tax, duty, assessment, fee or other governmental charge that would not have been imposed but for the presentation of the Note by the holder for payment more than 30 days after the date on which such payment on such Note became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period);

(iv) any withholding or deduction imposed on a payment to or for the benefit of an individual that is required to be made pursuant to Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusion of the ECOFIN council meeting of 26-27 November 2000 or any subsequent meeting of the

ECOFIN council, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(v) with respect to any payment of principal of or interest on such Notes or with respect to the Guarantee to any holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that (A) such withholding or deduction is required for the sole reason that the holder is a fiduciary, a partnership or a person other than the beneficial owner of such payment or (B) a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note;

(vi) any tax, duty, assessment, fee or other governmental charge that would have been avoided if the Noteholder had made a declaration of non-residence or similar claim for exemption or reduction of the applicable deduction or withholding but fails to do so;

(vii) any tax, duty, assessment, fee or other governmental charge that would have been avoided if the payments were made by another Paying Agent in a Member State of the European Union;

(viii) any withholding or deduction imposed as a result of the failure of the holder of the Note or beneficial owner of the Notes to comply with any reasonable written request, made to that holder or beneficial owner in writing at least 90 days before any such withholding or deduction would be payable, by the Issuer or the Guarantor to provide timely and accurate information concerning the nationality, residence or identity of such holder or beneficial owner or to make any valid and timely declaration or similar claim or satisfy any certification information or other reporting requirement, which is required or imposed by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from or reduction in all or part of such withholding or deduction;

(ix) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment in a Relevant Taxing Jurisdiction; or

(x) any combination of the above.

(c) The Issuer and the Guarantor will make all required withholdings and deductions and will remit the full amount required to be deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law.

(d) Whenever in the Trust Deed or the Conditions there is mentioned, in any context (i) the payment of principal; (ii) purchase prices in connection with a purchase of Notes; (iii) interest; or (iv) any other amount payable on or with respect to any of the Notes, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

(e) The Issuer or the Guarantor, as the case may be, will pay any present or future stamp, transfer or documentary taxes or any other excise or property taxes, charges or similar levies, and any penalties, additions to tax or interest due with respect thereto, that may be imposed in a Relevant Taxing Jurisdiction in connection with the execution, delivery or registration of the Notes, the Guarantee, the Trust Deed or any other document or instrument in relation thereto, or in any relevant jurisdiction in connection with any enforcement action.

(f) Notwithstanding anything to the contrary in this Condition 6.1, neither the Issuer, the Guarantor, nor any paying agent or any other person shall be required to pay any Additional Amounts with respect to any United States withholding or deduction imposed on or in respect of any Note or Guarantee pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**"), the laws of a Relevant Taxing Jurisdiction implementing FATCA, or any agreement between the Issuer and the United States or any authority thereof entered into for FATCA purposes.

(g) The obligations described under this heading will survive any termination or discharge of the Notes, the Guarantee and the Trust Deed and will apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer or the Guarantor is organised or any political subdivision or taxing authority or agency thereof or therein.

6.2 Supply of Information

Each Noteholder shall be responsible for supplying to the relevant Paying Agent, in a timely manner, any information as may be required by the latter in order for it to comply with the identification and reporting obligations imposed on it by the European Council Directive 2003/48/EC or any European Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any subsequent meeting of the ECOFIN Council Meeting on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive.

6.3 Redemption for Changes in Withholding Taxes

(a) The Issuer may redeem the Notes, at its option, at any time in whole but not in part, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), at 100 per cent. of the principal amount thereof, plus accrued and unpaid interest (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), in the event the Issuer or the Guarantor satisfies the Trustee in accordance with Condition 6.3(b) below immediately before the giving of such notice that it has become or would become obligated to pay, on the next date on which any amount would be payable with respect to the Notes or the Guarantee, any Additional Amounts as a result of:

(i) a change in or an amendment to the laws (including any regulations promulgated thereunder) of, any Relevant Taxing Jurisdiction (or any political subdivision or taxing authority thereof or therein); or

(ii) any change in or amendment to any official position regarding the application or interpretation of such laws or regulations which change or amendment is announced or becomes effective on or after the Issue Date and the Issuer and the Guarantor cannot avoid such obligation by taking reasonable measures available to them,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

(b) Before the Issuer notifies the Noteholders of a redemption of the Notes as described above, the Issuer will deliver to the Trustee an Officers' Certificate to the effect that the Issuer and/or the Guarantor cannot avoid the obligation to pay Additional Amounts by taking reasonable measures available to them. The Issuer will also deliver an opinion of independent legal counsel of recognised standing stating that the Issuer and/or the Guarantor would be obligated to pay Additional Amounts as a result of a change in tax laws or regulations or the application or interpretation of such laws or regulations. The Trustee shall accept the Officers' Certificates and such opinion as sufficient evidence of the satisfaction of the conditions precedent described above.

7. CHANGE OF CONTROL

7.1 Noteholders' Option

If, so long as any of the Notes remains outstanding, a Change of Control occurs then each Noteholder shall, upon the giving of a Change of Control Notice (as defined below) by the Issuer, have the option to require the Issuer to redeem any Notes it holds on the date (the "**Change of Control Put Redemption Date**") which is the fifth Banking Day after the date of expiry of the Change of Control Put Period (as defined below) at 101 per cent. of their principal amount, together with interest accrued up to, but excluding the Change of Control Put Redemption Date. Promptly, and in any event not later than 30 days after a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 17 (*Notices*), specifying that there has been a Change of Control and the procedure for exercising the option contained in this Condition 7.

7.2 Definitions

For purposes of these Conditions, "**Change of Control**" means:

(a) a transfer of shares or further issue of shares, or the consummation of any transaction (including, without limitation, any merger or consolidation) as a result of which any Person or group of Persons that is not or are not as at the Issue Date in control of the Guarantor or the Issuer, acting in concert gains direct or indirect control of the Guarantor (or, after the Declaration Date, the Issuer);

(b) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Guarantor or the Issuer and their Subsidiaries taken as a whole to any Person.

(c) the first day on which a majority of the members of the board of directors of the Guarantor or, after the Declaration Date, the Issuer, are not Continuing Directors; or

(d) the first day on which the Guarantor ceases to be the beneficial owner of 100 per cent. of the outstanding economic interests of the Issuer.

For the purpose of this definition "**control**" means the ability at any time to:

(a) cast, or control the casting of, more than the minimum number of votes that are required to be cast at a general meeting of the Guarantor (or, after the Declaration Date, the Issuer) to pass a resolution; or

(b) appoint or remove all, or the majority, of the directors or other equivalent officers of the Guarantor (or, after the Declaration Date, the Issuer) or the ultimate parent of the Guarantor (or, after the Declaration Date, the ultimate parent of the Issuer); or

(c) give directions with respect to the operating and financial policies of the Guarantor (or, after the Declaration Date, the Issuer) or the ultimate parent of the Guarantor (or, after the Declaration Date, the ultimate parent of the Issuer) with which the directors or other equivalent officers of the Guarantor or the ultimate parent of the Guarantor(or, after the Declaration Date, the Issuer or the ultimate parent of the Issuer) are obliged to comply with; and

"**acting in concert**" means a group of persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by any of them, either directly or indirectly, of shares in the Guarantor or the Issuer to obtain or consolidate control of the Guarantor or the Issuer, respectively.

Notwithstanding the foregoing, the occurrence of a Force Majeure Event shall result in a Change of Control only if following the Force Majeure Event the Public Shareholders shall be offered generally any consideration other than Ordinary Shares of IHL (as authorised in IHL's memorandum of association from time to time) ranking *pari passu* with all other Ordinary Shares of IHL then in issue or the holders of the Series A Redeemable Preference Shares of IHL (as authorised in IHL's memorandum of association from time to time) shall be offered generally in connection with the redemption of those Series A Redeemable Preference Shares under section 12 of the articles of IHL any consideration other than an amount equal to the par value of such Series A Redeemable Preference Shares.

7.3 Exercise of the Option by the Noteholders

To exercise the option to require the Issuer to redeem a Note under this Condition 7, a Noteholder must deliver the Note at the specified office of any Paying Agent within the period of 45 days after the date on which a Change of Control Notice is given (the "**Change of Control Put Period**"), accompanied by a duly signed and completed Exercise Notice. Payment by the Issuer in respect of any Note so delivered shall be made to the account or otherwise as specified in the Exercise Notice by transfer to that account (or otherwise as specified in the Exercise Notice) on the Change of Control Put Redemption Date. An Exercise Notice, once given, shall be irrevocable.

7.4 Mandatory Redemption

If upon a redemption of Notes in accordance with this Condition 7 (*Change of Control*) in accordance with the exercise by Noteholders of the option set out in Condition 7.1 (*Noteholders'*

Option), 10 per cent. or less of the principal amount of the originally issued Notes would remain outstanding, then on the Change of Control Put Redemption Date, the Issuer shall redeem all of the remaining outstanding Notes at 101 per cent. of their principal amount, together with interest accrued up to, but excluding the Change of Control Put Redemption Date.

7.5 Compliance with Applicable Laws

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the redemption of Notes under this Condition 7. To the extent that the provisions of any applicable securities laws or regulations conflict with the provisions of this Condition 7, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Condition 7 (*Change of Control*) by virtue of its compliance with such securities laws or regulations.

8. GUARANTEE

8.1 Guarantee

The Guarantor has, in the Trust Deed, guaranteed (subject to the provisions of Condition 8.2 (*Release of Guarantor*)) the Issuer's obligations under the Trust Deed and the Notes.

8.2 Release of the Guarantor

The Guarantor will automatically and unconditionally be released from all obligations under the Guarantee, and the Guarantee shall thereupon terminate and be discharged and be of no further force or effect,

(a) upon payment in full of the aggregate principal amount of all Notes then outstanding and all other applicable obligations of the Guarantor then due and owing; or

(b) on the Declaration Date.

9. COVENANTS

9.1 Financial Condition

The Issuer shall ensure that:

(a) its Consolidated Net Worth shall not at any time be less than U.S.$500,000,000; and

(b) its Leverage, as calculated at the end of the reporting period under the most recent annual or semi-annual financial statements, shall not exceed 3.0:1.0.

9.2 Financial Testing

The components of the financial covenants set out in Condition 9.1 (*Financial Condition*) shall be calculated in accordance with IFRS and compliance with such financial covenants shall be evidenced by the information contained in each of the Issuer's annual and semi-annual financial statements and the Compliance Certificates delivered pursuant to Clause 6.3 (*Compliance Certificate*) of the Trust Deed.

9.3 Authorisations

The Issuer shall, and shall procure that the Guarantor shall, promptly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Trust Deed and the Agency Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of the Trust Deed and the Agency Agreement.

9.4 Compliance with Laws

The Issuer shall, and shall procure that the Guarantor shall, comply in all respects with all laws to which it may be subject (including, in the case of the Guarantor, capital adequacy ratios as may be applicable to it from time to time), if failure so to comply would materially impair its ability to perform its obligations under the Trust Deed or the Agency Agreement.

9.5 Status

Each of the Issuer and the Guarantor shall ensure, and the Issuer shall procure that the Guarantor shall ensure, that the obligations of the Issuer and the Guarantor under the Trust Deed and the Notes at all times rank at least *pari passu* in right of payment with all of their respective other unsubordinated obligations, save for those preferred by provisions of law which are both mandatory and of general application.

9.6 Negative Pledge

The Issuer shall not, and shall procure that no member of the Investcorp Group will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) over any of its or their assets to secure any Financial Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders, or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

9.7 Insurance

The Issuer shall, and shall procure that the Guarantor shall, keep its business and assets insured and use all reasonable endeavours to procure that the business and assets of its Subsidiaries are insured with reputable underwriters or insurance companies in the manner and to the extent usual for such business.

9.8 Ownership of Assets

The Issuer shall at all times directly or through its Subsidiaries be the legal and beneficial owner of at least 95 per cent. of the assets of the Investcorp Group, determined in accordance with IFRS and, in the event that the Financial Statements required to be submitted under Condition 9.13(a)(i) (*Financial Statements and Reports*) do not contain a clear statement to this effect, shall furnish to the Trustee not later than 120 days after the end of each of the Issuer's financial years a certificate from the Issuer's external auditors regarding the Issuer's compliance with such ownership requirement.

9.9 Disposals

(a) The Issuer shall not, and shall not permit any of its Subsidiaries to, consummate any Disposal unless the Issuer (or the Subsidiary, as the case may be) receives consideration at the time of such Disposal equal to not less than the Fair Market Value of the assets or Capital Stock issued or sold or otherwise disposed of, which shall be evidenced by a resolution of the board of directors of the Issuer or the relevant Subsidiary including a statement that the directors in good faith have concluded that the consideration is equal to not less than the Fair Market Value (but shall not be required to make any independent investigation thereof) and such resolutions shall be set forth in an Officers' Certificate delivered to the Trustee.

(b) Within 18 months after the receipt of any net cash proceeds from a Disposal, the Issuer may apply such net proceeds, at its option:

(i) to repay Financial Indebtedness under a credit facility (and to correspondingly reduce commitments with respect thereto in the case of revolving borrowings); or

(ii) to the acquisition of an interest in another business, the making of a capital expenditure or the acquisition of other long-term assets.

Any net cash proceeds from a Disposal that are not applied or invested as provided in b(i) or b(ii) of this Condition 9.9 (*Disposals*) will be deemed to constitute "**Excess Proceeds**".

(c) If, at any time while any of the Notes remains outstanding, the aggregate amount of Excess Proceeds exceeds U.S.$50,000,000, then each Noteholder shall, upon the giving of an Excess Proceeds Notice (as defined below) by the Issuer, have the option to require the Issuer to redeem the Relevant Proportion (as defined below) of the Notes set out in the Noteholder's Exercise Notice on the date (the "**Excess Proceeds Put Redemption Date**") which is the fifth Banking Day after the date of expiry of the Excess Proceeds Put Period (as defined below) at 100 per cent. of their principal amount, together with interest accrued up to, but excluding the Excess Proceeds Put Redemption Date, *provided that* the value of the Notes redeemed shall be rounded down to the nearest integral multiple of U.S.$1,000 *and provided that* the Issuer shall not redeem Notes in respect of which a Noteholder has given an Exercise Notice under this Condition 9.9 if, following such redemption, the Noteholder would hold less than U.S.$200,000 in principal amount of Notes.

(d) For the purposes of this Condition 9.9, "**Relevant Proportion**" means the proportion which the amount of the Excess Proceeds bears to the aggregate principal amount of Notes in respect of which Exercise Notices are delivered or, if the Excess Proceeds exceeds the aggregate amount of Notes in respect of which Exercise Notices are delivered, 100 per cent.

(e) Promptly, and in any event not later than 30 days after becoming aware that the Excess Proceeds exceed U.S.$50,000,000, the Issuer shall give notice (a "**Excess Proceeds Notice**") to the Noteholders in accordance with Condition 17 (*Notices*), specifying the amount of the Excess Proceeds and the procedure for exercising the option contained in this Condition 9.9.

(f) To exercise the option to require the Issuer to redeem a Note under this Condition 9.9, the Noteholder must deliver such Note at the specified office of any Paying Agent within the period of 45 days after the date on which an Excess Proceeds Notice is given (the "**Excess Proceeds Put Period**"), accompanied by a duly signed and completed Exercise Notice. Payment by the Issuer in respect of any Notes so delivered shall be made to the account or otherwise as specified in the Exercise Notice by transfer to that account (or otherwise as specified in the Exercise Notice) on the Excess Proceeds Put Redemption Date. An Exercise Notice, once given, shall be irrevocable.

9.10 Merger

The Issuer may not consolidate or merge with or into (whether or not the Issuer is the surviving corporation) or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person (except as permitted by the Trust Deed) unless:

(a) the Issuer is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation organised or existing under the laws of the United States or any political subdivision thereof, the Cayman Islands, any member state of the European Union or any other member country of the Organisation for Economic Co-operation and Development (each an "**OECD Country**") (other than any other OECD Country the long-term foreign currency rating of which at such time is less than "A" (or the equivalent) from any two Recognised Rating Agencies);

(b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Issuer under the Notes and the Trust Deed pursuant to a supplemental deed in a form reasonably satisfactory to the Trustee; and

(c) immediately after such transaction no Event of Default, nor any event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default, exists.

9.11 Financial Indebtedness

The Issuer shall not permit, and shall procure that the Guarantor shall not permit, any of the Issuer's Subsidiaries to create, incur, assume or otherwise become liable in respect of any Financial Indebtedness, contingently or otherwise, other than:

(a) any Financial Indebtedness of any Subsidiary of the Issuer to any other Subsidiary of the Issuer or the Guarantor;

(b) any Financial Indebtedness incurred by a Subsidiary of the Issuer in connection with the Investcorp Group's foreign exchange dealings or other proprietary trading or hedging activities;

(c) save as provided below, any Financial Indebtedness incurred by a Subsidiary of the Issuer provided that such Financial Indebtedness taken in the aggregate in respect of all Subsidiaries of the Issuer and the Guarantor does not at any time exceed the greater of U.S.$350,000,000 or 10 per cent. of the total consolidated assets of the Investcorp Group as reported in the most recent financial statements delivered pursuant to Condition 9.13 (*Financial Statements and Reports*) or, if no such statements have been delivered, in the Original Financial Statements;

(d) Financial Indebtedness incurred for the account of any of the Issuer's Subsidiaries by third parties managing such Subsidiary's funds during the ordinary course of such management and within prudent and customary guidelines from time to time established between the Issuer and such third parties; and

(e) Financial Indebtedness incurred by any single-purpose financing Subsidiaries of the Issuer whose activities (other than insignificant ancillary activities) are restricted to the raising of financing to be substantially on lent to the Issuer, whose obligations are guaranteed by the Issuer and which do not hold any significant assets other than loans and associated assets resulting from its on lending activities to the Issuer.

9.12 Restricted Payments

The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly:

(a) declare or pay any dividend or make any other payment or distribution on account of the Issuer's or any of its Subsidiaries' Capital Stock (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer) or to the direct or indirect holders of the Issuer's or any of its Subsidiaries' Capital Stock in their capacity as such (other than dividends or distributions payable in Capital Stock (other than Disqualified Stock) of the Issuer);

(b) purchase, redeem or otherwise acquire or retire for value (including without limitation, in connection with any merger or consolidation involving the Issuer) any Capital Stock in the Issuer or any direct or indirect parent of the Issuer; or

(c) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Financial Indebtedness that is subordinated to the Notes (other than Notes), except a payment of interest or principal at Stated Maturity (all such payments and other actions set forth in clauses (a) through (c) above being collectively referred to as ''**Restricted Payments**''),

unless, at the time of and after giving effect to such Restricted Payment, there is no breach of Condition 9.1 (*Financial Condition*) and no Event of Default or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default, shall have occurred and be continuing or would occur as a consequence thereof.

The foregoing provisions will not prohibit:

(d) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Trust Deed; or

(e) the declaration and payment of dividends to holders of the Issuer's Series B Preference Shares; or

(f) the payment of any dividend by a Subsidiary of the Issuer to the holders of its Capital Stock on a pro rata basis.

9.13 Financial Statements and Reports

So long as any Note remains outstanding, the Guarantor or the Issuer, as the case may be, shall:

(a) send to the Trustee and to the Principal Paying and Transfer Agent:

(i) prior to the occurrence of a Force Majeure Event, within 120 days after the end of the Guarantor's fiscal years:

(A) the audited consolidated balance sheet of the Guarantor as of the end of the most recent fiscal year and the audited consolidated income statements and statements of cash flow of the Guarantor for the most recent two fiscal years, including notes to such financial statements, for and as of the end of such fiscal years and the report of the independent auditors on the financial statements; and

(B) an operating and financial review of such financial statements including a discussion of the results of operations, financial condition, material changes in liquidity and capital resources;

(ii) within 120 days after the end of the Issuer's fiscal years:

(A) the audited consolidated balance sheet of the Issuer as of the end of the most recent fiscal year and the audited consolidated income statements and statements of cash flow of the Issuer for the most recent two fiscal years, including notes to such financial statements, for and as of the end of such fiscal year; and

(B) following a Force Majeure Event, an operating and financial review of such financial statements including a discussion of the results of operations, financial condition, material changes in liquidity and capital resources;

(iii) within 60 days after the end of the Guarantor's (or, following a Force Majeure Event, the Issuer's) fiscal semi-annual period:

(A) semi-annual financial statements containing the Guarantor's (or, following an Force Majeure Event, the Issuer's) unaudited condensed consolidated balance sheet as of the end of such semi-annual period and unaudited condensed statements of income and cash flow for the most recent semi-annual period and the comparable prior period, together with condensed notes to such financial statements; and

(B) an operating and financial review of the unaudited financial statements including a discussion of the results of operations, financial condition, material changes in liquidity and capital resources.

(b) The Issuer shall also make available copies of all reports furnished to the Trustee on the Guarantor's public website (which shall not be password protected) and, if and so long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's regulated market and the rules of the London Stock Exchange so require, copies of all reports furnished to the Trustee will also be made available as so required.

9.14 Rule 144A Information

So long as any Notes are outstanding and are ''restricted securities'' within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish upon the request of a Noteholder or a beneficial owner of an interest therein, to such Noteholder or the beneficial owner or to a prospective purchaser of Notes designated by such Noteholder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3 2(b) thereunder.

9.15 Declaration Date

Notwithstanding anything to the contrary herein or in the Trust Deed, the undertakings given in the Notes and the Trust Deed by the Issuer to procure the performance of the Guarantor or by the Guarantor shall cease to be in force on (and shall not be in force at any time after) the Declaration Date.

10. SUSPENSION OF COVENANTS DURING ACHIEVEMENT OF INVESTMENT GRADE STATUS

10.1 Upon Achieving Investment Grade Status

If on any date the following conditions are satisfied (the fulfilment of these conditions being referred to as ''**Investment Grade Status**''):

(a) the Notes are assigned any two of the following ratings: Baa3 or better by Moody's, BBB- or better by S&P, BBB- or better by Fitch, or an equivalent credit rating from any other Recognised Rating Agencies; and

(b) there exists no Event of Default as defined in Condition 11.1 (*Events of Default*), or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default,

then, beginning on such date and for such time as the foregoing conditions remain satisfied (such period, the ''**Investment Grade Status Period**''), the following covenants will be suspended:

(a) Condition 9.1 (*Financial Condition*), (b) Condition 9.9 (*Disposals*), (c) Condition 9.11 (*Financial Indebtedness*) and (d) Condition 9.12 (*Restricted Payments*).

10.2 Reinstatement of Provisions

Covenants and other provisions of these Conditions that are suspended during an Investment Grade Status Period will be immediately reinstated and will continue to exist upon the commencement of any period in which the Notes do not have Investment Grade Status. No action taken (or not taken) during an Investment Grade Status Period or prior to an Investment Grade Status Period in compliance with the covenants then applicable may constitute an Event of Default or Potential Event of Default (as defined in the Trust Deed) under the Notes in the event that suspended covenants and provisions are subsequently reinstated or suspended, as the case may be.

11. EVENTS OF DEFAULT

11.1 Events of Default

Each of the following is an Event of Default with respect to the Notes (each, an ''**Event of Default**''):

(a) a default for 15 days in the payment when due of interest on the Notes;

(b) a default for seven days in the payment when due of principal (at maturity, upon redemption (including pursuant to Condition 9.9 (*Disposals*) or Condition 7 (*Change of Control*)), or otherwise) on the Notes;

(c) failure by the Issuer for 60 days after notice from the Trustee to comply with any of its other agreements in the Trust Deed or the Notes;

(d) any Financial Indebtedness of any member of the Investcorp Group (i) is not paid when due nor within any originally applicable grace period or (ii) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described), provided the aggregate principal amount of such Financial Indebtedness falling within (i) and (ii) is greater than U.S.$20,000,000 (or the equivalent in any other currency);

(e) failure by any member of the Investcorp Group to pay a final judgment of any court of competent jurisdiction in excess of U.S.$20,000,000 (or the equivalent in any other currency), which judgment is not paid, discharged or stayed for a period of 60 days;

(f) other than on account of a Force Majeure Event, the Guarantee ceases to be, or shall be asserted by the Guarantor, or any Person acting on behalf of the Guarantor, not to be in full force and effect;

(g) the Issuer, the Guarantor or any Significant Subsidiary is unable or admits its inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness;

(h) any corporate action, legal proceedings or other procedure is taken (and remains undismissed), under such laws as shall be controlling with respect to it or with respect to its properties or revenues, in relation to:

    (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, composition, scheme of arrangement or otherwise) of any member of the Investcorp Group, other than a solvent liquidation or reorganisation of any member of the Investcorp Group other than the Issuer or the Guarantor;

    (ii) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of the Issuer or the Guarantor or any substantial part of the properties or revenues of the Issuer or the Guarantor;

    (iii) a composition, compromise, assignment or arrangement with any creditor of any member of the Investcorp Group;

    (iv) the enforcement of any Security Interest over any assets of any member of the Investcorp Group with a value in excess of U.S.$20,000,000 (or the equivalent in any other currency); or

(v) any analogous procedure or step is taken in any jurisdiction,

but for the avoidance of doubt, excluding any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 30 days of commencement, and

(i) any expropriation, attachment, sequestration, distress or execution is levied or enforced upon any substantial part of any of the properties or revenues of the Issuer or the Guarantor and is not bonded or discharged.

11.2 Consequences of Default

(a) If any Event of Default occurs and is continuing, the Trustee, in its discretion, may, and, if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution, shall, declare the Notes to be due and payable immediately at their principal amount, together with any accrued interest.

(b) The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes (including, without limitation any action under Condition 11.1) unless (a) subject, where applicable, to the provisions of Condition 14.1 (*Meetings of Noteholders; Amendments and Waivers*), it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

11.3 Enforcement

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND SHAREHOLDERS

No director, officer, employee, incorporator or shareholder, as such, of the Issuer, the Guarantor or any Subsidiary of either of them shall have any liability for any obligation of the Issuer or the Guarantor under these Conditions, the Trust Deed or the Notes or for any claim based on, in respect of, or by reason of, any such obligation or its creation. Each Noteholder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

13. PRESCRIPTION

Claims against the Issuer or the Guarantor for payment of principal and interest in respect of the Notes, or under the Guarantee, will be prescribed and become void unless made, in the case of principal and premium, within ten years or, in the case of interest, within five years after the relevant date for payment thereof.

14. MEETINGS OF NOTEHOLDERS; AMENDMENTS AND WAIVERS

14.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matters relating to the Notes, including the sanctioning by Extraordinary Resolution of a modification of any of the provisions of these Conditions, the Notes or the Trust Deed. Such a meeting may be convened by the Guarantor, the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Conditions, the Notes or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders at which the required quorum is present shall be binding on all the Noteholders, whether or not they are present at the meeting. A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least seven days notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

14.2 Modifications

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest or proven error.

14.3 Interest of Noteholders

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 6 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 6 (*Taxation*) pursuant to the Trust Deed.

14.4 Binding Effect

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee otherwise agrees, any such modification shall be notified to the Noteholders in accordance with Condition 17 (*Notices*) as soon as practicable thereafter.

14.5 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

14.6 Dealings with Trustee

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

14.7 Officer's Certificates

The Trustee may call for and rely upon an Officer's Certificate as to compliance by the Issuer and/or the Guarantor with any of the covenants contained in these Conditions, in which event such Officer's Certificate shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any liability that may be occasioned by it or any other person acting on such Officer's Certificate.

15. AGENTS

15.1 Agency

The Agents, when acting in that capacity, are acting solely as agents of the Issuer and the Guarantor pursuant to the Agency Agreement and (to the extent provided therein and in the Trust Deed) the Trustee and do not assume any obligation towards or relationship of agency or trust for or with any Noteholder.

15.2 Specified Offices of the Agents

The names of the Agents and their specified offices are set out in the Agency Agreement. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee to remove the Registrar and any Paying Agent and to appoint other or further Registrars and Paying Agents; *provided* that it will at all times maintain (i) a Paying Agent having specified offices in Luxembourg or such other member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive and (ii) a Registrar with a specified office outside the United Kingdom. At least 30 days' notice of any such removal or appointment and of any change in the specified office of the Registrar and any Paying Agent will be given to the Noteholders in accordance with Condition 17 (*Notices*).

16. REPLACEMENT OF NOTES

If any Note is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Paying Agent, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of such costs as may be incurred in connection with such replacement and on such terms as to evidence, security, indemnity or otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

17. NOTICES

All notices to the Noteholders regarding the Notes will be mailed to them at their respective addresses in the Register and will be deemed to have been given on the fourth Banking Day after the date of mailing.

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Conditions or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

19. GOVERNING LAW, ARBITRATION, JURISDICTION AND SERVICE OF PROCESS

19.1 Governing Law

The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes, are governed by, and shall be construed in accordance with, English law.

19.2 Arbitration

The Issuer and the Guarantor have agreed with the Trustee in the Trust Deed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer and/or the Guarantor, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within thirty days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA court. The parties may nominate and the LCIA court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

19.3 Trustee's Option

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 19.2 (*Arbitration*), the Trustee, at its sole option, may elect by notice in writing to the Issuer and the Guarantor that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 19.4 (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

19.4 Jurisdiction

In the event that the Trustee serves a written notice of election in respect of any Dispute(s) pursuant to Condition 19.3 (*Trustee's Option*), the Trustee, Issuer and the Guarantor have agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to hear and determine any such Dispute(s) and, for such purposes, each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts. Subject to Condition 19.2 (*Arbitration*), nothing in this Condition shall (or shall be construed so as to limit the right of the Trustee to bring proceedings ("**Proceedings**") for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

19.5 Appropriate Forum

For the purposes of Condition 19.4 (*Jurisdiction*), the Issuer and the Guarantor have each irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

19.6 Service of Process

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Investcorp International Limited, 48 Grosvenor Street, London W1K 3HW or such other address as the Issuer and the Guarantor may notify pursuant to Condition 17 (*Notices*) or at any address for the time being at which service of process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. Nothing in this paragraph shall affect the right of the Trustee or (where entitled to do so) any Noteholder to serve process in any other manner permitted by law.

19.7 Consent to Enforcement, etc.

Each of the Issuer and the Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, award or judgment which may be made or given in such Proceedings or arbitration of a Dispute.

19.8 Waiver of Immunity

To the extent that the Issuer and/or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer and/or the Guarantor or their respective assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

20. DEFINITIONS

In these Conditions, the following expressions shall have the following meanings:

"**Additional Amounts**" has the meaning set forth in Condition 6.1 (*Additional Amounts*).

"**Additional Notes**" has the meaning set forth in Condition 3.2 (*Further Issues*).

"**Adjusted Consolidated Net Worth**" means, with respect to any Person at any time, the Consolidated Net Worth of such Person and its Subsidiaries after eliminating all amounts related to periodic fair value accounting requirements of IAS 39/IFRS9 in respect of corporate investment and real estate co-investments.

"**Adjusted Consolidated Total Liabilities**" means, at any time, the total liabilities of the Issuer and its Subsidiaries plus the total amount of any Disqualified Stock as shown on the most recent semi-annual consolidated balance sheet of the Issuer and its Subsidiaries prepared on a basis consistent with the most recent annual audited consolidated balance sheet of the Issuer after:

(a) deducting the sum (without duplication) of:

(i) subscription monies awaiting investment in hedge funds managed by a member of the Investcorp Group, except such monies as have been held by the Issuer or its Affiliates for more than three months as of the date of the relevant determination;

(ii) subscription monies awaiting investment in corporate investment and real estate investment acquisitions arranged by a member of the Investcorp Group, except such monies as have been held by the Issuer or its Affiliates for more than three months as of the date of the relevant determination;

(iii) proceeds from the flotation, disposition or restructuring of corporate investment and real estate investments awaiting distribution to Persons entitled to such proceeds, except such proceeds as have been held by the Issuer or its Affiliates for more than three months as of the date of the relevant determination; and

(iv) outstandings under revolving credit facilities; and

(b) adding the then Net Revolving Credit Balance.

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Applicable Premium**" has the meaning set forth in Condition 5.1 (*Optional Redemption Prior to Maturity*).

"**Authorisation**" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"**Banking Day**" means a day, other than a Saturday or Sunday, on which commercial banks are open for business in the place where the specified office of the Principal Paying Agent is located and in New York City.

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"**Certificate**" has the meaning set forth in Condition 1.3 (*Form of the Notes*).

"**Change of Control**" has the meaning set forth in Condition 7.2 (*Definition*).

"**Change of Control Notice**" has the meaning set forth in Condition 7.1 (*Noteholders' Option*).

"**Change of Control Put Period**" has the meaning set forth in Condition 7.3 (*Exercise of the Option by the Noteholders*).

"**Change of Control Put Redemption Date**" has the meaning set forth in Condition 7.1 (*Noteholders' Option*).

"**Compliance Certificates**" means the certificates required to be delivered to the Trustee under Clause 6.3 of the Trust Deed.

"**Consolidated Net Worth**" means, with respect to any Person at any time:

(a) the total assets of such Person and its Subsidiaries which would be shown as assets on a consolidated balance sheet of such Person and its Subsidiaries as of such time prepared in accordance with IFRS, after eliminating all amounts properly attributable to minority interests, if any, in the share capital and surplus of Subsidiaries;

minus:

(b) the total liabilities of such Person and its Subsidiaries which would be shown as liabilities on a consolidated balance sheet of such Person and its Subsidiaries as of such time prepared in accordance with IFRS.

"**Continuing Directors**" means, as of any date of determination, any member of the board of directors of the Guarantor or the Issuer, as applicable, who was a member of such board of directors on the date of the Trust Deed or was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election.

"**Declaration Date**" means the date on which the Trustee shall have received written notice of a Force Majeure Event from the Designated Representatives as provided in the Trust Deed.

"**Designated Representatives**" means any four of the following directors or officers of IHL: the Chairman of the Board of Directors; the Vice Chairman of the Board of Directors; the Chairman of the Executive Committee for Administrative Policy; the Chief Executive Officer; the Chief Financial Officer; and the General Counsel, in each case as designated from time to time by the Board of Directors of IHL (or such additional Persons or substitute Persons of whom the Issuer may advise the Trustee in writing from time to time).

"**Disposal**" means:

(a) the sale, lease, conveyance or other disposition of any assets or rights by the Issuer or any of the Issuer's Subsidiaries; provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Subsidiaries taken as a whole will be governed by Condition 7 (*Change of Control*) and/or 9.10 (*Merger*) and not by Condition 9.9 (*Disposals*); and

(b) the issuance of Capital Stock by any of the Issuer's Subsidiaries or the sale by the Issuer or any of the Issuer's Subsidiaries of Capital Stock in any of the Issuer's Subsidiaries.

Notwithstanding the foregoing, none of the following transactions will be deemed to be a Disposal:

(a) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than U.S.$50,000,000;

(b) the sale or transfer of investment assets (including any corporate investments, real estate investments or hedge fund investments (including redemptions of hedge fund investments)) of the Issuer or any of its Subsidiaries in the ordinary course of their investment business;

(c) a transfer of assets between or among the Issuer and its Subsidiaries;

(d) an issuance of Capital Stock by a Subsidiary of the Issuer to the Issuer or to a Subsidiary of the Issuer;

(e) the sale, lease or other transfer of services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Subsidiaries taken as whole);

(f) the granting of any Permitted Security Interest;

(g) licences and sublicences by the Issuer or any of its Subsidiaries of software or intellectual property in the ordinary course of business;

(h) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(i) the netting or closing out of offsetting positions in derivatives, or novation of derivative contracts from one counterparty to another; and

(j) the sale or other disposition of any cash and cash equivalents or placements with financial institutions and other liquid assets.

''**Disqualified Stock**'' means any share capital of the Issuer or any of its Subsidiaries that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), in each case at the option of the holder of the relevant share capital or upon the happening of any event, matures or is mandatorily redeemable or redeemable at the option of the holder of the relevant share capital, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature; the amount of Disqualified Stock deemed to be outstanding at any time for purposes of these Conditions being the maximum amount that the Issuer and its Subsidiaries may become obliged to pay upon the maturity of, or pursuant to any mandatory redemption provision of, such Disqualified Stock, exclusive of accrued dividends.

''**European Union**'' means the European Union, including member states prior to 1 May 2004 but excluding any country that became or becomes a member of the European Union on or after 1 May 2004.

''**Event of Default**'' has the meaning set forth in Condition 11.1 (*Events of Default*).

''**Excess Proceeds**'' has the meaning set forth in Condition 9.9 (*Disposals*).

''**Excess Proceeds Notice**'' has the meaning set forth in Condition 9.9 (*Disposals*).

''**Excess Proceeds Put Period**'' has the meaning set forth in Condition 9.9 (*Disposals*).

''**Excess Proceeds Put Redemption Date**'' has the meaning set forth in Condition 9.9 (*Disposals*).

''**Exercise Notice**'' means a form of exercise notice specified in the Agency Agreement in respect of the put options in Condition 9.9 (*Disposals*) and Condition 7.3 (*Exercise of the Option by the Noteholders*).

''**Exchange Act**'' means the U.S. Securities Exchange Act of 1934, as amended.

''**Fair Market Value**'' means, with respect to any asset or property, a price which could be negotiated in an arm's length transaction, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

''**Financial Indebtedness**'' means, in respect of any Person, any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with such person's accounting principles used in preparation of its most recent financial statements, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) the deferred purchase price of property or services (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(h) any other transactions (including any Shari'a compliant financing, purchase agreements, lease agreement, sale and lease back agreement) having the commercial effect of a borrowing;

(i) Disqualified Stock;

(j) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of any person's indebtedness for any of the items referred to in paragraphs (a) to (f) above; and

(k) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above.

''**Fitch**'' means Fitch Ratings Inc. and its successors.

''**Force Majeure Event**'' means, without limitation, any event or series of events of an adverse nature that is reasonably likely, in the sole judgment (advised to the Trustee in writing) of the Designated Representatives, which judgment, so expressed, shall be binding on the Issuer and the Guarantor and shall not be subject to any external standard or subsequent review (a) materially to impair the ability of the Guarantor to perform its obligations under the Notes, the Trust Deed and/or the Agency Agreement, (b) to cause a change of control of the Guarantor or (c) to cause the Guarantor to be unable to continue its normal business activities and, without limiting the generality of the foregoing, the following circumstances and events shall each constitute a Force Majeure Event:

(a) substantial business interference arising from action of a Governmental Authority or political circumstances that is reasonably likely, in the sole judgment of the Designated Representatives (which judgment, so expressed, shall be binding on the Issuer and the Guarantor and shall not be subject to any external standard or subsequent review), to result in a material adverse change in the business, operations, assets or financial condition of the Guarantor;

(b) the nationalisation of the Guarantor (including the alteration of the identity of the majority of its shareholders by the action of any Governmental Authority);

(c) the prohibition of payment of debts or dividends or distributions to shareholders by corporations incorporated in the Kingdom of Bahrain; or

(d) the hostile invasion of the Kingdom of Bahrain by forces of a foreign state.

''**Governmental Authority**'' means any nation, state or government, or province or other subdivision thereof, and any body, agency, ministry, taxing, monetary, foreign exchange or other authority, court, tribunal or other instrumentality exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

''**guarantee**'' means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person; *provided*, *however*, that the term ''**guarantee**'' shall not include endorsements for collection or deposit in the ordinary course of business. The term ''**guarantee**'' used as a verb has a corresponding meaning. The term ''**guarantor**'' shall mean any Person guaranteeing any Obligation.

''**Guarantee**'' means the guarantee by the Guarantor of the Issuer's obligations with respect to the Notes, in accordance with Condition 8 (*Guarantee*) and as set out in the Trust Deed.

''**Guarantor**'' means Investcorp Bank B.S.C.

''**holder**'' or ''**Noteholder**'' has the meaning set forth in Condition 1.4 (*Title*).

''**Holding Company**'' means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

''**IFRS**'' means International Financial Reporting Standards as in effect from time to time.

''**IHL**'' means Investcorp Holdings Limited, a Cayman Islands company.

''**Investment Grade Status**'' has the meaning set forth in Condition 10.1 (*Upon Achieving Investment Grade Status*).

''**Investment Grade Status Period**'' has the meaning set forth in Condition 10.1 (*Upon Achieving Investment Grade Status*).

''**Investcorp Group**'' means, collectively, the Issuer and its Subsidiaries, IHL and its Subsidiaries and the Guarantor and its Subsidiaries.

''**Leverage**'' means the ratio of Adjusted Consolidated Total Liabilities to Adjusted Consolidated Net Worth.

''**Maturity Date**'' has the meaning set forth in Condition 3.1 (*Maturity Date*).

''**Moody's**'' means Moody's Investors Service, Inc. and its successors.

''**Net Revolving Credit Balance**'' means, at any time, the average of the amounts of Financial Indebtedness under revolving credit or similar facilities outstanding on the last day of each calendar month during the 12 full calendar months preceding the date of the relevant determination hereunder minus the average of the amounts of subscription monies held on the last day of each such calendar month for investment in corporate investment and real estate investment acquisitions arranged by the Issuer which the Issuer has funded with Financial Indebtedness incurred under any such revolving credits or similar agreements.

''**OECD Country**'' has the meaning set forth in Condition 9.10 (*Merger*).

''**Officer's Certificate**'' means a certificate signed by two directors or senior officers of the Issuer or the Guarantor, as the case may be, on behalf of the Issuer or the Guarantor as the case may be.

''**Original Financial Statements**'' means:

(a) in relation to the Issuer, the audited consolidated financial statements of the Issuer and its Subsidiaries for the financial year ended 30 June 2012; and

(b) in relation to the Guarantor, the audited consolidated financial statements of the Guarantor and its Subsidiaries for the financial year ended 30 June 2012.

''**Permitted Security Interest**'' means any Security Interest:

(a) granted by the Issuer or any member of the Investcorp Group upon an asset or upon the contract for the acquisition of an asset securing Financial Indebtedness incurred for the acquisition of such asset, provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such asset (including transactional expenses) and the Security Interest does not extend to any assets of any member of the Investcorp Group other than the assets being acquired;

(b) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(c) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer held by financial institutions;

(d) arising in the ordinary course of business of the Investcorp Group and (i) which are necessary in order to enable the Guarantor, the Issuer and/or any of their Subsidiaries to comply with any mandatory requirement imposed on any of them by a banking or other regulatory authority in connection with the Investcorp Group's business or (ii) limited to deposits made in the name of the Guarantor, the Issuer and/or any of their Subsidiaries to secure obligations of their customers;

(e) incurred in connection with the Investcorp Group's foreign exchange dealings or other proprietary trading or hedging activities (including any Repo, swap or derivative transaction) and not for the purpose of raising credit or funds for the operation of the Investcorp Group generally, other than any Security Interest upon any asset in its investment short term account or investment long term account;

(f) incurred in the ordinary course of business of the Investcorp Group provided that the Financial Indebtedness secured by such Security does not in the aggregate at any time exceed in value the greater of U.S.$350,000,000 or 10 per cent. of the Issuer's total consolidated assets as reported in its most recent financial statements delivered pursuant to Condition 9.13 (*Financial Statements and Reports*) or, if no such statements have been delivered, in the Original Financial Statements;

(g) to secure Financial Indebtedness of the nature referred to in Condition 9.11(d) (*Financial Indebtedness*) over investments comprised in funds managed by the relevant third party;

(h) granted in favour of the Issuer or any member of the Investcorp Group to secure Financial Indebtedness owed to the Issuer or any member of the Investcorp Group;

(i) arising in any netting or set-off arrangement entered into by the Issuer or any member of the Investcorp Group in the ordinary course of business for the purpose of netting debit and credit balances;

(j) on property acquired (or deemed to be acquired) under a financial lease or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, but for the avoidance of doubt, this shall not exclude the amount of such financing from the definition of ''Financial Indebtedness''; and

(k) comprising any extension, renewal of or substitution for any Security Interest permitted by any of the preceding sub-clauses (a) through (j); provided that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Security Interest, the principal amount secured has not increased and the Security Interest shall have not been extended to any additional property (other than proceeds of the property in question).

''**Person**'' means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organisation or a government or agency or political subdivision thereof.

''**Preferred Stock**'', as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated), that by its terms is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

''**Proceedings**'' has the meaning set forth in Condition 19.4 (*Effects of exercise of option to litigate*).

''**Public Shareholders**'' means those Persons (other than CP Holdings Limited and Ownership Holdings Limited) who were at the Declaration Date, holders of record of ordinary shares of the Guarantor, as determined by the Chief Executive Officer of Investcorp Holdings Limited, or by his designated representative(s), based upon advice and records then available to them.

''**Qualified Equity Offering**'' has the meaning set forth in Condition 5.3 (*Optional Redemption upon Qualified Equity Offering*).

"QIBs" means qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended.

"QPs" means qualified purchasers within the meaning of the U.S. Investment Company Act of 1940.

''**Recognised Rating Agency**'' means a ''nationally recognised statistical rating organization'' as defined in section 3 of the United States Securities Exchange Act of 1934, as amended.

''**Relevant Proportion**'' has the meaning set forth in Condition 9.9 (*Disposals*).

''**Relevant Taxing Jurisdiction**'' has the meaning set forth in Condition 6.1 (*Additional Amounts*).

''**Repo**'' means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement, or any agreement relating to securities which is similar in effect to any of the foregoing, and for the purposes of this definition, the term ''securities'' shall mean any Capital Stock, share, debenture or other debt or equity instrument, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral institution or organisation.

''**Restricted Payment**'' has the meaning set forth in Condition 9.12 (*Restricted Payments*).

''**Rules**'' has the meaning set forth in Condition 19.2 (*Arbitration*).

''**Series A Redeemable Preference Shares**'' means the Series A Redeemable Preference Shares of IHL.

''**S&P**'' means Standard & Poor's Ratings Group and its successors.

''**Securities Act**'' means the U.S. Securities Act of 1933, as amended.

''**Security Interest**'' means a mortgage, charge, pledge, lien or other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect.

''**Significant Subsidiary**'' at any time means a Subsidiary of the Issuer whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent five per cent. or more of the consolidated total assets of the Issuer, as calculated by reference to the then latest accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated IFRS accounts of the Issuer.

A report by the independent auditors of the Issuer from time to time that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Significant Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

''**Stated Maturity**'' means, with respect to any security or indebtedness, the date specified in such security or indebtedness as the fixed date on which the payment of principal of such security or indebtedness is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase or repayment of such security at the option of the holder thereof upon the happening of any contingency).

''**Subsidiary**'' means, in relation to any Person (the ''**First Person**''), any Person:

(a) which is controlled, directly or indirectly, by the First Person; or

(b) more than 50 per cent. of the issued share capital of which is beneficially owned, directly or indirectly, by the First Person; or

(c) which is a Subsidiary of another Subsidiary of the First Person,

provided that in the case of the Issuer, IHL or the Guarantor, a Person shall only be deemed to be a Subsidiary if it is consolidated (otherwise than by an equity method of accounting) as a subsidiary for the purpose of the Original Financial Statements or, from time to time, for the purpose of the Issuer's or the Guarantor's financial statements delivered pursuant to Condition 9.13 (*Financial Statements and Reports*).

''**Taxes**'' has the meaning set forth in Condition 6.1 (*Additional Amounts*).

''**Treasury Rate**'' has the meaning set forth in Condition 5.1 (*Optional Redemption Prior to Three Years from the Issue Date*).

''**U.S. Dollar**'' or ''**U.S.$**'' means the lawful currency of the United States of America.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, Regulation S Global Notes deposited with, and registered in the name of BT Globenet Nominees Limited as nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See "*Transfer Restrictions*". Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the relevant agency agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the relevant agency agreement, and with respect to Rule 144A Global Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, and only upon receipt by the Registrar of a written certification (in the form provided in the relevant agency agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and is a QP and that such transaction is in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, only upon receipt by the Registrar of a written certification (in the form provided in the relevant agency agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note, for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note, and become an interest in the Regulation S Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note, for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the Definitive Notes). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears on the register of Noteholders on the record date (i.e. close of business on the

Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January) against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. No person shall however be entitled to receive any payment on a Global Note falling due after the Exchange Date, unless the exchange of such Global Note for definitive Notes is improperly withheld or refused by or on behalf of the Issuer.

Notices
So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes.

Meetings
The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

Trustee's Powers
In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the relevant Registrar or any Transfer Agent or (ii) principal in respect of any Notes is not paid when due and payable.

The relevant Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery
In such circumstances, the relevant Global Note shall be exchanged in full for definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the relevant Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the relevant Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the relevant Registrar with (a) a written order containing instructions and such other information as the Issuer and such Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only,

a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB who is also a QP and in accordance with the transfer restrictions set out under "*Transfer Restrictions*". Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note bearing the applicable legend referred to under "*Transfer Restrictions*" the Issuer will deliver Definitive Notes that bear such legend.

Book-Entry Procedures for the Global Notes

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

The Regulation S Global Notes representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of BT Globenet Nominees Limited as nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

The Rule 144A Global Notes representing the Rule 144A Notes will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "— *Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems
Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the Beneficial Owner) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants
Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants
Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (SDFS) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser
When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrars to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser
When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the relevant agency agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrars to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee nor any Agent will have responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the closing date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the date of pricing and the closing date should consult their own advisors.

CERTAIN TAX CONSIDERATIONS

Certain U.S. Federal Income Tax Considerations

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of purchasing, holding and disposing of the Notes, including, without limitation, the application of U.S. federal tax laws to their particular situations, as well as any consequences to them under the laws of any other taxing jurisdiction, and the consequences of purchasing the Notes at a price other than the initial issue price in the offering. Please see "*Certain Tax Considerations*".

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE U.S. INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax consequences relevant to the purchase, ownership and disposition of the Notes by a U.S. holder (as defined below) but does not purport to be a complete analysis of all potential tax effects. The discussion is based upon the Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury Regulations issued thereunder (the "**Regulation**"), Internal Revenue Service ("**IRS**") rulings and pronouncements, and judicial decisions, all as of the date hereof and all of which are subject to change at any time. Any such change may be applied retroactively in a manner that could adversely affect a holder of the Notes. The Issuer has not sought any ruling from the IRS with respect to the statements made and the conclusions reached in the following discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances or to holders subject to special rules, including, without limitation:

- banks, insurance companies and other financial institutions;
- U.S. expatriates and certain former citizens or long-term residents of the United States;
- holders subject to the alternative minimum tax;
- dealers in securities or currencies;
- traders in securities;
- partnerships, S corporations or other pass-through entities;
- U.S. holders (as defined below) whose functional currency is not the U.S. Dollar;
- tax-exempt organisations;
- persons holding the Notes as part of a "straddle," "hedge," "conversion transaction" or other risk reduction transaction; and
- persons deemed to sell the Notes under the constructive sale provisions of the Code.

If a partnership or other entity taxable as a partnership holds the Notes, the tax treatment of the partners in the partnership generally will depend on the status of the particular partner in question and the activities of the partnership. Such partners should consult their tax advisors as to the specific tax consequences to them of holding the Notes indirectly through ownership of their partnership interests.

In addition, this discussion is limited to persons purchasing the Notes for cash at original issue and at their original ''issue price'' within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of the Notes are sold to investors – not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesale – for cash). Moreover, the effects of other U.S. federal tax laws (such as estate and gift tax laws and the newly enacted Medicare tax on asset based income) and any applicable state, local or foreign tax laws are not discussed. The discussion deals only with Notes held as ''capital assets'' within the meaning of Section 1221 of the Code.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER THE FEDERAL ESTATE OR GIFT TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

U.S. Holders

As used herein, ''U.S. holder'' means a beneficial owner of the Notes who is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organised in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more ''United States persons'' within the meaning of the Code can control all substantial trust decisions, or, if the trust was in existence on 20 August 1996, it has elected to continue to be treated as a United States person.

Certain Contingent Payments

In certain circumstances the Issuer may make a contingent payment upon the redemption of the Notes. These contingent payments may implicate provisions of the Regulations relating to ''contingent payment debt instruments.'' According to the applicable Regulations, certain contingencies will not cause a debt instrument to be treated as a contingent payment debt instrument if each such contingency, as of the date of issuance, is either remote or incidental. The Issuer intends to take the position that each of the foregoing contingencies is remote or incidental, and the Issuer does not intend to treat the Notes as contingent payment debt instruments. The Issuer's position that such contingencies are remote or incidental is binding on a holder unless such holder discloses its contrary position in the manner required by the applicable Regulations. The Issuer's position is not, however, binding on the IRS, and if the IRS were to successfully challenge this position, a holder might be required to accrue interest income at a higher rate than the stated interest rate on the Notes, and to treat as ordinary interest income any gain realised on the taxable disposition of a Note. The remainder of this discussion assumes that the Notes will not be treated as contingent payment debt instruments. Investors of Notes should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the Notes.

Payments of Stated Interest

It is expected, and this discussion assumes, that the Notes will not be issued with an amount equal to or more than de minimis original issue discount. Thus, payments of stated interest on the Notes, including any additional amount with respect thereto as described under Condition 5.1 (*Additional Amounts*), generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with the a U.S. holder's method of tax accounting for U.S. federal income tax purposes.

In addition to interest on the Notes, a U.S. holder will be required to include in income the amount of any foreign tax withheld from the interest payments received by such holder. Thus, a U.S. holder could be required to report income in an amount greater than the cash the holder receives in respect of payments on the Notes. A U.S. holder may be entitled to deduct or credit this tax, subject to certain limitations (including the fact that the election to either deduct or credit foreign taxes will apply to all of the holder's foreign taxes for a particular tax year).

Interest income will generally constitute foreign source ''passive category'' income, or, in the case of certain U.S. holders, ''general category'' income for foreign tax credit purposes. The rules relating to foreign tax credits and the timing thereof are complex and you should consult your own tax advisor regarding the availability of a foreign tax credit and the application of the foreign tax credit limitations to your particular situation.

Sale or Other Taxable Disposition of Notes

A U.S. holder will generally recognize gain or loss upon the sale, exchange, redemption, retirement or other taxable disposition of a Note equal to the difference between the amount realised upon the sale, exchange, redemption, retirement or other taxable disposition (less an amount attributable to any accrued stated interest, which will be taxable as interest income to the extent not previously included in income) and the holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note will generally equal the amount such holder paid for the Note.

Any gain or loss recognised on a disposition of the Note by a U.S. holder will be U.S. source capital gain or loss, and will be long-term capital gain or loss if at the time of the sale, exchange, redemption or other disposition such holder has held the Note for more than one year. Consequently, a U.S. holder may not be able to claim a credit for any foreign taxes imposed upon a disposition of the Note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Long-term capital gain realised by a non-corporate U.S. holder will generally be subject to taxation at a reduced rate. A U.S. holder's ability to deduct capital losses may be limited.

Further Issues

The Issuer is permitted, from time to time, without notice to or the consent of the Noteholders, to create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date of and the amount of the first payment of interest), in accordance with the Trust Deed. These Additional Notes, even if they are treated for non-tax purposes as part of the same series as the Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such case, the Additional Notes may be considered to have been issued with original issue discount even though the Notes had no original issue discount. These differences may affect the market value of the Notes if the Additional Notes are not otherwise distinguishable from the Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal and interest on the Notes and to the proceeds of the sale or other disposition of a Note paid to a U.S. holder unless such U.S. holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the U.S. holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by financial institutions). U.S. holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

FATCA

Under certain circumstances, the Issuer, and other non-U.S. financial institutions through which payment on the Notes is made, may be required, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (''FATCA''), to withhold U.S. tax at a rate of 30 per cent. on all or a portion of payments of principal and interest which are treated as ''foreign pass-thru payments'' made on or after 1 January 2017 to an investor (or any other non-U.S. financial institution through which payment on the Notes is made) that is not in compliance with

FATCA. The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. If an amount in respect of U.S. withholding tax under FATCA were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a Noteholder's failure to comply with FATCA, neither the Issuer, the Guarantor, any paying agent or any other person would pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Under a grandfathering rule, however, obligations issued on or before 31 December 2012 generally will not be subject to withholding under FATCA. As such, we don't expect that payments on the Notes will be subject to withholding under FATCA. However, if, on or after 1 January 2013, the Notes are modified, then such Notes would become subject to withholding under FATCA, if such modification results in a deemed exchange of the Notes for U.S. federal income tax purposes. If the Issuer issues additional Notes on or after 1 January 2013, payments on such additional Notes may be subject to withholding under FATCA and, should the originally issued Notes and the further Notes be indistinguishable, payments on the originally issued Notes may also become subject to withholding under FATCA.

Cayman Islands

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Issuer received on 25 May 2010 an undertaking from the governor-in-cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as revised) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty of inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Notes) of the Issuer or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Notes. However, an instrument transferring title to such Notes, if brought to or executed in the Cayman Islands, would be subject to Caymans Island stamp duty. An annual registration fee is payable by the Issuer to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$3,010.00. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction (a "**paying agent**") to or for an individual (or a non-corporate, "**residual entity**") in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also, a number of non-EU countries (including the Cayman Islands) and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a "paying agent" within its jurisdiction to or for an individual in a Member State.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established (including partnerships) within the scope of the EU Savings Directive. The timing of the implementation of these proposed amendments is not yet known nor is its possible application.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and The Royal Bank of Scotland plc are the initial purchasers (the "**Initial Purchasers**"). Subject to the terms and conditions set forth in a subscription agreement dated 26 October, 2012 among the Issuer, the Guarantor and the Initial Purchasers (the "**Subscription Agreement**"), the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name below.

Initial Purchaser	**Principal Amount of Notes**
Citigroup Global Markets Limited	U.S.$41,660,000
Credit Suisse Securities (Europe) Limited	U.S.$41,660,000
ING Bank N.V.	U.S.$41,660,000
J.P. Morgan Securities plc	U.S.$41,660,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	U.S.$41,660,000
The Royal Bank of Scotland plc	U.S.$41,700,000
Total	**U.S.$250,000,000**

If an Initial Purchaser defaults, the Subscription Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or, in certain cases, the Subscription Agreement may be terminated by the Initial Purchasers.

The Issuer and the Guarantor have agreed in the Subscription Agreement to indemnify the several Initial Purchasers against certain liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale and subject to other conditions contained in the Subscription Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Subsequent Sales and Commissions

The Initial Purchasers propose initially to offer the Notes at the price set forth on the cover page of this Prospectus. After the initial offering of the Notes, the public offering price, any concession or any other term of the offering may be changed by the Initial Purchasers without notice.

To the extent permitted by local law, the Initial Purchasers and Issuer have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Notes purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the Notes is consistent with its investment objectives.

Notes Are Not Being Registered

The Issuer and the Guarantor have not been, and will not be, registered under the Investment Company Act and the Notes are being offered in reliance upon the exemption provided by Section 3(c)(7) thereunder. The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold except: (i) within the United States to QIBs, that are also QPs and that agree with the transfer restrictions set forth in this Prospectus or (ii) to certain persons in offshore transactions in reliance on Regulation S, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.

No Sales of Similar Securities

For a period of 60 calendar days after the closing date of the Offering, the Issuer or the Guarantor will not issue, offer, sell, guarantee, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities of the Issuer, the Guarantor or any subsidiaries of the Issuer or the Guarantor in the domestic or international debt capital markets that are substantially similar to the Notes or any warrants, rights or options to purchase or otherwise acquire debt securities of the Issuer, the Guarantor or any subsidiary of the Issuer or the Guarantor that are substantially similar to the Notes in the domestic or international debt capital markets, without the prior written consent of the Initial Purchasers.

U.S. registered broker dealer affiliates

Each of the Issuer and the Guarantor have agreed and acknowledged that the Initial Purchasers may make offers and sales into the United States through their U.S. registered broker dealer affiliates in order to fulfil their obligations under the Subscription Agreement and to ensure compliance with U.S. securities laws and regulation with respect to U.S. investors.

Settlement

The Issuer expects that delivery of the Notes will be made to investors on or about 1 November 2012, which will be the sixth Business Day following the date of this Prospectus (such settlement being referred to as ''T+6''). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+6, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

Other Relationships

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking, financial advisory, consulting, commercial banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. For instance, certain of the Initial Purchasers participated as underwriters with respect to Investcorp's offering of GDRs in 2006. In addition, certain of the Initial Purchasers are lenders under the new U.S.$529.0 million multicurrency syndicated forward start agreement described on page 58.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their respective affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the Initial Purchasers are lenders under the drawn revolver facilities which are intended to be paid down using the proceeds of the issue of the Notes.

Selling Restrictions

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in reliance on Rule 144A that are also QPs and (2) to non-U.S. persons, as defined in Regulation S, outside the United States in reliance on Regulation S.

Each Initial Purchaser has represented and agreed with the Issuer that (1) it has not offered or sold, and will not offer or sell, any Notes except (A) to those it reasonably believes to be QIBs that are also QPs or (B) in offshore transactions to non-U.S. persons in accordance with Rule 903 of Regulation S, (2) no general solicitation or general advertising (within the meaning of Rule 502 under the Securities Act) will be used in the United States in connection with the Offering, (3) neither it, nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes and that such Initial Purchaser, its affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions of Regulation S, and (4) it is a QIB and a QP.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

United Kingdom

Each Initial Purchaser has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (''**CONSOB**'') pursuant to Italian securities legislation and, accordingly, each Bookrunner has represented and agreed that no Notes may be offered, sold, delivered or distributed, nor may any copy of this Prospectus or of any other document relating to the Notes and/or the offering be distributed in the Republic of Italy (Italy) except:

(a) to qualified investors (*investitori qualificati*), pursuant to Article 100, paragraph 1, letter a) of Legislative Decree No. 58 of 24 February 1998 (the ''**Consolidated Financial Services Act**'') and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the ''**CONSOB Regulation**''), all as amended and restated from time to time; or

(b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Consolidated Financial Services Act and its implementing regulations, including the CONSOB Regulation.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the offering and/or the Notes in Italy under (a) or (b) above must in any case be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the ''**Banking Act**'') and CONSOB Regulation No. 16190 of 29 October 2007, all as amended;

(ii) in compliance with Article 129 of the Banking Act and the implementing guidelines, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

(iii) in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time, inter alia, by CONSOB, the Bank of Italy and any other authority.

Any investor purchasing the Notes in this offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in this offering occurs in compliance with applicable laws and regulations.

Bahrain

Each Initial Purchaser has represented and agreed that it has not offered, and will not offer, the Notes to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) or (ii) any person in Bahrain who is not an ''accredited investor''. For this purpose, an ''accredited investor'' means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Initial Purchaser has acknowledged and agreed that:

(a) the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and

(b) the information contained in this Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

Each Initial Purchaser has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is deemed to be an ''Exempt Offer'' in accordance with the Markets Rules (MKT Module) of the DFSA Rule book issued by the Dubai Financial Services Authority (the ''**DFSA Rule book**''). This document is not to be relied upon by or distributed to, any person who is a Retail Client for purposes of Rule 2.3.5 of the Conduct of Business (COB) Markets of the DFSA Rule book.

Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Notes in Saudi Arabia. The Notes will only be initially offered and sold in Saudi Arabia, following a notification to the CMA, through an entity authorised by the CMA in accordance with the Offers of Securities Regulations as issued by the board of the CMA pursuant to resolution number 2-11-2004 dated October 4, 2004 as amended by resolution number 1-28-2008 (the ''CMA Regulations''). The Notes will be offered in Saudi Arabia to sophisticated investors initially, in accordance with Articles 9(a)(2) and 10 of the CMA Regulations with each such offeree paying an amount not less than Saudi Riyals one million or an equivalent amount in another currency.

Cayman Islands

Each Initial Purchaser has represented and agreed that no offer or invitation to subscribe for the Notes has been or will be made to the public of the Cayman Islands.

General

No representation is made by the Issuer, the Guarantor or any Initial Purchaser that any action has been taken or will be taken in any jurisdiction by the Issuer, the Guarantor or any Initial Purchaser that would permit a public offering of the Notes, or possession or distribution of this Prospectus or supplements thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Initial Purchaser will (to the best of its knowledge and belief) comply in all material respects with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes any Prospectus or supplement thereto or any other offering material, in all cases at its own expense unless agreed otherwise.

TRANSFER RESTRICTIONS

Investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes are subject to restrictions on transfer as summarised below.

Rule 144A Notes

By purchasing Rule 144A Notes investors will be deemed to have made the following acknowledgements, representations to and agreements with the Issuer, the Guarantor and the Initial Purchasers:

(1) You understand and acknowledge that:

- the Notes have not been registered under the Securities Act or any other applicable securities laws;
- the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (5) below; and
- neither the Issuer nor the Guarantor has been or will be registered under the Investment Company Act.

(2) You represent that you are not an ''affiliate'' (as defined in Rule 144 under the Securities Act) of the Issuer or the Guarantor, that you are not acting on behalf of the Issuer or the Guarantor and that either:

- you (i) are both a QIB and a QP and are purchasing Notes for your own account or for the account of another person that is both a QIB and a QP, (ii) are not a broker-dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (iii) are not a participant-directed employee plan, such as a 401(k) plan, (iv) were not formed for the purpose of investing in the Issuer (unless each beneficial owner of your securities is a QP), (v) will, and each account for which you are purchasing will, hold and transfer at least the minimum denomination of Notes, (vi) understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and (vii) are aware, and each beneficial owner of the Notes has been notified, that the Initial Purchasers are selling the Notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) You represent that either: (i) you are not and will not be using the assets of any (a) ''employee benefit plan'' which is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (''**ERISA**''), ''plan'' which is subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the ''Code''), or entity whose underlying assets are treated as assets of any such employee benefit plan or plan within the meaning of ERISA or the Code or (b) governmental, church or non-U.S. plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (''Similar Law''), or entity whose assets are treated as assets of any such plan; or (ii) its purchase and holding of the Notes will not constitute or result in a non-exempt prohibited transaction under Section 40 of ERISA or Section 4975 of the Code, or a violation of applicable Similar Law.

(4) You acknowledge that neither the Issuer, the Guarantor nor the Initial Purchasers nor any person representing them has made any representation to you with respect to the Issuer or the Guarantor or the Offering, other than the information contained in this Prospectus. You represent that you are relying only on this Prospectus in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning the Issuer and the Guarantor and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from the Issuer or the Guarantor.

(5) You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act. You represent that if you, or any account for which you are acting, is a private investment company formed before 30 April 1996, you have, or any account for which you are acting has, received the necessary consent from the beneficial owner. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that the Notes may be offered, sold or otherwise transferred only:

- to the Issuer;
- under a registration statement that has been declared effective under the Securities Act;
- for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is both a QIB and a QP that is purchasing for its own account or for the account of another person that is both a QIB and a QP and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- through offers and sales that occur outside the United States to a non-U.S. person within the meaning of Regulation S; or
- under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control and in compliance with applicable state and other securities laws.

(6) You also acknowledge that:

- the Issuer and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under the third bullet point above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Rule 144A Global Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS THAT (A) IT (I) IS BOTH A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND A "QUALIFIED PURCHASER" (AS DEFINED UNDER SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), (II) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (III) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (IV) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QUALIFIED INSTITUTIONAL BUYER THAT IS A QUALIFIED PURCHASER, IN A PRINCIPAL AMOUNT OF NOT LESS THAN THE MINIMUM DENOMINATION FOR THE NOTES FOR THE PURCHASER AND FOR EACH SUCH ACCOUNT, (V) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (UNLESS EACH BENEFICIAL OWNER OF ITS SECURITIES IS A QUALIFIED PURCHASER), (VI) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES, AND (VII) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS

PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE ISSUER, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES TO BE BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PERSON THAT IS BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

BY ACCEPTING THIS NOTE (OR AN INTEREST IN THE NOTES REPRESENTED HEREBY), EACH BENEFICIAL OWNER HEREOF IS DEEMED TO REPRESENT AND WARRANT (I) EITHER (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) AN EMPLOYEE BENEFIT PLAN, AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**") APPLIES, OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**"), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**"), AND NO PART OF THE ASSETS BEING USED BY IT TO ACQUIRE OR HOLD SUCH NOTE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY SUCH BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE OR AN INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAWS); AND (II) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO AN ACQUIRER OR TRANSFEREE THAT IS DEEMED TO REPRESENT AND AGREE WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE TO THE SAME EFFECT AS THE ACQUIRER'S REPRESENTATION AND AGREEMENT SET FORTH IN THIS SENTENCE.

NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY, THE ISSUER HAS THE RIGHT UNDER THE CONDITIONS AND THE NOTES TO COMPEL ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER AND THAT HAS NOT ACQUIRED ITS INTEREST IN ACCORDANCE WITH THE TERMS OF THE AGENCY AGREEMENT, THE CONDITIONS AND THE NOTES TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH OWNERS. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THE NOTES TO A PERSON WHO IS NOT A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER AND IS NOT A NON-U.S. PERSON (WITHIN THE MEANING OF REGULATION S) PROPOSING TO ACQUIRE AN INTEREST IN THE NOTES IN RELIANCE ON REGULATION S.

NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

(7) You understand that the Issuer has the right under the Conditions and the Notes to compel any beneficial owner that is not a QIB and a QP and that has not acquired its interest in accordance with

the terms of the Agency Agreement, the Conditions and the Notes to sell its interest in the Notes, or may sell such interest on behalf of such beneficial owner. You understand and agree that any purported transfer of the Notes to a purchaser that does not comply with the requirements set forth in this section will be null and void *ab initio*. The Issuer has the right to refuse to honour a transfer of an interest in the Notes to a person who is not a QIB and a QP and is not a non-U.S. Person (within the meaning of Regulation S) proposing to acquire an interest in the Notes in reliance on Regulation S.

(8) You acknowledge that the relevant registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Issuer and such registrar that the restrictions set forth herein have been complied with.

(9) You acknowledge that the Issuer, the Guarantor, the Initial Purchasers and others, will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify the Issuer and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

(10) You agree that you will give to each person to whom you transfer these Notes notice of the restrictions on the transfer of the Notes.

Regulation S Notes

By purchasing Regulation S Notes, investors will be deemed to have made the following acknowledgements, representations to and agreements with the Issuer, the Guarantor and the Initial Purchasers:

(1) You understand and acknowledge that:

- the Notes have not been registered under the Securities Act or any other applicable securities laws;
- the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (5) below; and
- neither the Issuer nor the Guarantor has been or will be registered under the Investment Company Act.

(2) You represent that you are not an ''affiliate'' (as defined in Rule 144 under the Securities Act) of the Issuer or the Guarantor, that you are not acting on behalf of the Issuer or the Guarantor and that you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither the Issuer, the Guarantor nor the Initial Purchasers nor any person representing them has made any representation to you with respect to the Issuer or the Guarantor or the Offering, other than the information contained in this Prospectus. You represent that you are relying only on this Prospectus in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning the Issuer and the Guarantor and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from the Issuer or the Guarantor.

(4) You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that prior to the date

that is 40 days after the later of the closing date and the last date that the Issuer or the Guarantor or any of their affiliates was the owner of the Notes or any predecessor of the Notes, the Notes may be offered, sold or otherwise transferred only:

- to the Issuer;
- for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is both a QIB and a QP that is purchasing for its own account or for the account of another person that is both a QIB and a QP and to whom notice is given that the transfer is being made in reliance on Rule 144A; or
- through offers and sales that occur outside the United States to a non-U.S. person within the meaning of Regulation S;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control and in compliance with applicable state and other securities laws.

(5) You also acknowledge that:

- the Issuer and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under the third bullet point above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Regulation S Global Note will contain a legend substantially to the following effect

  THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

  THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES TO BE BOTH A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**") AND A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PERSON THAT IS BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

  NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

(6) You acknowledge that the relevant registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Issuer and such registrar that the restrictions set forth herein have been complied with.

LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon for the Issuer and the Guarantor by White & Case LLP, as to matters of English law and U.S. Federal and New York state law, by Hatim S. Zu'bi & Partners as to matters of Bahraini law and by Paget-Brown as to matters of Cayman Islands law. Certain legal matters in connection with this Offering will be passed upon for the Initial Purchasers by Latham & Watkins LLP, as to matters of English law and U.S. Federal and New York state law, by Hassan Radhi & Associates as to matters of Bahraini law and by Walkers (Dubai) LLP as to matters of Cayman Islands law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Guarantor and the Issuer as of 30 June 2010, 2011 and 2012 and for each of the three years in the period ended 30 June 2012 included in this Prospectus has been audited by Ernst & Young, Bahrain, independent auditors, as stated in their reports appearing herein.

The business address of Ernst & Young, Bahrain is P.O. Box 140, 14th Floor – The Tower, Bahrain Commercial Complex, Manama, Kingdom of Bahrain.

GENERAL INFORMATION

1. Authorisation

The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the Cayman Islands and Bahrain in connection with the issue of the Notes and the giving of the Guarantee. The Issuer authorised the issue of the Notes on 14 October 2012. The Guarantor authorised the giving of the Guarantee on 27 July 2012 and 19 September 2012.

2. Listing

It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or prior to the first interest payment in respect of the Notes. The total expenses related to the admission to trading of the Notes are estimated to be approximately £4,200.

3. Clearing

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream, Luxembourg and DTC. The International Securities Identification Number (ISIN) for the Notes sold pursuant Regulation S is XS0847495248 and the ISIN for the Notes sold pursuant Rule 144A is US46133BAA61. CUSIP for the Notes sold pursuant to Rule 144A is 46133B AA6. The Common Code for the Notes sold pursuant to Regulation S is 084749524 and the Common Code for the Notes sold pursuant to Rule 144A is 084868345.

The address of DTC is 55 Water Street, New York, New York 10041, USA. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, 2-1855, Luxembourg.

4. Governmental, Legal or Arbitration Proceedings

Except as set out in "*Investcorp's Business – Legal and Regulatory Proceedings*" on page 89 (other than the first paragraph thereof), of this Prospectus, there are and were no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer, or the Issuer and its consolidated subsidiaries taken as a whole.

Except as set out in "*Investcorp's Business – Legal and Regulatory Proceedings*" on page 89 (other than the first paragraph thereof), of this Prospectus, there are and were no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Guarantor, or the Investcorp Group.

5. No Significant or Material Adverse Change

There has been no material adverse change in the prospects of the Guarantor since 30 June 2012, nor has there been any significant change in the financial or trading position of the Guarantor or the Guarantor and its consolidated subsidiaries taken as a whole since 30 June 2012.

There has been no material adverse change in the prospects of the Issuer since 30 June 2012, nor has there been any significant change in the financial or trading position of the Issuer or the Issuer and its consolidated subsidiaries taken as a whole since 30 June 2012.

6. Yield

The projected yield of the Notes is 8.25 per cent. The yield has been calculated on the basis of the issue price as at the date of this Prospectus and it is not an indication of actual future returns for investors.

7. Documents on Display

Copies of the following documents will be available, during usual business hours on any workday (Saturdays, Sundays and public holidays excepted), for inspection the specified office of the Principal Paying and Transfer Agent:

(a) the constitutional documents of the Issuer and the constitutional documents of the Guarantor;

(b) the audited consolidated annual financial statements of the Issuer in respect of the financial years ended 30 June, 2012, 2011 and 2010, together with the audit reports in connection therewith;

(c) the audited consolidated annual financial statements of the Guarantor as at and for the years ended 30 June 2012, 2011 and 2010;

(d) the Agency Agreement;

(e) the Trust Deed;

(f) a copy of this Prospectus together with any supplement to this Prospectus; and

(g) the communications received from the rating agencies containing the ratings for the Notes.

8. Post-Issuance Information

The Issuer does not intend to provide any post-issuance information in relation to this issue of Notes.

9. Interests of Natural and Legal Persons

Save as disclosed in ''*Subscription and Sale*'', so far as the Issuer and the Guarantor are aware, no person involved in the issue of the Notes has an interest material to the offer.

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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's management, under authorization from the Board of Directors, is responsible for establishing and maintaining adequate internal controls over financial reporting. The Group's control processes over financial reporting are designed and implemented under the supervision of the Group's Board of Directors, Executive Chairman & Chief Executive Officer, Chief Financial Officer and General Counsel to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards.

The Group's internal controls over financial reporting include policies and procedures that (a) relate to the maintenance of records in a reasonable level of detail that fairly and accurately reflect transactions pertaining to the Group's assets; (b) provide reasonable assurance that these transactions have been properly authorized; and (c) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, utilization or disposal of the Group's assets that could have a material impact on the consolidated financial statements.

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2012. Based on this assessment, management believes that, as of June 30, 2012 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

Nemir A. Kirdar
Executive Chairman &
Chief Executive Officer

Rishi Kapoor
Chief Financial Officer

Stephanie R. Bess
General Counsel

July 31, 2012

ERNST & YOUNG

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C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 30 June 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2012, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C. (continued)

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 30 June 2012 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

31 July 2012
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2012

$000s	*June 30, 2012*	*June 30, 2011*	*Notes*	*Page*
ASSETS				
Cash and short-term funds	156,252	24,649		
Placements with financial institutions and other liquid assets	194,567	341,395		
Positive fair value of derivatives	81,250	45,033	19	45
Receivables and prepayments	284,337	300,436	6	30
Loans and advances	188,853	169,832	7	31
Co-investments				
Hedge funds	414,098	607,398	8	32
Corporate investment	1,221,790	1,121,735	9	33
Real estate investment	154,460	188,838	10	37
Total co-investments	1,790,348	1,917,971		
Premises, equipment and other assets	54,072	59,235		
TOTAL ASSETS	2,749,679	2,858,551		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	10,111	-		
Deposits from clients - short-term	195,245	318,028	12	38
Negative fair value of derivatives	39,160	22,804	19	45
Payables and accrued expenses	214,432	202,521	13	39
Deposits from clients - medium-term	119,241	95,309	12	38
Medium-term debt	567,256	584,912	14	40
Long-term debt	560,491	574,640	15	41
TOTAL LIABILITIES	1,705,936	1,798,214		
EQUITY				
Preference share capital	511,465	511,465	16	42
Ordinary shares at par value	200,000	200,000	16	42
Reserves	233,046	242,880		
Treasury shares	(163,575)	(181,287)		
Retained earnings	183,538	181,922		
Ordinary shareholders' equity excluding proposed appropriations, unrealized fair value changes recognized directly in equity and revaluation reserve	453,009	443,515		
Proposed appropriations	66,096	74,682		
Unrealized fair value changes recognized directly in equity and revaluation reserve	13,173	30,675	17	43
TOTAL EQUITY	1,043,743	1,060,337		
TOTAL LIABILITIES AND EQUITY	2,749,679	2,858,551		

Abdul-Rahman Salim Al-Ateeqi
Chairman

Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2012

CONSOLIDATED STATEMENT OF INCOME

$000s	***2012***	*2011*	*Notes*	*Page*
FEE INCOME				
Management fees	88,103	93,189		
Activity fees	84,172	65,743		
Performance fees	63,750	38,508		
Fee income ***(a)***	236,025	197,440	2	19
ASSET BASED INCOME				
Hedge funds	(50,218)	39,489		
Corporate investment	59,840	121,664		
Real estate investment	17,270	40,555		
Treasury and other asset based income	4,156	14,470		
Asset based income ***(b)***	31,048	216,178	2	19
Gross operating income (a) + (b)	267,073	413,618	2	19
Provisions for impairment	(1,088)	(2,099)	11	37
Interest expense	(47,824)	(56,033)	2	19
Operating expenses	(150,749)	(215,173)	5	29
NET INCOME	67,412	140,313		
Basic and fully diluted earnings per ordinary share ($)	10	128	18	44

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***2012***	*2011*	*Notes*	*Page*
NET INCOME (AS ABOVE)	67,412	140,313		
Other comprehensive income				
Fair value movements - available for sale investments	(1,986)	(1,860)	17	43
Fair value movements - cashflow hedges	(15,286)	8,229	17	43
Revaluation loss on premises and equipment	-	(3,034)	17	43
Other comprehensive (loss) income	(17,272)	3,335		
TOTAL COMPREHENSIVE INCOME	50,140	143,648		

Abdul-Rahman Salim Al-Ateeqi
Chairman

Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

			Reserves							Unrealized fair value changes and revaluation reserve recognized directly in equity				
$000s	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, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**(234,489)**	**57,374**	**6,573**	**11,679**	**9,949**	**28,201**	**994,338**
Total comprehensive income	-	-	-	-	-	-	-	140,313	-	(1,860)	8,229	(3,034)	3,335	143,648
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	861	-	-	-	(861)	(861)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(23,062)	-	-	-	-	-	-	(23,062)
Loss on sale of treasury shares	-	-	(3,444)	-	-	(3,444)	3,444	-	-	-	-	-	-	-
Preference share dividends paid	-	-	-	-	-	-	-	-	(57,374)	-	-	-	-	(57,374)
Proposed appropriations / transfers:														
Preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Ordinary share dividend	-	-	-	-	-	-	-	(9,306)	9,306	-	-	-	-	-
Transfer of general reserve to retained earnings	-	-	-	-	(50,000)	(50,000)	-	50,000	-	-	-	-	-	-
Transfer of fair value losses to share premium	-	-	(299,919)	-	-	(299,919)	-	299,919	-	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	-	(4,000)	4,000	-	-	-	-	-
Vesting of preference shares during the year - net	2,787	-	-	-	-	-	-	-	-	-	-	-	-	2,787
Balance at June 30, 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)	-	-	-	-	-	-	-	67,412	-	(1,986)	(15,286)	-	(17,272)	50,140
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares sold / vested during the period - net	-	-	-	-	-	-	7,878	-	-	-	-	-	-	7,878
Loss on sale and vesting of treasury shares	-	-	(9,834)	-	-	(9,834)	9,834	-	-	-	-	-	-	-
Approved appropriations for fiscal 2011 paid:														
Preference share dividend	-	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	-	(9,306)	-	-	-	-	(9,306)
Charitable contributions by shareholders	-	-	-	-	-	-	-	-	(4,000)	-	-	-	-	(4,000)
Preference share dividend forfeited	-	-	-	-	-	-	-	70	-	-	-	-	-	70
Proposed preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	-	(4,720)	4,720	-	-	-	-	-
Balance at June 30, 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**

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

$000s	*2012*	*2011*	*Notes*	*Page*
OPERATING ACTIVITIES				
Net income	67,412	140,313		
Adjustments for non-cash items in net income				
Depreciation	6,037	6,803	5	29
Provisions for impairment	1,088	2,099	11	37
Amortization of transaction costs of borrowings	7,437	7,760		
Vesting of share awards - net of forfeitures	3,265	2,787		
Net income adjusted for non-cash items	85,239	159,762		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	10,000	50,000		
Receivables and prepayments	15,415	10,403	6	30
Loans and advances	(19,425)	80,798	7	31
Deposits from clients - short-term	(122,783)	70,602	12	38
Payables and accrued expenses	11,911	58,179	13	39
Co-investments				
Hedge funds	193,300	(70,124)	8	32
Corporate investment	(102,041)	(70,830)	9	33
Real estate investment	34,378	27,939	10	37
Fair value of derivatives	2,140	86,526		
Other assets	(55)	(28)		
NET CASH FROM OPERATING ACTIVITIES	108,079	403,227		
FINANCING ACTIVITIES				
Deposits from financial institutions	10,111	-		
Deposits from clients - medium-term	23,932	4,616	12	38
Medium-term revolvers drawn	50,346	-		
Medium-term revolvers repaid on maturity	(50,000)	(150,000)	14	40
Medium-term revolvers repaid and available for drawdown	-	(490,000)	14	40
Medium-term debt issued (net of transaction costs)	-	88,750	14	40
Medium-term debt repaid	(19,000)	(200,000)	14	40
Long-term debt repaid	(57,875)	(62,875)	15	41
Treasury shares sold (purchased) - net	4,613	(23,062)		
Dividends and charitable contributions paid	(74,612)	(57,374)		
NET CASH USED IN FINANCING ACTIVITIES	(112,485)	(889,945)		
INVESTING ACTIVITY				
Investment in premises and equipment	(819)	(49)		
NET CASH USED IN INVESTING ACTIVITY	(819)	(49)		
Net decrease in cash and cash equivalents	(5,225)	(486,767)		
Cash and cash equivalents at beginning of the year	353,044	839,811		
Cash and cash equivalents at end of the year	347,819	353,044		
Cash and cash equivalents comprise:				
Cash and short-term funds	28,583	24,649		
Cash in transit	127,669	-		
Placements with financial institutions and other liquid assets	191,567	328,395		
	347,819	353,044		
Total accessible liquidity comprises:				
Cash and cash equivalents	347,819	353,044		
Placements with financial institutions and other liquid assets (non-cash equivalent)	3,000	13,000		
Undrawn revolvers	297,404	536,250		
Total accessible liquidity*	648,223	902,294		

* In addition to the above, the group has $414.1 million (June 30, 2011: $607.4 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information *$000s*	*2012*	*2011*
Interest paid	(55,111)	(61,079)
Interest received	17,180	20,443

The attached notes 1 to 25 are an integral part of these 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 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 consolidated financial statements for the year ended June 30, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated July 31, 2012.

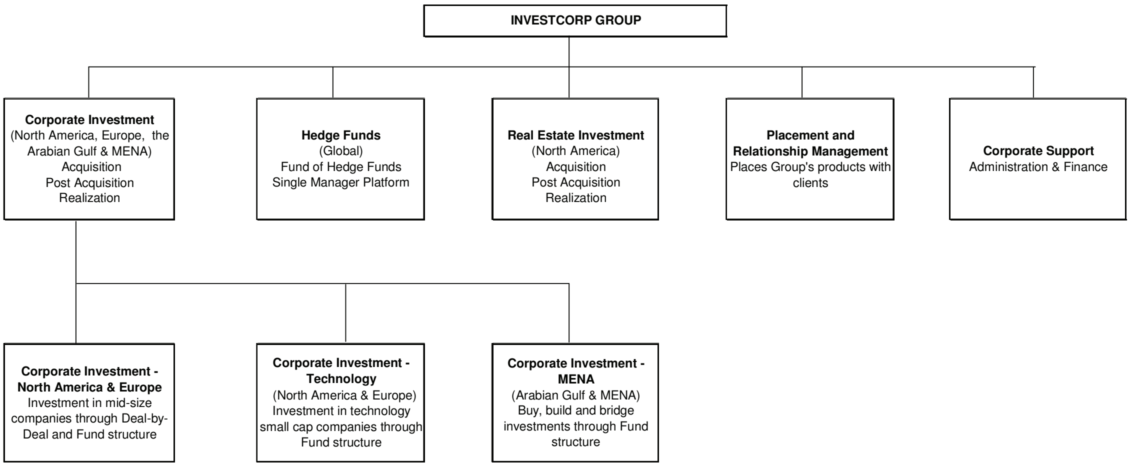
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 corporate investment, hedge funds and real estate investment. Within the corporate investment asset class the Group offers three products namely, (a) Corporate investment–North America & Europe, (b) Corporate investment–Technology and (c) Corporate investment–MENA.

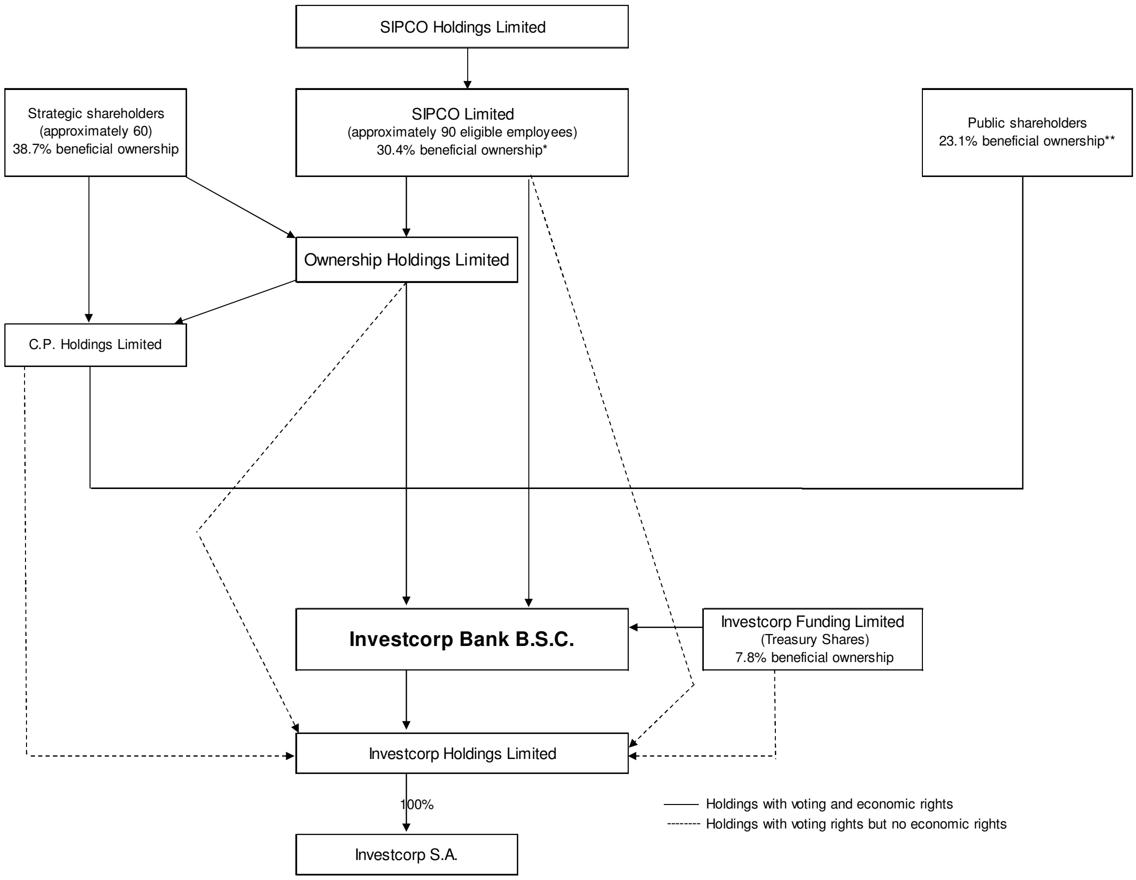
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Includes 13.5% in shares that are held for potential future allocation to the Employee Share Ownership Plan and 2% un-vested shares under the Employee Share Ownership Plan. The Group has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of shares for the Employee Share Ownership Plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.
** Includes 0.3% beneficial ownership held in the form of unlisted Global Depositary Receipts.

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 own beneficial interests in 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 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 entities 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 and Series B 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 subject to the payment of a nominal amount in respect of IHL's ordinary shares. CPHL, OHL, SIPCO Limited and Investcorp Funding Limited ("IFL") own ordinary shares of IHL in the same proportion to their shareholding of the Bank's 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 Cayman Island financial holding company. 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries 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. (Cayman Islands)			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
		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 to non-United States client investment holding companies for corporate and real estate investments.
		Investcorp Investment Advisers Limited (Cayman Islands)		Company that provides investment management and advisory services to investment funds including hedge funds and is an 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 Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity.
		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) arranges M&A transactions in the UK.
		Investcorp International Holdings Inc. (USA)		The Group's holding company in the United States of America
			Investcorp International Inc. (USA)	Employs the group's United States-based employees.
			N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and real estate funds and is an SEC registered broker dealer
			Investcorp Investment Advisers LLC (USA)	Company that provides investment management and advisory services in the United States for investment funds, including hedge funds, and is an 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 consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB rule book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and the rules and procedures of the Bahrain Bourse. The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and the IFRS Interpretations Committee (the "IFRIC") interpretations that are applicable for the current fiscal year:

- Amendments to IAS 24 - Related Party Disclosures
- Amendments to IAS 32 - Presentation
- Amendments to IFRS 7 - Financial Instruments Disclosures
- Amendments to IFRS 3 - Business Combinations
- Amendments to IAS 1 - Presentation of Financial Statements

The adoption of the above amendments did not have any material impact on the consolidated financial position or performance of the Bank.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any material impact on the accounting policies, consolidated financial position or performance of the Group:

- IFRS 3 - Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);
- IFRS 3 - Business Combinations (Un-replaced and voluntarily replaced share-based payment award);
- IAS 27 - Consolidated and Separate Financial Statements;
- IAS 34 - Interim Financial Reporting; and
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments.

New standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective are listed below together with their effective date. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date.

- IAS 1 - amendment – Financial Statement Presentation, 1 July 2012
- IAS 19 - amendment – Employee Benefits, 1 January 2013
- IFRS 9 - Financial Instruments; Classification And Measurement, 1 January 2015
- IFRS 10 - Consolidated Financial Statements, 1 January 2013
- IFRS 11 - Joint Arrangements, 1 January 2013
- IFRS 12 - Disclosure of Interests in Other Entities, 1 January 2013
- IFRS 13 - Fair Value Measurement, 1 January 2013
- IAS 27 - Separate Financial Statements, 1 January 2013
- IAS 28 - Investments in Associates and Joint Ventures Separate Financial Statements,1 January 2013

The management is considering the implications of these standards and amendments, their impact on the Group's consolidated financial position and results and the timing of their adoption by the Group.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") co-investments in corporate investment and real estate investment (see notes 9 and 10), the determination of performance fee on assets under management and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of financial assets, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

iv) Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these investments to maturity.

Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS").

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Other liquid assets

Other liquid assets, which form part of "placements with financial institutions and other liquid assets", are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL assets. The management has designated such assets as FVTPL assets.

v) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

vi) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

vii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

viii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

ix) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income. The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Co- investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Certain debt investments made in connection with the Group's co-investments in corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

xi) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xii) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xiii) Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Impairment and un-collectability of financial assets (continued)

In the case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

xiv) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity , except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Buildings on freehold land	25 years
Leasehold and building improvements	10 - 15 years
Operating assets	3 - 23 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate, at least at each financial year end.

xv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 24).

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xv) *Payables, accruals and provisions (continued)*

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xvi) Unfunded deal acquisitions

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.

xvii) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, cash in transit, other liquid funds and placements with financial institutions that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

xviii) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xix) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against any previously established reserve from past transactions in treasury shares, and where such reserve is insufficient, then any difference is charged to retained earnings.

xx) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xxi) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis.

xxii) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxii) Derivative financial instruments (continued)

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 19.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

xxiii) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value during the year.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

2. SEGMENT REPORTING

A. ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging investments in, and managing such investments in, alternative investment assets for institutional and high net worth clients through operating centers in the Kingdom of Bahrain, London, New York and Riyadh. 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 corporate investment, hedge funds and real estate investment is classified as asset based income.

2. SEGMENT REPORTING (continued)

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 product asset classes 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) Corporate investment	1) Corporate investment	1) Corporate investment– North America & Europe	- Deal by deal offerings - Closed-end fund(s)
		2) Corporate investment– Technology	- Closed-end fund(s)
		3) Corporate investment– MENA	- Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	- Fund of hedge funds - Single managers - Structured and levered products
3) Real estate investment	3) Real estate investment	5) Real estate investment	- Equity investments - Mezzanine debt investments
4) Corporate support			- Liquidity/working capital /funding

Each of the five lines of business is comprised of 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) Corporate Investment–North America & Europe ("CI-NA & Europe")

The CI–NA & Europe team, based in London and New York, arranges corporate 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) ***Corporate Investment–Technology ("CI-Technology)***

The CI–Technology 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 primarily 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) ***Corporate Investment–MENA ("CI-MENA")***

The CI–MENA team, based in the Kingdom of 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 wider Middle East and North Africa (MENA) region, including Turkey. 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 Fund.

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 HF business 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 Investment ("RE")***

The RE team, based in New York, arranges investments in North America-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.

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.

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.

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.

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 corporate investment and real estate 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 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 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.

2. SEGMENT REPORTING (continued)

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2012 and 2011 by reporting segment are as follows:

June 30, 2012 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
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	-	-	-	284,337	284,337
Loans and advances	-	-	-	188,853	188,853
Co-investments	1,221,790	414,098	154,460	-	1,790,348
Premises, equipment and other assets	-	-	-	54,072	54,072
Total assets	1,221,790	414,098	154,460	959,331	2,749,679
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	3,033	-	7,078	10,111
Deposits from clients - short-term	-	58,574	-	136,671	195,245
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	165,987	276	35	48,134	214,432
Deposits from clients - medium term	11,438	12,734	21,982	73,087	119,241
Medium-term debt	218,268	60,080	15,605	273,303	567,256
Long-term debt	229,430	64,287	42,858	223,916	560,491
Total liabilities	625,123	198,984	80,480	801,349	1,705,936
Total equity	596,667	215,114	73,980	157,982	1,043,743
Total liabilities and equity	1,221,790	414,098	154,460	959,331	2,749,679

June 30, 2011 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	24,649	24,649
Placements with financial institutions and other liquid assets	-	-	-	341,395	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables and prepayments	-	-	-	300,436	300,436
Loans and advances	-	-	-	169,832	169,832
Co-investments	1,121,735	607,398	188,838	-	1,917,971
Premises, equipment and other assets	-	-	-	59,235	59,235
Total assets	1,121,735	607,398	188,838	940,580	2,858,551
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	94,211	-	223,817	318,028
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	18,784	5,214	4,613	173,910	202,521
Deposits from clients - medium term	22,567	2,057	4,141	66,544	95,309
Medium-term debt	177,367	248,186	39,231	120,128	584,912
Long-term debt	323,991	39,735	51,840	159,074	574,640
Total liabilities	542,709	389,403	99,825	766,277	1,798,214
Total equity	579,026	217,995	89,013	174,303	1,060,337
Total liabilities and equity	1,121,735	607,398	188,838	940,580	2,858,551

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

2. SEGMENT REPORTING (continued)

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

The consolidated statements of income for the years ended June 30, 2012 and June 30, 2011 by reporting segments are as follows:

July 2011 - June 2012 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	56,581	22,472	9,050	-	88,103
Activity fees	72,133	(491)	12,530	-	84,172
Performance fees	54,854	8,548	348	-	63,750
Gross fee income (a)	183,568	30,529	21,928	-	236,025
Expenses attributable to fee income	(81,173)	(30,460)	(13,651)	-	(125,284)
Net fee income	102,395	69	8,277	-	110,741
Asset based income					
Interest income	5,219	-	8,436	3,820	17,475
Treasury and other asset based income (loss)	54,621	(50,218)	8,834	336	13,573
Gross asset based income (loss) (b)	59,840	(50,218)	17,270	4,156	31,048
Provisions for impairment	-	-	-	(1,088)	(1,088)
Interest expense	(18,336)	(14,105)	(5,064)	(10,319)	(47,824)
Expenses attributable to asset based income	(15,897)	(4,485)	(2,261)	(2,822)	(25,465)
Net asset based income (loss)	25,607	(68,808)	9,945	(10,073)	(43,329)
Net income (loss)	128,002	(68,739)	18,222	(10,073)	67,412
Gross operating income (loss) (a) + (b)	243,408	(19,689)	39,198	4,156	267,073

July 2010 - June 2011 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	58,245	25,041	9,903	-	93,189
Activity fees	45,211	13,833	6,699	-	65,743
Performance fees	30,388	6,084	2,036	-	38,508
Gross fee income (a)	133,844	44,958	18,638	-	197,440
Expenses attributable to fee income	(100,196)	(46,704)	(12,915)	-	(159,815)
Net fee income (loss)	33,648	(1,746)	5,723	-	37,625
Asset based income					
Interest income	3,376	-	3,651	11,637	18,664
Treasury and other asset based income	118,288	39,489	36,904	2,833	197,514
Gross asset based income (b)	121,664	39,489	40,555	14,470	216,178
Provisions for impairment	-	-	-	(2,099)	(2,099)
Interest expense	(17,138)	(13,685)	(3,785)	(21,425)	(56,033)
Expenses attributable to asset based income	(31,435)	(8,298)	(9,004)	(6,621)	(55,358)
Net asset based income (loss)	73,091	17,506	27,766	(15,675)	102,688
Net income (loss)	106,739	15,760	33,489	(15,675)	140,313
Gross operating income (a) + (b)	255,508	84,447	59,193	14,470	413,618

2. SEGMENT REPORTING (continued)

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

Gross operating income of $243.4 million (2011: $255.5 million) from the corporate investment asset class includes $ 38.1 million and $27 million (2011: $43.4 million and $19.3 million) relating to CI–Technology and CI–MENA respectively. The balance relates to CI–NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2011: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $17.5 million (2011: $18.7 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9 and 22 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2012 $000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	-	156,252	-	-	156,252
Placements with financial institutions and other liquid assets	3,000	191,567	-	-	194,567
Positive fair value of derivatives	-	-	-	81,250	81,250
Receivables	-	241,766	-	-	241,766
Loans and advances	-	188,853	-	-	188,853
Co-investments					
Hedge funds	414,098	-	-	-	414,098
Corporate investment	1,149,345	56,851	15,594	-	1,221,790
Real estate investment					
Debt	-	43,444	-	-	43,444
Equity	111,016	-	-	-	111,016
Total financial assets	1,677,459	878,733	15,594	81,250	2,653,036
Non-financial assets					
Prepayments					42,571
Premises, equipment and other assets					54,072
Total assets					2,749,679
Financial liabilities					
Deposits from financial institutions	-	10,111	-	-	10,111
Deposits from clients*	-	314,486	-	-	314,486
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	-	208,015	-	-	208,015
Medium term debt	-	567,256	-	-	567,256
Long term debt*	-	560,491	-	-	560,491
Total financial liabilities	-	1,660,359	-	39,160	1,699,519
Non-financial liabilities					
Deferred income					6,417
Total liabilities					1,705,936

* Adjusted for related fair value hedges.

June 30, 2011 $000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	-	24,649	-	-	24,649
Placements with financial institutions and other liquid assets	128,000	213,395	-	-	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables	-	270,755	-	-	270,755
Loans and advances	-	169,832	-	-	169,832
Co-investments					
Hedge funds	607,398	-	-	-	607,398
Corporate investment	1,067,748	37,503	16,484	-	1,121,735
Real estate investment					
Debt	-	35,446	-	-	35,446
Equity	153,392	-	-	-	153,392
Total financial assets	1,956,538	751,580	16,484	45,033	2,769,635
Non-financial assets					
Prepayments					29,681
Premises, equipment and other assets					59,235
Total assets					2,858,551
Financial liabilities					
Deposits from clients*	-	413,337	-	-	413,337
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	-	197,524	-	-	197,524
Medium term debt	-	584,912	-	-	584,912
Long term debt*	-	574,640	-	-	574,640
Total financial liabilities	-	1,770,413	-	22,804	1,793,217
Non-financial liabilities					
Deferred income					4,997
Total liabilities					1,798,214

* Adjusted for related fair value hedges.

4. 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:

	June 30, 2012				June 30, 2011			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate Investment ("CI")								
Closed-end Committed Funds								
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
Closed-end Invested Funds								
CI - Technology	213	31	10	254	214	36	10	260
Deal-by-deal investments								
CI - NA & Europe	2,112	876	319	3,307	1,988	831	323	3,142
Strategic and other investments	-	88	-	88	-	73	-	73
Total corporate investment	**4,078**	**1,332**	**414**	**5,824**	**3,955**	**1,277**	**418**	**5,650**
Hedge Funds*								
Fund of hedge funds	2,090	86	1	2,177	2,648	138	4	2,790
Single managers	1,351	254	4	1,609	870	263	-	1,133
Structured products	107	371	4	482	211	609	6	826
Total hedge funds	**3,548**	**711**	**9**	**4,268**	**3,729**	**1,010**	**10**	**4,749**
Real Estate Investment								
Closed-end Committed Funds	75	25	-	100	150	27	-	177
Closed-end Invested Funds	98	15	2	115	56	1	2	59
Deal-by-deal investments	844	124	28	996	756	166	29	951
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate investment	**1,017**	**172**	**30**	**1,219**	**962**	**202**	**31**	**1,195**
Corporate Support								
Client call accounts held in trust	179	-	-	179	241	-	-	241
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**
Summary by category:								
Closed-end Committed Funds	1,828	362	85	2,275	1,903	364	85	2,352
Closed-end Invested Funds	311	46	12	369	270	37	12	319
Hedge Funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Deal-by-deal investments	3,135	1,096	347	4,578	2,985	1,078	352	4,415
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**
Summary by segments:								
Corporate investment								
CI - NA & Europe	2,588	1,082	383	4,053	2,464	1,037	387	3,888
CI - Technology	637	92	25	754	638	97	25	760
CI - MENA	853	70	6	929	853	70	6	929
Strategic and other investments	-	88	-	88	-	73	-	73
Hedge Funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Real Estate Investment	1,017	172	30	1,219	962	202	31	1,195
Corporate Support	179	-	-	179	241	-	-	241
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**

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

4. ASSETS UNDER MANAGEMENT (continued)

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for corporate investment and real estate investment are stated at fair values while the other categories are stated at 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, or placed on deposit with Investcorp. 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.

5. OPERATING EXPENSES

$000s	***2012***	*2011*
Staff compensation	67,545	130,209
Other personnel costs	14,629	17,266
Professional fees	23,383	22,999
Travel and business development	9,095	9,691
Administration and research	14,460	13,476
Technology and communication	2,984	3,017
Premises	10,509	10,675
Depreciation	6,037	6,803
Other	2,107	1,037
Total	150,749	215,173

6. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2012	June 30, 2011
Subscriptions receivable	44,363	106,884
Receivables from investee and holding companies	148,822	102,417
Investment disposal proceeds receivable	6,910	58,977
Hedge funds related receivables	29,491	10,599
Accrued interest receivable	4,912	4,617
Prepaid expenses	42,571	29,681
Other receivables	14,254	30,692
	291,323	343,867
Provisions for impairment (see Note 11 & 22(i))	(6,986)	(43,431)
Total	284,337	300,436

Receivables arise largely from subscriptions by clients to the Group's investment products, fees earned in respect of the Group's investment management, investment performance and other transactional services, 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 and other receivables, which are due from investee companies and performance fee accrued on client assets under management.

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 from HFP funds for management and administrative services and performance fees.

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.

7. LOANS AND ADVANCES

$000s	June 30, 2012	June 30, 2011
Advances to Gulf Opportunity Fund and Technology Funds	11,939	-
Advances to investment holding companies	79,835	114,200
Advances to Employee Investment Programs	94,667	97,617
Other advances	14,264	7,585
	200,705	219,402
Provisions for impairment (see Note 11 & 22(i))	(11,852)	(49,570)
Total	188,853	169,832

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 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. In both cases the advances, in management's opinion, 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 a margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

8. 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. The underlying hedge fund managers invest in a variety of financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in several emerging hedge fund managers on its single manager platform. An emerging manager is typically a manager 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	***June 30, 2012***	*June 30, 2011*
Direct fund investments	116,052	400,734
Structured and leveraged products	298,046	206,664
Total balance sheet co-investments	414,098	607,398

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 into 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.

Out of the total co-investment in hedge funds, $29 million (June 30, 2011: $8.9 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 14).

9. CORPORATE CO-INVESTMENTS

$000s	*June 30, 2012*	*June 30, 2011*
Corporate Investment - North America & Europe [See Note 9 (a)]	1,027,179	944,845
Corporate Investment - Technology [See Note 9 (b)]	83,073	80,006
Corporate Investment - MENA [See Note 9 (c)]	23,977	23,711
Strategic and other investments [See Note 9 (d)]	87,561	73,173
Total corporate co-investments	1,221,790	1,121,735

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE

The Group's co-investments in CI–NA & Europe are classified as FVTPL investments.

The fair value of unquoted CI–NA and Europe co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve 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, in which event 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 that 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 recent measure of specific fair value for an individual investment is not available, the fair value is determined by 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 referred to above.

9. CORPORATE CO-INVESTMENTS (continued)

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE (continued)

The carrying values of the Group's co-investments in CI–NA & Europe are:

$000s **VINTAGE ***	***June 30, 2012***	*June 30, 2011*
Vintage 1997 (1997 - 2000)	165,601	182,040
Vintage 2001 (2001 - 2004)	10,686	43,901
Vintage 2005 (2005 - 2008)	514,461	508,105
Vintage 2009 (2009 - 2012)	336,431	210,799
Total	1,027,179	944,845

* 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:

	June 30, 2012			June 30, 2011		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	12,656	-	12,656	47,743	-	47,743
Industrial Products	-	344,005	344,005	-	381,465	381,465
Technology and Telecom	165,786	-	165,786	182,225	-	182,225
Industrial Services	238,338	62,231	300,569	138,593	44,638	183,231
Distribution	164,769	39,394	204,163	126,801	23,380	150,181
Total	581,549	445,630	1,027,179	495,362	449,483	944,845

9. CORPORATE CO-INVESTMENTS (continued)

9 (b) CORPORATE INVESTMENT–TECHNOLOGY

Similar to CI–NA & Europe, the Group's co-investments in CI–Technology are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–Technology is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers and 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. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for CI–NA & Europe co-investments as described in Note 9 (a).

The carrying values of Group's co-investments in CI–Technology deals at June 30, 2012 and June 30, 2011 are:

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2012 Total*
Technology Fund I						
North America	762	1,574	-	1,956	172	4,464
Sub-Total	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
Sub-Total	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
Sub-Total	-	27,489	3,424	21,209	-	52,122
Total	4,006	29,162	25,229	24,504	172	83,073

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2011 Total*
Technology Fund I						
North America	921	1,015	54	1,475	194	3,659
Sub-Total	921	1,015	54	1,475	194	3,659
Technology Fund II						
North America	5,165	448	5,622	1,632	-	12,867
Europe	-	-	19,315	-	-	19,315
Sub-Total	5,165	448	24,937	1,632	-	32,182
Technology Fund III						
North America	-	16,624	-	4,209	-	20,833
Europe	-	-	-	13,145	-	13,145
Sub-Total	-	16,624	-	17,354	-	33,978
Direct Co-Investment						
Europe	-	-	10,187	-	-	10,187
Sub-Total	-	-	10,187	-	-	10,187
Total	6,086	18,087	35,178	20,461	194	80,006

9. CORPORATE CO-INVESTMENTS (continued)

9 (c) CORPORATE INVESTMENT –MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2012 and June 30, 2011:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2012 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	9,445	**9,445**
Kuwait	6,537	-	-	**6,537**
Turkey	-	-	7,995	**7,995**
Total	**6,537**	**-**	**17,440**	**23,977**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2011 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,196	**8,196**
UAE	-	6,975	-	**6,975**
Kuwait	4,720	-	-	**4,720**
Turkey	-	-	3,820	**3,820**
Total	**4,720**	**6,975**	**12,016**	**23,711**

Similar to CI–NA & Europe, and CI–Technology the co-investments in CI–MENA are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–MENA 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 an EBITDA multiples based valuation methodology.

9 (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 $36.3 million (June 30, 2011: $35.9 million) that are classified as FVTPL, of which $25.3 million was valued based on information provided by the investment manager.

10. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate investment 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.

Certain of the debt investments forming part of the Core Plus and Debt portfolios, in real estate properties are classfied as held-to-maturity ("HTM") investments amouting to $43.4 million (June 30, 2011 $35.4 million).

The carrying values of the Group's co-investments in real estate invesment portfolios in the United States at June 30, 2012 and at June 30, 2011 are:

$000s

PORTFOLIO TYPE	*June 30, 2012*	*June 30, 2011*
Core Plus	83,438	102,172
Debt	26,927	27,637
Opportunistic	35,878	50,687
Strategic and other	8,217	8,342
Total	154,460	188,838

11. PROVISIONS FOR IMPAIRMENT

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

$000s ***12 months to June 30, 2012***				
Categories	***At beginning***	***Charge***	***Written-off***	***At end***
Receivables (Note 6 & 22(i))	43,431	684	(37,129)	6,986
Loans and advances (Note 7 & 22(i))	49,570	404	(38,122)	11,852
Total	93,001	1,088	(75,251)	18,838
12 months to June 30, 2011	90,902	2,099	-	93,001

12. DEPOSITS FROM CLIENTS

$000s	***June 30, 2012***	*June 30, 2011*
SHORT-TERM:		
Call accounts	191,207	162,922
Short-term deposits	4,038	5,987
Transitory balances	-	149,119
Total deposits from clients - short-term	195,245	318,028
MEDIUM-TERM:		
Medium-term deposits	37,438	18,598
Investment holding companies' deposits	66,605	59,540
Discretionary and other deposits	15,198	17,171
Total deposits from clients - medium-term	119,241	95,309
Total	314,486	413,337

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.

13. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2012***	*June 30, 2011*
Accrued expenses - employee compensation	16,785	74,700
Vendor and other trade payables	31,342	35,744
Unfunded deal acquisitions	153,104	73,009
Investment related payables	3,658	3,658
Deferred income	6,417	4,997
Accrued interest payable	3,126	10,413
Total	214,432	202,521

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.

14. MEDIUM-TERM DEBT

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

$000s	Maturity	Tranche Type	June 30, 2012 Size	June 30, 2012 Average utilization	June 30, 2012 Current outstanding	June 30, 2011 Size	June 30, 2011 Average utilization	June 30, 2011 Current outstanding
5-year Eurodollar facility	July 2010	Revolver	-	-	-	150,000	11,507	-
5-year Eurodollar facility	July 2010	Funded	-	-	-	150,000	11,507	-
5-year Eurodollar facility	September 2010	Funded	-	-	-	50,000	10,685	-
5-year Eurodollar facility	December 2011	Revolver	-	115,164	-	500,000	423,906	50,000
5.5-year Eurodollar facility	December 2011	Revolver	-	-	-	40,000	33,096	-
5-year Floating rate medium-term note	June 2012	Funded	-	18,429	-	19,000	19,000	19,000
3-year Multi-currency facility	March 2013	Funded	281,703	281,703	281,703	281,703	271,028	281,703
3-year Multi-currency facility	March 2013	Revolver	292,750	55,737	-	292,750	-	-
5-year Eurodollar facility	April 2013	Revolver	107,500	107,500	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	135,500	135,500	135,500	135,500	135,500	135,500
2-year structured facility	February 2014	Revolver	55,000	12,598	50,346	-	-	-
Total			872,453	726,631	575,049	1,726,453	1,023,729	593,703
Foreign exchange translation adjustments					(2,747)			3,328
Transaction costs of borrowings					(5,046)			(12,119)
					567,256			584,912

All medium-term facilities carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year Multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

The 2-year structured revolving facility of $55 million (June 30, 2011: Nil) 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 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%. The facility is subject to certain customary covenants, including maintaining minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

$000s	Final Maturity	June 30, 2012 Average outstanding	June 30, 2012 Current outstanding	June 30, 2011 Average outstanding	June 30, 2011 Current outstanding
PRIVATE NOTES					
$40 Million Private Placement	December 2010	-	-	13,933	-
$20 Million Private Placement	November 2011	6,776	-	20,000	20,000
$20 Million Private Placement	April 2012	19,945	-	20,000	20,000
$71.5 Million Private Placement	May 2012	17,826	-	33,595	17,875
$75 Million Bi-lateral Placement	March 2013	20,000	20,000	21,151	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
		473,125	428,578	517,257	486,453
Foreign exchange translation adjustments			133,604		128,501
Fair value adjustments			1,131		(37,128)
Transaction costs of borrowings			(2,822)		(3,186)
Total			560,491		574,640

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.

16. SHARE CAPITAL AND RESERVES

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

	June 30, 2012			June 30, 2011		
	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
			2,000,000			2,000,000
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
			715,132			715,132

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.

3,667 preference shares allocated to employees have been forfeited during the year ended June 30, 2011 and are carried as treasury shares by the Group, resulting in 511,465 (June 30, 2011: 511,465) net issued preference shares reported as part of equity.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB. During the fiscal year 2011, the Bank netted the fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium after obtaining regulatory approvals. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

16. SHARE CAPITAL AND RESERVES (continued)

Statutory reserve

The Bahrain Commercial Companies Law requires the maintenance of a statutory reserve equal to 50% of the Bank's issued and paid up ordinary share capital of $200 million, which amounts to $100 million. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law.

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a recommendation by the Board of Directors and approval by the CBB and ordinary shareholders. During the fiscal year 2011, the Bank transferred $50 million of the general reserve to retained earnings. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

Treasury shares

186,698 (June 30 2011: 203,607) ordinary shares were held as treasury shares as at June 30, 2012. Treasury shares include the equivalent of 16,000 shares (June 30 2011: 20,000) allocated to the employees for which the income statement charge will be taken in the future, based on management's best estimate of future vesting. These relate to 24,000 shares which were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Bank has taken an income statement charge of $1.8 million (2011: $1.0 million) in the current year based on management's best estimate of the number of shares that are likely to vest.

17. UNREALIZED FAIR VALUE CHANGES RECOGNIZED DIRECTLY IN EQUITY AND REVALUATION RESERVE

This consists of unrealized fair value changes of AFS investments, cash flow hedges and revaluation reserve of premises and equipment recognized directly in equity.

Movements in fair value changes relating to AFS investments, cash flow hedges and revaluation reserve are set out below:

$000s	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2010	6,573	11,679	9,949	28,201
Net realized loss recycled to statement of income	-	1,279	-	1,279
Net unrealized (losses)/gains for the year	(1,860)	6,950	-	5,090
Revaluation loss on premises and equipment	-	-	(3,034)	(3,034)
Transfer of depreciation to retained earnings	-	-	(861)	(861)
Balance at June 30, 2011	4,713	19,908	6,054	30,675
Net realized gain recycled to statement of income	-	(792)	-	(792)
Net unrealized losses for the year	(1,986)	(14,494)	-	(16,480)
Transfer of depreciation to retained earnings	-	-	(230)	(230)
Balance at June 30, 2012	2,727	4,622	5,824	13,173

Refer to Note 19 for fair valuation of cash flow hedges.

18. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

Earnings per ordinary share is computed by dividing net income for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The Group's earnings per share for the year and proposed dividends are as follows:

$000s	**2012**	2011
Net income	67,412	140,313
Less : Proposed preference shares dividend	(61,376)	(61,376)
Net income attributable to ordinary shareholders	6,036	78,937
Weighted average ordinary shares	619,714	617,425
Basic and fully diluted earnings per ordinary share - on weighted average shares *($)*	10	128
Proposed appropriations:		
Ordinary shares dividend	4,720	9,306
Preference shares dividend	61,376	61,376
Charitable contributions by shareholders	-	4,000
	66,096	74,682

The proposed ordinary share dividend is $7.5 (June 30, 2011: $15) per share payable only on issued shares, excluding treasury shares (other than shares allocated to the employees but not vested) that are held on the record date.

The proposed preference share dividend of $120 (2011: $120) per share represents an annual dividend on issued preference shares, excluding the preference shares allocated to employees that have been forfeited, at the rate of 12%.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding unrealized changes relating to AFS co-investments, cash flow hedges, the revaluation reserve and proposed appropriations, by the number of ordinary shares outstanding at year end, is $738.64 per share (June 30, 2011: $743.66 per share). On a fully diluted basis, taking into account all allocated, unvested shares issued at year end, the book value per ordinary share is $719.86 per share (June 30, 2011: $714.89 per share).

19. 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 the 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.

19. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2012 and June 30, 2011:

Description $000s	June 30, 2012 Notional value	 Positive fair value*	 Negative fair value	June 30, 2011 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	455,855	19,603	(85)	440,377	4,081	(48)
ii) Cashflow hedges						
Forecasted transactions	2,578	50	-	-	-	-
Coupon on long-term debt	84,674	3,573	-	92,570	863	-
Total forward foreign exchange contracts	543,107	23,226	(85)	532,947	4,944	(48)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	550,585	37,790	-	563,062	23,440	-
ii) Cashflow hedges - floating rate debt	650,000	-	(16,938)	500,000	-	(1,503)
Total interest rate hedging contracts	1,200,585	37,790	(16,938)	1,063,062	23,440	(1,503)
Total – Hedging Derivatives	1,743,692	61,016	(17,023)	1,596,009	28,384	(1,551)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	27,698	1,650	(1,690)	32,007	1,507	(1,526)
Total - Derivatives on behalf of clients	27,698	1,650	(1,690)	32,007	1,507	(1,526)
C) OTHER DERIVATIVES						
Interest rate swaps	50,000	15,327	(15,328)	350,000	11,645	(12,412)
Forward foreign exchange contracts	374,701	2,988	(4,586)	346,359	2,830	(3,787)
Currency options	2,251	20	(20)	2,251	15	(15)
Cross currency swaps	250,680	249	(513)	265,838	652	(3,513)
Total – Other Derivatives	677,632	18,584	(20,447)	964,448	15,142	(19,727)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,449,022**	**81,250**	**(39,160)**	**2,592,464**	**45,033**	**(22,804)**

** Collateral amounting to $39.3 million (June 30, 2011 : $20.8 million) has been offset against the underlying derivatives positive fair value.*

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2012:

	Notional amounts by term to maturity				
June 30, 2012 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	198,700	257,155	-	-	455,855
Interest rate swaps	-	-	34,696	515,889	550,585
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	-	84,674	-	-	84,674
Interest rate swaps	400,000	100,000	-	150,000	650,000
Forcasted transactions	2,578	-	-	-	2,578
Derivatives on behalf of clients:					
Forward foreign exchange contracts	3,253	24,445	-	-	27,698
Other Derivatives:					
Interest rate swaps	-	-	-	50,000	50,000
Forward foreign exchange contracts	352,653	22,048	-	-	374,701
Currency options	-	-	2,251	-	2,251
Cross currency swaps	-	-	250,680	-	250,680
	957,184	488,322	287,627	715,889	2,449,022

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2011:

	Notional amounts by term to maturity				
June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	436,549	-	3,828	-	440,377
Interest rate swaps	-	17,875	34,678	510,509	563,062
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	92,570	-	-	-	92,570
Interest rate swaps	-	-	500,000	-	500,000
Derivatives on behalf of clients:					
Forward foreign exchange contracts	30,399	1,608	-	-	32,007
Other Derivatives:					
Interest rate swaps	-	300,000	-	50,000	350,000
Forward foreign exchange contracts	305,151	940	40,268	-	346,359
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	92,524	142,370	30,944	265,838
	864,669	412,947	723,395	591,453	2,592,464

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2012 were $ 20.7 million (June 30, 2011: losses of $25.5 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $23.0 million (June 30, 2011: gains of $22.8 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2012 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Forecasted transactions	(50)	-	-	-	(50)
Fixed coupon on long-term debt *	(8,154)	(8,154)	(65,231)	(212,001)	(293,540)
Interest rate risk					
Fixed coupon on long-term debt *	(1,412)	(2,098)	(12,555)	(2,760)	(18,825)
	(9,616)	(10,252)	(77,786)	(214,761)	(312,415)

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)
	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2012 was $1.5 million (June 30, 2011: $0.7 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2012***	*June 30, 2011*
Investment commitments to closed-end funds	146,843	169,911
Other investment commitments	2,860	3,213
Total investment commitments	149,703	173,124
Non-cancelable operating leases	49,591	57,809
Guarantees and letters of credit issued to third parties	63,993	13,993

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.

21. 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 June 30, 2012	Basel II risk weight June 30, 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.

21. REGULATORY CAPITAL ADEQUACY (continued)

$000s	*June 30, 2012*	*June 30, 2011*
Gross Tier 1 capital	1,035,192	1,049,570
Less: regulatory deductions	(44,367)	(22,195)
Tier 1 capital - net (a)	990,825	1,027,375
Gross Tier 2 capital	8,551	10,767
Less: regulatory deductions	(8,551)	(10,767)
Tier 2 capital - net (b)	-	-
Regulatory capital base under Basel II (a) + (b)	990,825	1,027,375

Risk weighted exposure *$000s*	***Principal / Notional amounts*** ***June 30, 2012***	***Risk weighted equivalents*** ***June 30, 2012***	*Principal / Notional amounts* *June 30, 2011*	*Risk weighted equivalents* *June 30, 2011*
Credit risk				
Claims on sovereigns	67	-	67	-
Claims on non-central government public sector entities	8,375	-	8,487	-
Claims on banks	262,562	53,412	247,722	50,444
Claims on corporates	494,060	422,244	532,370	436,370
Co-investments (including hedge funds)	1,790,348	2,540,593	1,917,971	2,842,177
Other assets	68,201	68,201	75,070	75,070
Off-balance sheet items				
Commitments and contingent liabilities	263,287	152,377	377,647	183,133
Derivative financial instruments	2,449,022	57,256	2,592,464	19,952
Credit risk weighted exposure		3,294,083		3,607,146
Market risk				
Market risk weighted exposure		1,738		7,904
Operational risk				
Operational risk weighted exposure		392,601		386,890
Total risk weighted exposure *(b)*		3,688,422		4,001,940
Risk asset ratio *(a)/(b)*		**26.9%**		**25.7%**
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		**12.0%**
Capital cushion over minimum required as per CBB guidelines		548,214		547,142

22. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), which oversees the Group's risk management activities, and sets the Group's risk profile on an enterprise wide basis is comprised of members of senior management drawn from all key areas of the Group.

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 21). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently the aggregated economic capital is stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 19). With respect to the counterparty credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting and margin arrangements with counterparties, where possible, via ISDA and CSA agreements.

Risk Management maintains an overall external rating-based methodology for setting Board approved counterparty limits. For rated counterparties, credit ratings from at least two rating agencies are used for developing counterparty limits. All non-rated counterparties are screened through detailed due diligence and credit analysis prior to the assumption of credit exposures to them by Investcorp. These non-rated counterparties are categorized under the 'Standard' internal rating for financial reporting purposes.

22. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The table below shows the relationship between internal rating* and the category of the external rating grades:

Internal Rating	External Rating by S & P and Moody's
High	AAA to A
Standard	A- to B-

* The internal rating is used to determine provisions and impairments for financial reporting purposes.

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

The table below analyses the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any credit enhancements.

June 30, 2012 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	Standard					
Short-term funds	154,695	1,467	-	-	-	156,162	48,396
Placements with financial institutions and other liquid assets	165,187	29,380	-	-	-	194,567	287,213
Positive fair value of derivatives	54,006	27,244	-	-	-	81,250	70,473
Receivables	-	218,957	22,809	6,986	(6,986)	241,766	210,722
Loans and advances	-	188,853	-	11,852	(11,852)	188,853	122,051
Co-investments - debt	-	100,295	-	-	-	100,295	86,622
Guarantees	-	63,993	-	-	-	63,993	105,354
Total	373,888	630,189	22,809	18,838	(18,838)	1,026,886	

June 30, 2011 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	Standard					
Short-term funds	24,498	-	-	-	-	24,498	34,226
Placements with financial institutions and other liquid assets	341,395	-	-	-	-	341,395	349,507
Positive fair value of derivatives	45,033	-	-	-	-	45,033	84,352
Receivables	-	171,107	99,582	43,497	(43,431)	270,755	298,086
Loans and advances	-	169,625	-	49,777	(49,570)	169,832	136,223
Co-investments - debt	-	72,949	-	-	-	72,949	76,781
Guarantees	-	146,714	-	-	-	146,714	146,714
Total	410,926	560,395	99,582	93,274	(93,001)	1,071,176	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2011: nil).

22. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The aging analysis of the past due but not impaired financial assets is given in the table below.

$000s	June 30, 2012	June 30, 2011
Up to 1 month	2,261	37,802
> 1 up to 3 months	6,251	34,398
> 3 up to 6 months	2,947	912
> 6 months up to 1 year	51	4,873
Over 1 year	11,299	21,597
Total	**22,809**	**99,582**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2012 amounts to $403 million (June 30, 2011: $1,034 million).

22. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems, and scenario analyses that are incorporated into a contingency funding plan. The framework is consistent with regulatory requirements and is subject to Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

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

June 30, 2012 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	156,252	-	156,252	-	-	-	-	156,252
Placement with financial institutions and other liquid assets	191,567	3,000	194,567	-	-	-	-	194,567
Positive fair value of derivatives	7,455	11,322	18,777	1,352	588	44,970	15,563	81,250
Receivables and prepayments	95,979	31,124	127,103	157,234	-	-	-	284,337
Loans and advances	9,963	40,907	50,870	137,983	-	-	-	188,853
Co-investments								
Hedge funds	277,690	104,009	381,699	32,399	-	-	-	414,098
Corporate investment	197,757	178,868	376,625	845,165	-	-	-	1,221,790
Real estate investment	4,477	25,625	30,102	124,358	-	-	-	154,460
Premises, equipment and other assets	222	-	222	16,672	28,962	8,216	-	54,072
Total assets	941,362	394,855	1,336,217	1,315,163	29,550	53,186	15,563	2,749,679
Liabilities								
Deposits from financial institutions	10,111	-	10,111	-	-	-	-	10,111
Deposits from clients - short term	195,245	-	195,245	-	-	-	-	195,245
Negative fair value of derivatives	3,004	3,850	6,854	514	-	12,529	19,263	39,160
Payables and accrued expenses	181,181	26,856	208,037	6,395	-	-	-	214,432
Deposits from clients - medium term	-	-	-	119,241	-	-	-	119,241
Medium-term debt*	-	12,705	12,705	554,551	-	-	-	567,256
Long-term debt	-	19,404	19,404	26,038	-	466,873	48,176	560,491
Total liabilities	389,541	62,815	452,356	706,739	-	479,402	67,439	1,705,936
Net gap	551,821	332,040	883,861	608,424	29,550	(426,216)	(51,876)	
Cumulative liquidity gap	551,821	883,861	883,861	1,492,285	1,521,835	1,095,619	1,043,743	

* Does not take in to account the $297.4 million undrawn revolvers of which $292.8 million is to be repaid in March 2013 on maturity. Further, the medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	24,649	-	24,649	-	-	-	-	24,649
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	-	-	-	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	136,324	95,230	231,554	68,882	-	-	-	300,436
Loans and advances	330	9,741	10,071	158,926	-	835	-	169,832
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	-	-	-	607,398
Corporate investment	-	32,743	32,743	1,088,992	-	-	-	1,121,735
Real estate investment	-	42,090	42,090	146,748	-	-	-	188,838
Premises, equipment and other assets	166	-	166	18,322	32,531	8,216	-	59,235
Total assets	870,498	318,330	1,188,828	1,595,587	32,996	34,975	6,165	2,858,551
Liabilities								
Deposits from financial institutions	-	-	-	-	-	-	-	-
Deposits from clients - short term	318,028	-	318,028	-	-	-	-	318,028
Negative fair value of derivatives	2,421	5,933	8,354	5,473	-	955	8,022	22,804
Payables and accrued expenses	173,883	15,965	189,848	12,673	-	-	-	202,521
Deposits from clients - medium term	-	-	-	95,309	-	-	-	95,309
Medium-term debt*	-	68,183	68,183	516,729	-	-	-	584,912
Long-term debt	-	52,828	52,828	46,157	-	434,447	41,208	574,640
Total liabilities	494,332	142,909	637,241	676,341	-	435,402	49,230	1,798,214
Net gap	376,166	175,421	551,587	919,246	32,996	(400,427)	(43,065)	
Cumulative liquidity gap	376,166	551,587	551,587	1,470,833	1,503,829	1,103,402	1,060,337	

* Does not take in to account the $536.25 million undrawn revolvers of which $293.5 million net is to be repaid in December 2011 on maturity.

22. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective earliest contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

June 30, 2012 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from financial institutions	10,137	-	-	-	-	-	10,137
Deposits from clients	195,607	657	120,514	-	-	-	316,778
Payables and accrued expenses	181,181	26,856	6,395	-	-	-	214,432
Medium-term debt*	2,276	34,856	596,226	-	-	-	633,358
Long-term debt	10,254	33,016	108,707	101,739	636,798	52,020	942,534
	399,455	95,385	831,842	101,739	636,798	52,020	2,117,239
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	559,637	387,110	256,406	-	-	-	1,203,153
Contractual amounts receivable	(567,521)	(400,372)	(253,475)	-	-	-	(1,221,368)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,921)	(3,509)	(29,773)	(25,400)	(3,813)	(119)	(66,535)
Commitments	1,900	35,642	150,291	11,461	-	-	199,294
Guarantees	63,993	-	-	-	-	-	63,993
Total undiscounted financial liabilities	453,543	114,256	955,291	87,800	632,985	51,901	2,295,776

* The medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

June 30, 2011 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from clients	318,223	190	96,008	-	-	-	414,421
Payables and accrued expenses	173,883	15,965	12,673	-	-	-	202,521
Medium-term debt	4,376	84,962	543,050	-	-	-	632,388
Long-term debt	10,429	72,213	130,426	100,845	646,391	56,060	1,016,364
	506,911	173,330	782,157	100,845	646,391	56,060	2,265,694
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	658,426	166,827	247,470	6,935	43,484	-	1,123,142
Contractual amounts receivable	(663,665)	(163,206)	(239,563)	(2,294)	(37,366)	-	(1,106,094)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,118)	(6,948)	(37,898)	(13,388)	19,993	142	(41,217)
Commitments	1,916	40,373	169,155	19,490	-	-	230,934
Guarantees	32,323	-	85,420	28,971	-	-	146,714
Total undiscounted financial liabilities	532,793	210,376	1,006,741	140,559	672,502	56,202	2,619,173

22. RISK MANAGEMENT (continued)

iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2012			June 30, 2011		
$000s	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	698,258	63,993	762,251	855,936	146,714	1,002,650
Europe	252,368	-	252,368	59,203	-	59,203
Middle East	12,236	-	12,236	9,237	-	9,237
Other	31	-	31	86	-	86
Total	962,893	63,993	1,026,886	924,462	146,714	1,071,176

	June 30, 2012			June 30, 2011		
$000s	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	506,250	116	506,366	521,471	50,116	571,587
Consumer products	52,749	377	53,126	73,196	377	73,573
Consumer services	68,742	-	68,742	56,450	-	56,450
Distribution	30,536	-	30,536	32,979	-	32,979
Industrial products	117,089	-	117,089	70,226	-	70,226
Real estate	134,079	53,500	187,579	114,399	86,221	200,620
Technology and Telecom	44,461	-	44,461	47,682	-	47,682
Others	8,987	10,000	18,987	8,059	10,000	18,059
Total	962,893	63,993	1,026,886	924,462	146,714	1,071,176

22. RISK MANAGEMENT (continued)

iv) Market price risk

The principal market related risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, corporate investment and real estate investment, as well as on its debt financings. For purposes of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

In addition, for internal risk assessments, the Group uses a variety of internal models to analyze the market price risks that may arise from adverse market movements.

Market price risk has been further detailed below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and Value at Risk ("VaR") risk limits.

The Group's significant net hedged and un-hedged foreign currency positions are set out below.

$000s	June 30, 2012		June 30, 2011	
Long (Short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	-	39,774	-	39,667
Euro	367,331	356	412,247	68
Pounds Sterling	58,168	122	16,593	(56)
Japanese Yen	(467,559)	521	(411,276)	213
	(42,060)	40,773	17,564	39,892

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (a) Foreign currency risk (continued)

The following table summarizes the 99% confidence level over a 1-day holding period VaR for the Group's foreign currency exposures.

$000s	*2012*	*2011*
Average FX VaR	6	13
Year end FX VaR	11	5
Maximum FX VaR	28	91
Minimum FX VaR	1	1

iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by the Board of Directors. The Group does not typically take interest rate trading positions and all its interest rate risk is typically in the banking book where hedge accounting applies. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $51.1 million (June 30, 2011: $27.2 million), which earn interest at an effective rate approximating 11.6% (June 30, 2011: 10.4%) per annum.
- Deposits from clients amounting to $37.7 million (June 30, 2011: $7.2 million) on which interest is paid at an effective rate of 4.66% (June 30, 2011: 0.9%) per annum reflecting the underlying maturity structure.

Apart from the above, the Group has fixed interest rate on long term debt amounting to $650 million (June 30, 2011: $125 million) at an effective rate of 1.2% (June 30, 2011: 2.9%) per annum. This includes $400 million and $100 million of debt converted to fixed rate using interest rate swaps with short term maturities in July 2012 and March 2013 respectively. The remaining $150 million is part of a tactical move to take advantage of the low interest rate yields in the current environment and to hedge against any volatility in the future cash flows.

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (b) Interest rate risk (continued)

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2012	
Euro	(7,691)	1,864
Pounds Sterling	(1,333)	432
Japanese Yen	880	(167)
US Dollar	(8,207)	3,187
Others	155	(3)
Total	(16,196)	5,313

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2011	
Euro	(9,673)	6,819
Pounds Sterling	(715)	234
Japanese Yen	1,246	(13)
US Dollar	(1,849)	928
Others	145	(10)
Total	(10,846)	7,958

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end.

The Group monitors and capitalizes the credit spread risk arising from credit derivative instruments such as credit linked notes (CLN) and funded credit default swaps (Funded CDS) where the referenced risk is highly rated sovereigns. The specific risk capital allocation against such exposures amounted to nil (June 30, 2011: $0.3 million), and general risk capital allocation amounted to $0.02 million (June 30, 2011: $0.25 million).

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, corporate investment and real estate investment.

Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level, where an independent risk analysis is conducted at the pre-acquisition stage.

The table below summarizes the sensitivity of the Group's Level 3 co-investments in CI–NA & Europe, CI – Technology and real estate investment to changes in multiples / discount rates.

June 30, 2012 $000s	Factor	Change	Balance sheet exposure	Projected Balance sheet Exposure		Impact on Income	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	1,006,019	1,086,918	913,401	80,899	(92,618)
CI - Technology	Revenue Multiples	+/- 0.5x	76,815	84,537	69,093	7,722	(7,722)
Real Estate Investment	Capitalization Rate	+/- 1%	111,016	149,277	76,103	38,261	(34,913)

June 30, 2011 $000s	Factor	Change	Balance sheet exposure	Projected Balance sheet Exposure		Impact on Income	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	944,845	1,037,589	852,607	92,744	(92,238)
CI - Technology	Revenue Multiples	+/- 0.5x	80,006	84,249	75,763	4,243	(4,243)
Real Estate Investment	Capitalization Rate	+/- 1%	188,838	223,822	158,782	34,984	(30,056)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of CI–MENA, and in the equity of the Group in respect of AFS strategic co-investments.

Co-investments in hedge funds

The Group manages the market price risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	2012	2011
Average VaR	37,154	40,583
Year end VaR	31,060	37,920
Maximum VaR	41,598	43,799
Minimum VaR	31,060	37,920

22. RISK MANAGEMENT (continued)

v) Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events (such as natural disasters, changes in regulation or outsourcing of operations). Investcorp includes in this definition legal risk but excludes reputational and strategic risks.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout Investcorp. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

As a part of the Basel 2 implementation, Investcorp has put an operational risk framework in place. Under this framework Investcorp applies the Basic Indicator Approach ("BIA") to measure operational risk. Under this approach, Investcorp's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient which has been set at 15 per cent in the CBB's Basel 2 capital adequacy framework.

Investcorp's operational risk framework, which is based on BIA for regulatory reporting, is being revised to include, in the first and second phases, a maker/checker process, an updated review of Risk and Control Self-Assessment and a tracker of material losses by Investcorp's lines of business. Subsequent to the implementation of these revisions, monitoring and reporting processes for operational risk exposures will be implemented for upward reporting to senior management and the Board

23. 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.

The fair values of the Group's financial assets and liabilities on the 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 $813.0 million (June 30, 2011: $1,016.3 million) as compared to carrying value of $1,135.6 million (June 30, 2011: $1,159.6 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:

June 30, 2012 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	3,000	-	3,000
Positive fair value of derivatives	-	81,250	-	81,250
Co-investments				
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	6,258	498,348	1,269,697	1,774,303
Financial liabilities				
Negative fair value of derivatives	-	39,160	-	39,160
Total financial liabilities	-	39,160	-	39,160

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

June 30, 2011 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	128,000	-	128,000
Positive fair value of derivatives	-	45,033	-	45,033
Co-investments				
Hedge funds	-	607,398	-	607,398
Corporate investment	3,571	-	1,080,661	1,084,232
Real estate investment	-	-	153,392	153,392
Total financial assets	3,571	780,431	1,234,053	2,018,055
Financial liabilities				
Negative fair value of derivatives	-	22,804	-	22,804
Total financial liabilities	-	22,804	-	22,804

During the years ended June 30, 2012 and June 30, 2011, there were no transfers of instruments between Level 1, 2 and 3 of the fair value measurement hierarchy.

23. 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:

June 30, 2012 $000s	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations / placements*	*Other movements***	*At end*
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 - MENA						
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**

June 30, 2011 $000s	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations / placements*	*Other movements***	*At end*
CI - NA & Europe						
Level 3	889,953	47,928	97,014	(208,562)	112,012	938,345
Others	-	6,500	-	-	-	6,500
Sub-total	**889,953**	**54,428**	**97,014**	**(208,562)**	**112,012**	**944,845**
CI - Technology						
Level 3	45,288	3,016	13,745	-	4,199	66,248
Others	26,823	-	(765)	(15,722)	3,422	13,758
Sub-total	**72,111**	**3,016**	**12,980**	**(15,722)**	**7,621**	**80,006**
CI - MENA						
Level 3	18,112	3,820	589	-	1,190	23,711
Sub-total	**18,112**	**3,820**	**589**	**-**	**1,190**	**23,711**
Strategic investments and other						
Level 3	53,083	1,000	292	(2,969)	951	52,357
Others	19,506	-	-	-	1,310	20,816
Sub-total	**72,589**	**1,000**	**292**	**(2,969)**	**2,261**	**73,173**
Real Estate Investment						
Level 3	170,586	32,292	(7,287)	(43,134)	935	153,392
Others	46,191	-	-	(15,745)	5,000	35,446
Sub-total	**216,777**	**32,292**	**(7,287)**	**(58,879)**	**5,935**	**188,838**
Total	**1,269,542**	**94,556**	**103,588**	**(286,132)**	**129,019**	**1,310,573**

*** Includes $1.9 million fair value loss in available for sale investments.**
****Other movements include add-on funding and foreign currency translation adjustments**

All the fair value movements noted above relate to financial assets based on Level 3, except for $2.6 million loss (2011: $0.8 million loss) for movements relating to Level 1 assets of CI–Technology.

24. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide employees with a secure compensation platform upon which they are encouraged to pursue outstanding returns and to reward them based on their results in line with the interests of clients and shareholders. This is achieved through a combination of cash salaries, variable bonuses dependent upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, the overall compensation paid to Investcorp's executives is highly correlated with Investcorp's net income.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these benefits, amounts to $1.8 million (2011: $1.0 million).

Programs for Investment Profit Participation

The Group's investment professionals in its corporate investment, real estate investment and placement and relationship management lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with these professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

24. EMPLOYEE COMPENSATION (continued)

Programs for Investment Participation

The Group's professional staff is also offered the opportunity to co-invest alongside clients in the Group's investment products that they manage, including corporate investment, real estate investment and the Hedge Funds lines of business. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group. Employees may also invest in other lines of business as long as they meet the accredited/sophisticated investor criteria imposed by the regulatory authorities in the country in which their office is located.

Historically, the Group, together with third party lenders, provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2012 is $94.7 million (June 30, 2011: $97.6 million).

Employees Share Ownership Plans

SIPCO Holdings Limited ("SHL") sponsors various employee share ownership plans under which eligible employees have previously received, and currently receive, a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank and have previously received a beneficial interest in the preference shares of the Bank These beneficial interests have different vesting periods and are not transferable.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these beneficial interests in the shares of the Bank as they are accounted for expected vesting, since these awards occurred at the fair value of the shares. This expense is recorded based upon expected vesting of the shares. These plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the beneficial interest in shares of the Bank.

25. 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.

In addition to the compensation and benefits to employees disclosed in Notes 24, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2012***	*June 30, 2011*
Management fees	Investee companies	19,154	19,126
	Client companies	53,250	56,992
	Client companies associated with the HF	25,603	28,347
Activity fees	Investee companies	45,726	28,691
Performance fees	Client companies associated with the HF	8,548	6,084
	Client companies	55,202	31,134
Asset based income	Investee companies	32,867	20,427
	Client companies	1,835	5,447
Interest expense	Client companies	407	(220)
Provisions for impairment	Employee investment programs	(156)	1,025

25. RELATED PARTY TRANSACTIONS (continued)

Of the staff compensation for the year set out in Note 5, $24.9 million (2011: $58.4 million) is attributable to senior management (including an employee who is also a director). Of the above mentioned remuneration of senior management, $21.6 million (June 30, 2011: $57.4 million) is short term in nature.

In addition to the compensation and benefits to employees disclosed in Note 24, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2012			June 30, 2011		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	4,806	12,507	-	4,806	12,518	-
Investee companies	99,595	-	-	73,201	-	-
Investment holding companies	153,741	66,610	146,843	88,290	71,480	169,911
Client fund companies associated with the HFP	29,491	-	-	8,162	-	-
Directors and senior management	1,096	630	-	1,061	630	-
	288,729	79,747	146,843	175,520	84,628	169,911

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Bank and whose business interests are aligned with the interest of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $420 million as at June 30, 2012 (June 30, 2011: $422 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the table on the previous page, to the extent they result from transactions with related parties.

INVESTCORP BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's management, under authorization from the Board is responsible for establishing and maintaining adequate internal controls over financial reporting. The Group's control processes over financial reporting are designed and implemented under the supervision of the Group's Board of Directors, Executive Chairman & CEO, Chief Financial Officer and General Counsel to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards.

The Group's internal controls over financial reporting include policies and procedures that (a) relate to the maintenance of records in a reasonable level of detail that fairly and accurately reflects transactions pertaining to the Group's assets; (b) provide reasonable assurance that these transactions have been properly authorized; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, utilization or disposal of the Group's assets that could have a material impact on the consolidated financial statements.

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2011. Based on this assessment, management believes that, as of June 30, 2011 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

Nemir A. Kirdar Executive Chairman & Chief Executive Officer	Rishi Kapoor Chief Financial Officer	Stephanie R. Bess General Counsel

August 2, 2011

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. [the "Bank"] and its subsidiaries [together the "Group"] which comprise the consolidated balance sheet as at 30 June 2011 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C. (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2011 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 1 of the CBB rulebook) and directives, nor of the memorandum and articles of association of the Bank have occurred during the year ended 30 June 2011 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst + Young

2 August 2011
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2011

$000s	*June 30, 2011*	*June 30, 2010*	*Note*	*Page*
ASSETS				
Cash and short-term funds	24,649	21,342		
Placements with financial institutions and other liquid assets	341,395	881,469		
Positive fair value of derivatives	45,033	74,766	19	49
Receivables and prepayments	300,436	315,975	6	31
Loans and advances	169,832	247,593	7	32
Co-investments				
Hedge funds	607,398	537,274	8	33
Corporate investment	1,121,735	1,052,765	9	34
Real estate investment	188,838	216,777	10	38
Total co-investments	1,917,971	1,806,816		
Premises, equipment and other assets	59,235	68,995		
TOTAL ASSETS	2,858,551	3,416,956		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from clients - short-term	318,028	247,426	12	39
Negative fair value of derivatives	22,804	27,199	19	49
Payables and accrued expenses	202,521	144,342	13	40
Deposits from clients - medium-term	95,309	90,693	12	39
Medium-term debt	584,912	1,321,348	14	41
Long-term debt	574,640	591,610	15	42
TOTAL LIABILITIES	1,798,214	2,422,618		
EQUITY				
Preference share capital	511,465	508,678	16	43
Ordinary shares at par value	200,000	200,000	16	43
Reserves	242,880	596,243		
Treasury shares	(181,287)	(161,669)		
Retained earnings excluding unrealized fair value of corporate and real estate co-investments	139,196	65,430		
Unrealized fair value of corporate and real estate co-investments	42,726	(299,919)		
Ordinary shareholders' equity excluding proposed dividends, unrealized fair value changes and revaluation reserve	443,515	400,085		
Proposed appropriations	74,682	57,374	18	46
Unrealized fair value changes recognized directly in equity and revaluation reserve	30,675	28,201	17	45
TOTAL EQUITY	1,060,337	994,338		
TOTAL LIABILITIES AND EQUITY	2,858,551	3,416,956		

Abdul-Rahman Salim Al-Ateeqi
Chairman

Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2011

CONSOLIDATED STATEMENT OF INCOME

$000s	*2011*	*2010*	*Note*	*Page*
FEE INCOME				
Management fees	93,189	104,320		
Activity fees	65,743	68,652		
Performance fees	38,508	45,957		
Fee income ***(a)***	197,440	218,929	2	26
ASSET BASED INCOME				
Hedge funds	39,489	91,284		
Corporate investment	121,664	122,295		
Real estate investment	40,555	(89,912)		
Treasury and other asset based income	14,470	18,108		
Asset based income ***(b)***	216,178	141,775	2	26
Gross operating income (a) + (b)	413,618	360,704	2	26
Provisions for impairment	(2,099)	(11,669)	11	39
Interest expense	(56,033)	(58,030)		
Operating expenses	(215,173)	(188,831)	5	30
NET INCOME	140,313	102,174		
Basic and fully diluted earnings per ordinary share ($)	128	64	18	46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	*2011*	*2010*	*Note*	*Page*
NET INCOME (AS ABOVE)	140,313	102,174		
Other comprehensive income				
Fair value movements - available for sale investments	(1,860)	-	17	45
Fair value movements - net unrealized gains on cashflow hedges	8,229	8,654	17	45
Revaluation loss on premises and equipment	(3,034)	-	17	45
Other comprehensive income	3,335	8,654		
TOTAL COMPREHENSIVE INCOME	143,648	110,828		

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

			Reserves						Unrealized fair value changes in corporate and real estate co-investments		Unrealized fair value changes and revaluation reserve recognized directly in equity				
$000s	**Preference share capital**	**Ordinary share capital**	**Share premium**	**Statutory reserve**	**General reserve**	**Total reserves**	**Treasury shares**	**Retained earnings***		**Proposed appropriations**	**Available for sale investments**	**Cash flow hedges**	**Revaluation reserve on premises and equipment**	**Total**	**Total equity**
Balance at June 30, 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	20,363	894,746
Total comprehensive income	-	-	-	-	-	-	-	102,174	-	-	-	8,654	-	8,654	110,828
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(1,463)	1,463	-	-	-	-	-	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	4,351	(4,351)	-	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	816	-	-	-	-	(816)	(816)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(19,135)	-	-	-	-	-	-	-	(19,135)
Loss on sale of treasury shares	-	-	(7,973)	-	-	(7,973)	7,973	-	-	-	-	-	-	-	-
Proposed preference share dividends	-	-	-	-	-	-	-	(57,374)	-	57,374	-	-	-	-	-
Preference share issuance proceeds	15,132	-	-	-	-	-	-	-	-	-	-	-	-	-	15,132
Share issue expenses	-	-	(779)	-	-	(779)	-	-	-	-	-	-	-	-	(779)
Non-vested preference shares issued to employees	(11,309)	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,309)
Vesting of preference shares during the year - net	4,855	-	-	-	-	-	-	-	-	-	-	-	-	-	4,855
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**65,430**	**(299,919)**	**57,374**	**6,573**	**11,679**	**9,949**	**28,201**	**994,338**
Total comprehensive income	-	-	-	-	-	-	-	140,313	-	-	(1,860)	8,229	(3,034)	3,335	143,648
Transfer of unrealized gains to fair value changes	-	-	-	-	-	-	-	(42,726)	42,726	-	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	861	-	-	-	-	(861)	(861)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(23,062)	-	-	-	-	-	-	-	(23,062)
Loss on sale of treasury shares	-	-	(3,444)	-	-	(3,444)	3,444	-	-	-	-	-	-	-	-
Preference share dividends paid	-	-	-	-	-	-	-	-	-	(57,374)	-	-	-	-	(57,374)
Proposed appropriations / transfers:															
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	61,376	-	-	-	-	-
Ordinary share dividend	-	-	-	-	-	-	-	(9,306)	-	9,306	-	-	-	-	-
Transfer of general reserve to retained earnings	-	-	-	-	(50,000)	(50,000)	-	50,000	-	-	-	-	-	-	-
Transfer of fair value losses to share premium	-	-	(299,919)	-	-	(299,919)	-	-	299,919	-	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	-	(4,000)	-	4,000	-	-	-	-	-
Vesting of preference shares during the year - net	2,787	-	-	-	-	-	-	-	-	-	-	-	-	-	2,787
Balance at June 30, 2011	**511,465**	**200,000**	**142,880**	**100,000**	**-**	**242,880**	**(181,287)**	**139,196**	**42,726**	**74,682**	**4,713**	**19,908**	**6,054**	**30,675**	**1,060,337**

*Retained earnings other than fair value changes of corporate and real estate co-investments.

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

$000s	*2011*	*2010*	Note	Page
OPERATING ACTIVITIES				
Net income	140,313	102,174		
Adjustments for non-cash items in net income				
Depreciation	6,803	7,594	5	30
Provisions for impairment	2,099	11,669	11	39
Amortization of transaction costs of borrowings	7,760	7,834		
Preference shares vesting - net of forfeitures	2,787	4,855		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	50,000	(63,000)		
Receivables and prepayments	10,403	13,378	6	31
Loans and advances	80,798	(28,771)	7	32
Deposits from financial institutions	-	(15,000)		
Deposits from clients - short-term	70,602	(42,447)	12	39
Payables and accrued expenses	58,179	53,981	13	40
Co-investments				
Hedge funds	(70,124)	77,207	8	33
Corporate investment	(70,830)	(149,374)	9	34
Real estate investment	27,939	66,430	10	38
Fair value of derivatives	86,526	28,279		
Other assets	(28)	5		
NET CASH FROM OPERATING ACTIVITIES	403,227	74,814		
FINANCING ACTIVITIES				
Deposits from clients - medium-term	4,616	7,481	12	39
Medium-term revolvers repaid on maturity	(150,000)	-	14	41
Medium-term revolvers repaid and available for drawdown	(490,000)	-	14	41
Medium-term debt issued (net of transaction costs)	88,750	174,409	14	41
Medium-term debt repaid	(200,000)	(492,000)	14	41
Long-term debt repaid	(62,875)	(35,499)	15	42
Treasury shares purchased (ordinary) - net	(23,062)	(19,135)		
Preference share issuance proceeds - net	-	3,044		
Dividends paid	(57,374)	-		
NET CASH USED IN FINANCING ACTIVITIES	(889,945)	(361,700)		
INVESTING ACTIVITIES				
Investment in premises and equipment	(49)	(2,608)		
NET CASH USED IN INVESTING ACTIVITIES	(49)	(2,608)		
Net (decrease) in cash and cash equivalents	(486,767)	(289,494)		
Cash and cash equivalents at beginning of the year	839,811	1,129,305		
Cash and cash equivalents at end of the year	353,044	839,811		
Cash and cash equivalents comprise:				
Cash and short-term funds	24,649	21,342		
Placements with financial institutions and other liquid assets	328,395	818,469		
	353,044	839,811		
Total accessible liquidity comprises:				
Cash and cash equivalents	353,044	839,811		
Placements with financial institutions and other liquid assets (non-cash equivalent)	13,000	63,000		
Undrawn revolvers	536,250	-	14	41
Total accessible liquidity*	902,294	902,811		

* In addition to the above, the group has $607.4 million (June 30, 2010: $537.3 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information *$000s*	*2011*	*2010*
Interest paid	(61,079)	(53,672)
Interest received	20,443	16,126

The attached notes 1 to 26 are an integral part of these 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 is listed on the Bahrain Bourse (formerly called the Bahrain Stock Exchange). 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 consolidated financial statements for the year ended June 30, 2011 were authorized for issue in accordance with a resolution of the Board of Directors dated August 2, 2011.

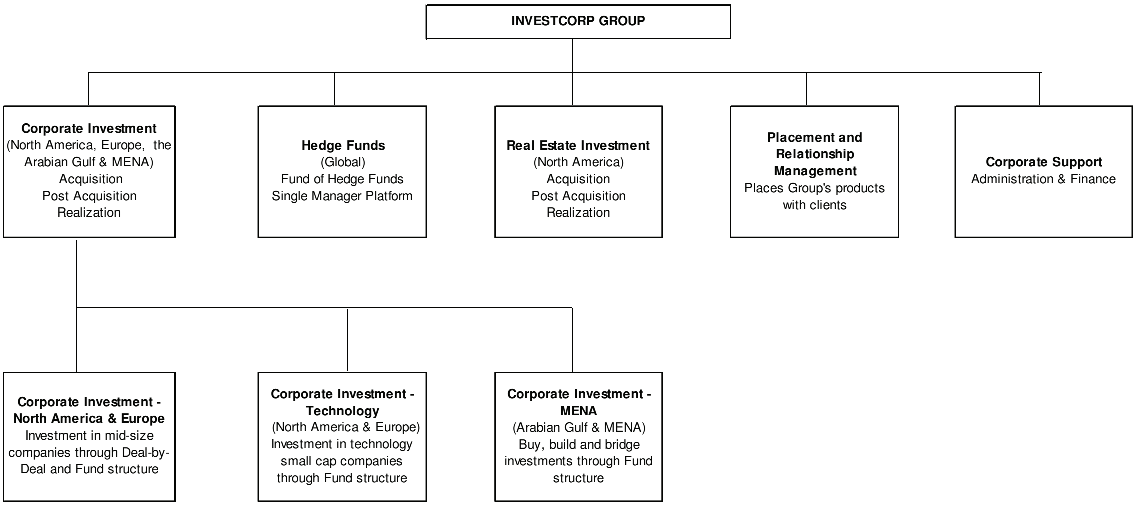
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 corporate investment, hedge funds and real estate investment. Within the corporate investment asset class the Group offers three products namely, (a) Corporate investment–North America & Europe, (b) Corporate investment–Technology and (c) Corporate investment–MENA.

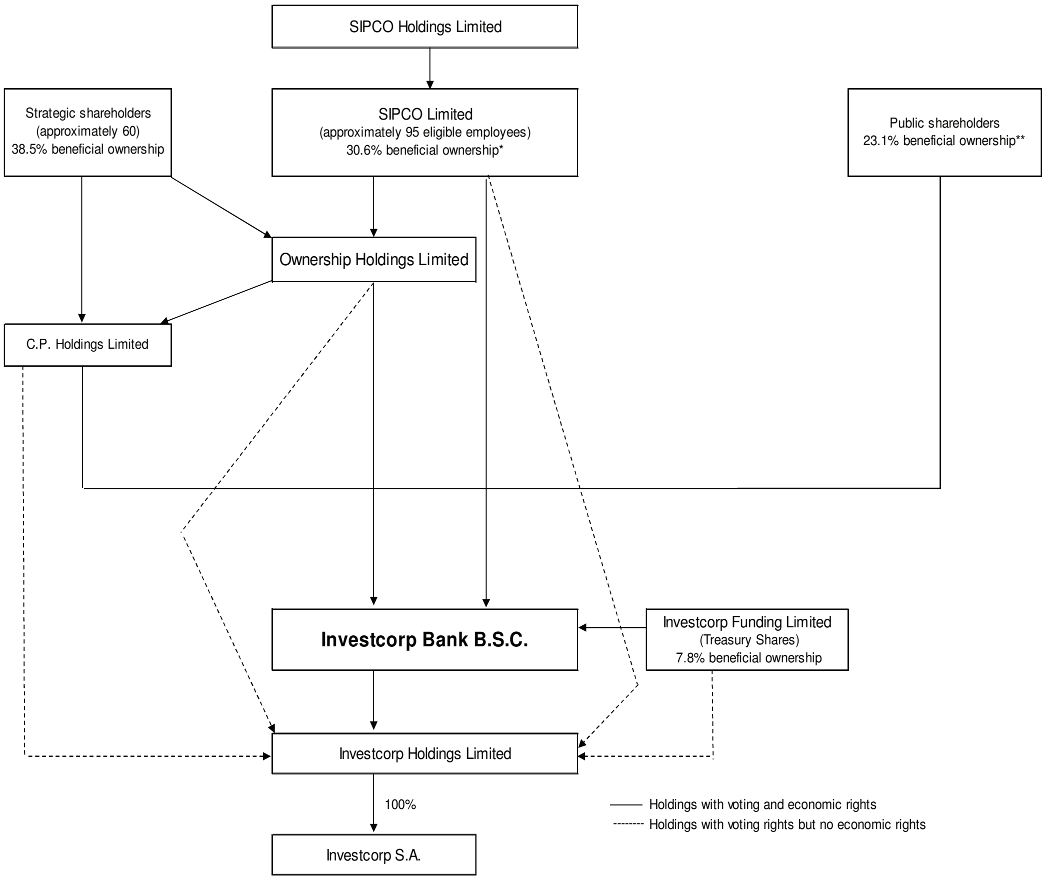
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Includes 14.7% in shares that are held for future sale to management and 3% shares allocated but not vested 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.
** Includes 0.3% beneficial ownership held in the form of unlisted Global Depositary Receipts.

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 own beneficial interests in 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 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 and Series B 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 subject to the payment of a nominal amount in respect of IHL's ordinary shares. CPHL, OHL, SIPCO Limited and Investcorp Funding Limited ("IFL") own ordinary shares of IHL in the same proportion to their shareholding of the Bank's 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 originally incorporated in Luxembourg and transferred to the Cayman Islands during the previous fiscal year. 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries 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. (Cayman Islands)	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
	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 corporate 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 Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity.
	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) arranges M&A transactions in the UK.
	Investcorp International Holdings Inc. (USA)	The Group's holding company 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 consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 1 of the CBB rulebook) and directives. The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted during the year applicable for financial years beginning on or after the following dates:

- 2009 Improvements to IFRSs, 1 January 2010
- Amendments to IFRS 2 — Group Cash-settled Share-based Payment Transactions, 1 January 2010
- Amendments to IFRS 1 — Additional Exemptions for First-time Adopters, 1 January 2010
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, 1 January 2010
- IAS 1 Presentation of Financial Statements, 1 January 2010
- IAS 7 Statement of Cash Flows, 1 January 2010
- IAS 17 Leases, 1 January 2010
- IAS 36 Impairment of Assets, 1 January 2010
- IAS 39 Financial Instruments: Recognition and Measurement, 1 January 2010
- IAS 32 Amendment - Classification of Rights Issues, 1 February 2010
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments, 1 July 2010
- Amendments to IFRS 1 — Limited Exemption from Comparative IFRS 7 Disclosures, 1 July 2010
- 2010 Improvements to IFRSs, 1 July 2010

The adoption of the above amendments did not have any material impact on the financial position or performance of the Bank.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have already been issued, to be applied to financial statements for financial years commencing on or after the following dates:

- 2010 Improvements to IFRSs, 1 January 2011
- IAS 24 Amendment - Related Party Disclosures, 1 January 2011

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement, 1 January 2011
- IFRS 1 Amendments – Severe hyperinflation and removal of fixed dates for first time adopters, 1 July 2011
- IFRS 7 Amendment - Financial Instruments: Disclosures, 1 July 2011.
- IAS 12 Amendments – Deferred Tax: Recovery of Underlying assets, 1 January 2012
- IAS 1 Amendment - Presentation of Financial Statements, 1 July 2012
- IFRS 9 - Financial Instruments: Classification and Measurement, 1 January 2015 (tentative)
- IFRS 10 : Consolidated Financial Statements, 1 January 2013
- IFRS 11 Joint Arrangements, 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities, 1 January 2013
- IFRS 13 Fair Value Measurement, 1 January 2013

The management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group’s management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") co-investments in corporate investment and real estate investment (see notes 9 and 10) and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity.

Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS").

b) Other liquid assets

Other liquid assets, which form part of "placements with financial institutions and other liquid assets", are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL assets. The management has designated such assets as FVTPL assets.

iv) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVPTL investments are taken to the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

vi) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

vii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

viii) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

ix) Co- investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Co- investments in corporate investment and real estate investment (continued)

Certain debt investments out of the Group's co-investments in corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

x) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xii) Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

In case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Bank carries building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the assets.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Buildings on freehold land	25 years
Leasehold and building improvements	10 - 15 years
Operating assets	3 - 10 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate, at least at each financial year end.

xiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 24).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xv) Unfunded deal acquisitions

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.

xvi) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, placements with financial institutions and other liquid assets that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvii) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xviii) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against the cumulative surplus from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to retained earnings.

xix) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xx) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis.

xxi) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 19.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxii) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

2. SEGMENT REPORTING

A. ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging investments in, and managing such investments in, 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 corporate investment, hedge funds and real estate investment is classified as asset based income.

2. SEGMENT REPORTING (continued)

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 product asset classes 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)Corporate investment	1) Corporate investment	1) Corporate investment– North America & Europe	- Deal by deal offerings - Closed-end fund(s)
		2) Corporate investment– Technology	- Closed-end fund(s)
		3) Corporate investment– MENA	- Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	- Fund of hedge funds - Single managers - Structured and levered products
3) Real estate investment	3) Real estate investment	5) Real estate investment	- 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) Corporate Investment–North America & Europe ("CI-NA & Europe")

The CI–NA & Europe team, based in London and New York, arranges corporate 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) ***Corporate Investment–Technology ("CI-Technology)***

The CI–Technology 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 primarily 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) ***Corporate Investment–MENA ("CI-MENA")***

The CI–MENA 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 wider Middle East and North Africa (MENA) region, including Turkey. 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 Fund.

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 Investment ("RE")***

The RE team, based in New York, arranges investments in NA-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 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.

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

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.

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 corporate investment and real estate 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 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 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.

2. SEGMENT REPORTING (continued)

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2011 and 2010 by reporting segment are as follows:

June 30, 2011 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	24,649	24,649
Placements with financial institutions and other liquid assets	-	-	-	341,395	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables and prepayments	-	-	-	300,436	300,436
Loans and advances	-	-	-	169,832	169,832
Co-investments	1,121,735	607,398	188,838	-	1,917,971
Premises, equipment and other assets	-	-	-	59,235	59,235
Total assets	1,121,735	607,398	188,838	940,580	2,858,551
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	94,211	-	223,817	318,028
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	18,784	5,214	4,613	173,910	202,521
Deposits from clients - medium term	22,567	2,057	4,141	66,544	95,309
Medium-term debt	177,367	248,186	39,231	120,128	584,912
Long-term debt	323,991	39,735	51,840	159,074	574,640
Total liabilities	542,709	389,403	99,825	766,277	1,798,214
Total equity	579,026	217,995	89,013	174,303	1,060,337
Total liabilities and equity	1,121,735	607,398	188,838	940,580	2,858,551

June 30, 2010 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	21,342	21,342
Placements with financial institutions and other liquid assets	-	-	-	881,469	881,469
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables and prepayments	-	-	-	315,975	315,975
Loans and advances	-	-	-	247,593	247,593
Co-investments	1,052,765	537,274	216,777	-	1,806,816
Premises, equipment and other assets	-	-	-	68,995	68,995
Total assets	1,052,765	537,274	216,777	1,610,140	3,416,956
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	49,054	-	198,372	247,426
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables and accrued expenses	11,736	3,062	3,497	126,047	144,342
Deposits from clients - medium term	-	4,539	-	86,154	90,693
Medium-term debt	88,951	269,385	42,146	920,866	1,321,348
Long-term debt	340,713	35,036	61,514	154,347	591,610
Total liabilities	441,400	361,076	107,157	1,512,985	2,422,618
Total equity	611,365	176,198	109,620	97,155	994,338
Total liabilities and equity	1,052,765	537,274	216,777	1,610,140	3,416,956

2. SEGMENT REPORTING (continued)

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

The consolidated statements of income for the years ended June 30, 2011 and 2010 by reporting segments are as follows:

July 2010 - June 2011 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	58,245	25,041	9,903	-	93,189
Activity fees	45,211	13,833	6,699	-	65,743
Performance fees	30,388	6,084	2,036	-	38,508
Gross fee income (a)	133,844	44,958	18,638	-	197,440
Expenses attributable to fee income	(100,196)	(46,704)	(12,915)	-	(159,815)
Net fee income (loss)	33,648	(1,746)	5,723	-	37,625
Asset based income					
Interest income	3,376	-	3,651	11,637	18,664
Treasury and other asset based income	118,288	39,489	36,904	2,833	197,514
Gross asset based income (b)	121,664	39,489	40,555	14,470	216,178
Provisions for impairment	-	-	-	(2,099)	(2,099)
Interest expense	(17,138)	(13,685)	(3,785)	(21,425)	(56,033)
Expenses attributable to asset based income	(31,435)	(8,298)	(9,004)	(6,621)	(55,358)
Net asset based income (loss)	73,091	17,506	27,766	(15,675)	102,688
Net income (loss)	106,739	15,760	33,489	(15,675)	140,313
Gross operating income (a) + (b)	255,508	84,447	59,193	14,470	413,618

July 2009 - June 2010 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	67,212	24,654	12,454	-	104,320
Activity fees	62,350	-	6,302	-	68,652
Performance fees	26,532	18,841	584	-	45,957
Gross fee income (a)	156,094	43,495	19,340	-	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	-	(149,443)
Net fee income (loss)	61,718	4,518	3,250	-	69,486
Asset based income					
Interest income	4,618	-	1,158	11,851	17,627
Treasury and other asset based income	117,677	91,284	(91,070)	6,257	124,148
Gross asset based (loss) income (b)	122,295	91,284	(89,912)	18,108	141,775
Provisions for impairment	-	-	-	(11,669)	(11,669)
Interest expense	(10,838)	(11,134)	(3,956)	(32,102)	(58,030)
Expenses attributable to asset based income	(19,667)	(7,538)	(3,430)	(8,753)	(39,388)
Net asset based (loss) income	91,790	72,612	(97,298)	(34,416)	32,688
Net income (loss)	153,508	77,130	(94,048)	(34,416)	102,174
Gross operating income (a) + (b)	278,389	134,779	(70,572)	18,108	360,704

2. SEGMENT REPORTING (continued)

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

Gross operating income of $255.5 million (2010: $278.4 million) from the corporate investment asset class includes $ 43.4 million and $19.3 million (2010: $41.4 million and $19.9 million) relating to CI–Technology and CI–MENA respectively. The balance relates to CI–NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2010: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $18.7 million (June 30, 2010: $17.6 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9, 10 and 22 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2011 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	24,649	-	-	24,649
Placements with financial institutions and other liquid assets	128,000	213,395	-	-	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables	-	270,755	-	-	270,755
Loans and advances	-	169,832	-	-	169,832
Co-investments					
Hedge funds	607,398	-	-	-	607,398
Corporate investment	1,067,748	37,503	16,484	-	1,121,735
Real estate investment					
Debt	-	35,446	-	-	35,446
Equity	153,392	-	-	-	153,392
Total financial assets	1,956,538	751,580	16,484	45,033	2,769,635
Non-financial assets					
Prepayments					29,681
Premises, equipment and other assets					59,235
Total assets					2,858,551
Financial liabilities					
Deposits from clients*	-	413,337	-	-	413,337
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables	-	197,524	-	-	197,524
Medium term debt	-	584,912	-	-	584,912
Long term debt*	-	574,640	-	-	574,640
Total financial liabilities	-	1,770,413	-	22,804	1,793,217
Non-financial liabilities					
Deferred income					4,997
Total liabilities					1,798,214

* Adjusted for related fair value hedges.

June 30, 2010 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	21,342	-	-	21,342
Placements with financial institutions and other liquid assets	253,000	628,469	-	-	881,469
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables	-	283,455	-	-	283,455
Loans and advances	-	247,593	-	-	247,593
Co-investments					
Hedge funds	537,274	-	-	-	537,274
Corporate investment	990,209	45,415	17,141	-	1,052,765
Real estate investment					
Debt	-	46,191	-	-	46,191
Equity	170,586	-	-	-	170,586
Total financial assets	1,951,069	1,272,465	17,141	74,766	3,315,441
Non-financial assets					
Prepayments					32,520
Premises, equipment and other assets					68,995
Total assets					3,416,956
Financial liabilities					
Deposits from clients*	-	338,119	-	-	338,119
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables	-	138,772	-	-	138,772
Medium term debt	-	1,321,348	-	-	1,321,348
Long term debt*	-	591,610	-	-	591,610
Total financial liabilities	-	2,389,849	-	27,199	2,417,048
Non-financial liabilities					
Deferred income					5,570
Total liabilities					2,422,618

* Adjusted for related fair value hedges.

4. 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:

	June 30, 2011				June 30, 2010			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate Investment ("CI")								
Closed-end Committed Funds								
CI - NA & Europe	476	206	64	746	476	199	71	746
CI - Technology	424	61	15	500	419	67	14	500
CI - MENA	853	70	6	929	853	70	6	929
Sub total	1,753	337	85	2,175	1,748	336	91	2,175
Closed-end Invested Funds								
CI - Technology	214	36	10	260	209	23	10	242
Deal-by-deal investments								
CI - NA & Europe	1,988	831	323	3,142	2,598	852	368	3,818
Strategic and other investments	-	73	-	73	105	123	-	228
Total corporate investment	**3,955**	**1,277**	**418**	**5,650**	**4,660**	**1,334**	**469**	**6,463**
Hedge Funds								
Fund of hedge funds	2,648	138	4	2,790	2,125	77	3	2,205
Single managers	870	263	-	1,133	1,289	265	6	1,560
*Structured and levered products**	211	609	6	826	351	538	2	891
Total hedge funds	**3,729**	**1,010**	**10**	**4,749**	**3,765**	**880**	**11**	**4,656**
Real Estate Investment								
Closed-end Committed Funds	150	27	-	177	253	28	4	285
Closed-end Invested Funds	56	1	2	59	-	-	-	-
Deal-by-deal investments	756	166	29	951	859	181	32	1,072
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate investment	**962**	**202**	**31**	**1,195**	**1,112**	**217**	**36**	**1,365**
Corporate Support								
Client call accounts held in trust	241	-	-	241	170	-	-	170
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**
Summary by category:								
Closed-end Committed Funds	1,903	364	85	2,352	2,001	364	95	2,460
Closed-end Invested Funds	270	37	12	319	209	23	10	242
Hedge Funds	3,729	1,010	10	4,749	3,765	880	11	4,656
Deal-by-deal investments	2,985	1,078	352	4,415	3,732	1,164	400	5,296
Strategic and other investments	-		-		-		-	
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**
Summary by segments:								
Corporate investment								
CI - NA & Europe	2,464	1,037	387	3,888	3,074	1,051	439	4,564
CI - Technology	638	97	25	760	628	90	24	742
CI - MENA	853	70	6	929	853	70	6	929
Strategic and other investments	-	73	-	73	105	123	-	228
Hedge Funds	3,729	1,010	10	4,749	3,765	880	11	4,656
Real Estate Investment	962	202	31	1,195	1,112	217	36	1,365
Corporate Support	241	-	-	241	170	-	-	170
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**

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

4. ASSETS UNDER MANAGEMENT (continued)

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for corporate investment and real estate investment are stated at fair values while the other categories are stated at 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, or placed on deposit with 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.

5. OPERATING EXPENSES

$000s	***2011***	*2010*
Staff compensation	130,209	111,222
Other personnel costs	17,266	16,756
Professional fees	22,999	15,621
Travel and business development	9,691	9,758
Administration and research	13,476	12,664
Technology and communication	3,017	3,147
Premises	10,675	11,156
Depreciation	6,803	7,594
Other	1,037	913
Total	215,173	188,831

6. RECEIVABLES AND PREPAYMENTS

$000s	***June 30, 2011***	*June 30, 2010*
Subscriptions receivable	106,884	143,830
Receivables from investee companies	102,417	90,912
Investment disposal proceeds receivable	58,977	40,814
Hedge funds related receivables	10,599	22,881
Accrued interest receivable	4,617	6,396
Prepaid expenses	29,681	32,520
Other receivables	30,692	16,917
	343,867	354,270
Provisions for impairment (see Note 11)	(43,431)	(38,295)
Total	300,436	315,975

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 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.

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 HFP through internal parallel vehicles.

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

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.

7. LOANS AND ADVANCES

$000s	June 30, 2011	June 30, 2010
Advances to HFP Funds, Real Estate Funds and Technology Funds	-	11,224
Advances to investment holding companies	114,200	141,413
Advances to Employee Investment Programs	97,617	141,188
Other advances	7,585	6,375
	219,402	300,200
Provisions for impairment (see Note 11)	(49,570)	(52,607)
Total	169,832	247,593

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 and technology 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 from clients. These advances carry interest at market rates. In both cases the advances, in management's opinion, 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.

8. 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. The underlying hedge fund managers invest in a variety of liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in 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		***June 30, 2011***	*June 30, 2010*
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	79,873	76,918
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	36,562	-
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	262,849	264,777
Structured and leveraged products	Investments across structural themes funds and structured embedded leverage products	206,664	195,515
Other Hedge Funds investments	Mix of small investments across several theme funds	21,450	64
Total balance sheet co-investments		607,398	537,274

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.

Out of the total co-investment in hedge funds, $8.9 million (June 30, 2010: $19.0 million) comprise funds which are not immediately available for redemption due to gating clauses imposed by the underlying fund managers.

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2011	June 30, 2010
Corporate Investment - North America & Europe [See Note 9 (a)]	944,845	889,953
Corporate Investment - Technology [See Note 9 (b)]	80,006	72,111
Corporate Investment - MENA [See Note 9 (c)]	23,711	18,112
Strategic and other investments [See Note 9 (d)]	73,173	72,589
Total corporate co-investments	1,121,735	1,052,765

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE

The Group's co-investments in CI–NA & Europe are classified as FVTPL investments.

The fair value of unquoted CI–NA and Europe co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve 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, in which event 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 recent measure of specific fair value for an individual investment is not available, the fair value is determined by the 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 referred to above.

9. CORPORATE CO-INVESTMENTS (continued)

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE (continued)

The carrying values of the Group's co-investments in CI–NA & Europe are:

$000s VINTAGE *	**June 30, 2011**	June 30, 2010
Vintage 1997 (1997 - 2000)	182,040	180,205
Vintage 2001 (2001 - 2004)	43,901	137,996
Vintage 2005 (2005 - 2008)	508,105	402,353
Vintage 2009 (2009 - 2012)	210,799	169,399
Total	944,845	889,953

* 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:

	June 30, 2011			June 30, 2010		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	47,743	-	47,743	87,447	-	87,447
Industrial Products	-	381,465	381,465	15,043	300,540	315,583
Technology and Telecom	182,225	-	182,225	178,082	-	178,082
Industrial Services	138,593	44,638	183,231	167,529	54,565	222,094
Distribution	126,801	23,380	150,181	73,478	13,269	86,747
Total	495,362	449,483	944,845	521,579	368,374	889,953

9. CORPORATE CO-INVESTMENTS (continued)

9 (b) CORPORATE INVESTMENT–TECHNOLOGY

Similar to CI–NA & Europe, the Group's co-investments in CI–Technology are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–Technology is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers and 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. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for CI–NA & Europe co-investments as described in Note 9 (a).

The carrying values of Group's co-investments in CI–Technology deals at June 30, 2011 and June 30, 2010 are:

$000s	Communication Infrastructure	Wireless Data	Digital Content	Enterprise Software	Other	June 30, 2011 Total
Technology Fund I						
North America	921	1,015	54	1,475	194	3,659
Sub-Total	921	1,015	54	1,475	194	3,659
Technology Fund II						
North America	5,165	448	5,622	1,632	-	12,867
Europe	-	-	19,315	-	-	19,315
Sub-Total	5,165	448	24,937	1,632	-	32,182
Technology Fund III						
North America	-	16,624	-	4,209	-	20,833
Europe	-	-	-	13,145	-	13,145
Sub-Total	-	16,624	-	17,354	-	33,978
Direct Co-Investment						
Europe	-	-	10,187	-	-	10,187
Sub-Total	-	-	10,187	-	-	10,187
Total	6,086	18,087	35,178	20,461	194	80,006

$000s	Communication Infrastructure	Wireless Data	Digital Content	Enterprise Software	Other	June 30, 2010 Total
Technology Fund I						
North America	496	914	54	1,444	696	3,604
Sub-Total	496	914	54	1,444	696	3,604
Technology Fund II						
North America	5,003	356	3,946	1,520	-	10,825
Europe	-	-	8,860	-	-	8,860
Sub-Total	5,003	356	12,806	1,520	-	19,685
Technology Fund III						
North America	-	9,961	-	3,122	-	13,083
Europe	-	-	-	7,983	-	7,983
Sub-Total	-	9,961	-	11,105	-	21,066
Direct Co-Investment						
Europe	-	-	13,557	14,199	-	27,756
Sub-Total	-	-	13,557	14,199	-	27,756
Total	5,499	11,231	26,417	28,268	696	72,111

9. CORPORATE CO-INVESTMENTS (continued)

9 (c) CORPORATE INVESTMENT –MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2011 and June 30, 2010:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2011 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,196	**8,196**
UAE	-	6,975	-	**6,975**
Kuwait	4,720	-	-	**4,720**
Turkey	-	-	3,820	**3,820**
Total	**4,720**	**6,975**	**12,016**	**23,711**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2010 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Kuwait	4,416	-	-	**4,416**
Total	**4,416**	**4,889**	**8,807**	**18,112**

Similar to CI–NA & Europe, the co-investments in CI–MENA are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–MENA 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 an EBITDA multiples based valuation methodology.

9 (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 $35.9 million (June 30, 2010: $35.9 million) that are classified as FVTPL.

10. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate investment 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 amouting to $35.4 million (June 30, 2010 $46.2 million).

The carrying values of the Group's co-investments in real estate invesment portfolios in the United States at June 30, 2011 and at June 30, 2010 are:

$000s	*Number of*	*Region*					*June 30, 2011*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	9	31,388	-	-	-	12,707	44,095
Hotels	16	16,447	3,963	3,462	5,133	8,106	37,111
Retail	36	-	1,187	6,960	7,655	-	15,802
Industrial	4	5,162	-	-	-	2	5,164
Core Plus Total	65	52,997	5,150	10,422	12,788	20,815	102,172
Mezzanine debt		14,986	396	12,019	107	129	27,637
Opportunistic	7	19,281	-	9,643	-	21,763	50,687
Strategic and other		8,342	-	-	-	-	8,342
Total	72	95,606	5,546	32,084	12,895	42,707	188,838

$000s	*Number of*	*Region*					*June 30, 2010*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	14	26,598	-	-	-	6,795	33,393
Hotels	15	18,160	6,842	1,783	6,126	-	32,911
Retail	34	-	1,347	1,393	5,704	213	8,657
Industrial	4	4,752	-	-	-	4	4,756
Core Plus Total	67	49,510	8,189	3,176	11,830	7,012	79,717
Mezzanine debt		27,849	730	48	107	530	29,264
Opportunistic	9	34,156	-	31,292	-	34,006	99,454
Strategic and other		8,342	-	-	-	-	8,342
Total	76	119,857	8,919	34,516	11,937	41,548	216,777

11. PROVISIONS FOR IMPAIRMENT

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

$000s ***12 months to June 30, 2011*** **Categories**	***At beginning***	***Charge/(write back)***	***At end***
Receivables	38,295	5,136	43,431
Loans and advances	52,607	(3,037)	49,570
Total	90,902	2,099	93,001
12 months to June 30, 2010	79,233	11,669	90,902

12. DEPOSITS FROM CLIENTS

$000s	***June 30, 2011***	*June 30, 2010*
SHORT-TERM:		
Call accounts	162,922	105,726
Short-term deposits	5,987	385
Transitory balances	149,119	141,315
Total deposits from clients - short-term	318,028	247,426
MEDIUM-TERM:		
Medium-term deposits	18,598	22,860
Investment holding companies' deposits	59,540	50,949
Discretionary and other deposits	17,171	16,884
Total deposits from clients - medium-term	95,309	90,693
Total	413,337	338,119

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 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.

12. DEPOSITS FROM CLIENTS (continued)

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.

13. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2011***	*June 30, 2010*
Accrued expenses - employee compensation	74,700	69,200
Vendor and other trade payables	35,744	35,459
Unfunded deal acquisitions	73,009	-
Investment related payables	3,658	18,654
Deferred income	4,997	5,570
Accrued interest payable	10,413	15,459
Total	202,521	144,342

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 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.

14. MEDIUM-TERM DEBT

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

			June 30, 2011			June 30, 2010		
$000s	**Maturity**	**Tranche Type**	**Size**	**Average utilization**	**Current outstanding**	Size	Average utilization	Current outstanding
5-year Eurodollar facility	December 2009	Funded	-	-	-	142,000	52,636	-
5-year Eurodollar facility	December 2009	Funded	-	-	-	350,000	160,137	-
5-year Eurodollar facility	July 2010	Revolver	150,000	11,507	-	150,000	150,000	150,000
5-year Eurodollar facility	July 2010	Funded	150,000	11,507	-	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	Funded	50,000	10,685	-	50,000	50,000	50,000
5-year Eurodollar facility	December 2011	Revolver	500,000	423,906	50,000	500,000	500,000	500,000
5.5-year Eurodollar facility	December 2011	Revolver	40,000	33,096	-	40,000	40,000	40,000
5-year Floating rate medium-term note	June 2012	Funded	19,000	19,000	19,000	19,000	19,000	19,000
3-year Multi-currency facility	March 2013	Revolver	46,250	-	-	-	-	-
3-year Multi-currency facility	March 2013	Funded	281,703	271,028	281,703	192,953	49,126	192,953
3-year Multi-currency facility	March 2013	Revolver*	246,500	-	-	381,500	-	-
5-year Eurodollar facility	April 2013	Revolver	107,500	107,500	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	135,500	135,500	135,500	135,500	135,500	135,500
Total			1,726,453	1,023,729	593,703	2,218,453	1,413,899	1,344,953
Foreign exchange translation adjustments					3,328			(4,011)
Transaction costs of borrowings					(12,119)			(19,594)
					584,912			1,321,348

* This is a forward start facility that is not available until the 5-year Eurodollar facility due December 2011 is repaid in full.

All medium-term facilities carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year Multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity, and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

		June 30, 2011		June 30, 2010	
$000s	***Final Maturity***	***Average outstanding***	***Current outstanding***	*Average outstanding*	*Current outstanding*
PRIVATE NOTES					
GBP 25 Million Private Placement	January 2010	-	-	1,438	-
$40 Million Private Placement	December 2010	13,933	-	30,000	30,000
$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	33,595	17,875	46,684	35,750
$75 Million Bi-lateral Placement	March 2013	21,151	20,000	41,877	35,000
$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
		517,257	486,453	568,577	549,328
Foreign exchange translation adjustments			128,501		85,657
Fair value adjustments			(37,128)		(39,904)
Transaction costs of borrowings			(3,186)		(3,471)
Total			574,640		591,610

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.

16. SHARE CAPITAL AND RESERVES

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

	June 30, 2011			June 30, 2010		
	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
			2,000,000			2,000,000
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
			715,132			715,132

A distribution schedule of each class of shares, setting out the number of shares and beneficial shareholders and percentage of total outstanding shares in the following categories is set out below:

	June 30, 2011			*June 30, 2010*		
Ordinary shares	***No. of shares***	***No. of shareholders***	***% of total outstanding shares***	*No. of shares*	*No. of shareholders*	*% of total outstanding shares*
Less than 1%	283,539	396	35%	281,407	368	35%
1% up to less than 5%	46,455	4	6%	28,651	2	4%
5% up to less than 10%	98,434	2	12%	111,501	3	14%
10% up to less than 20%	167,965	2	22%	83,058	1	10%
More than 20%*	-	-	-	171,660	1	22%
Treasury shares	203,607	2	25%	123,723	1	15%
	800,000	406	100%	800,000	376	100%

* Represented by 21.5% shares held by the custodian of the GDR Depositary.

	June 30, 2011			*June 30, 2010*		
Preference shares	***No. of shares***	***No. of shareholders***	***% of total outstanding shares***	*No. of shares*	*No. of shareholders*	*% of total outstanding shares*
Less than 1%	75,265	94	14%	78,107	94	15%
1% up to less than 5%	66,200	5	13%	66,200	5	13%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	370,000	4	72%	370,000	4	72%
More than 20%	-	-	-	-	-	-
Forfeited shares*	3,667	1	1%	825	1	-
	515,132	104	100%	515,132	104	100%

*Represents forfeited shares allocated to employees

Ordinary share capital

The Bank de-listed its Global Depository Receipts ("GDRs") from the London Stock Exchange with effect from October 4, 2010. During the year, the Group purchased a total of 6,289,653 of the outstanding Regulation S GDRs, representing 7.9% of Investcorp's issued share capital.

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.

16. SHARE CAPITAL AND RESERVES (continued)

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 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.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes net gains resulting from the sale of treasury shares held by the Bank. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB. During the current year the Bank has proposed netting fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium after obtaining regulatory approvals. This proposed netting is subject to the approval by the shareholders.

Statutory reserve

The Bahrain Commercial Companies Law requires the maintenance of a statutory reserve equal to 50% of the Bank's issued and paid up ordinary share capital of $200 million, which amounts to $100 million. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law.

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a resolution of shareholders at a general meeting. During the year, the Bank has proposed to transfer $50 million of general reserve to retained earnings. This proposed transfer is subject to the approval by the shareholders.

Treasury shares

203,607 (2010: 123,723) ordinary shares were held as treasury shares as at June 30, 2011. Out of these 141,238 shares (June 30 2010: 123,723 shares) are held by SIPCO Limited which are funded by the Group.

Treasury shares also include 24,000 shares (2010: 40,000) allocated to the employees but not vested. These shares were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Bank has taken an income statement charge of $1.0 million (2010: $1.0 million) based on the management's best estimate of the number of shares that are likely to vest.

16. SHARE CAPITAL AND RESERVES (continued)

Unrealized fair value changes on corporate and real estate co-investments

This consists of unrealized fair value changes on corporate and real estate co-investments classified as FVTPL assets which have been taken through the income statement.

17. UNREALIZED FAIR VALUE CHANGES RECOGNIZED DIRECTLY IN EQUITY AND REVALUATION RESERVE

This consists of unrealized fair value changes of AFS investments, cash flow hedges and revaluation reserve of premises and equipment recognized directly in equity.

Movements in fair value changes relating to AFS investments, cash flow hedges and revaluation reserve are set out below:

$000s	**Available for sale investments**	**Cash flow hedges**	**Revaluation reserve**	**Total**
Balance at June 30, 2009	6,573	3,025	10,765	20,363
Net realized loss recycled to statement of income	-	5,838	-	5,838
Net unrealized gains for the year	-	2,816	-	2,816
Transfer of depreciation to retained earnings	-	-	(816)	(816)
Balance at June 30, 2010	6,573	11,679	9,949	28,201
Net realized loss recycled to statement of income	-	1,279	-	1,279
Net unrealized (losses) / gains for the year	(1,860)	6,950	-	5,090
Revaluation (loss) on premises and equipment	-	-	(3,034)	(3,034)
Transfer of depreciation to retained earnings	-	-	(861)	(861)
Balance at June 30, 2011	4,713	19,908	6,054	30,675

Refer to Note 19 for fair valuation of cash flow hedges.

18. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

Earnings per ordinary share is computed by dividing net income for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The Group's earnings per share for the year and proposed dividend are as follows:

$000s	**2011**	*2010*
Net income	140,313	102,174
Less : Proposed preference shares dividend	(61,376)	(57,374)
Net income attributable to ordinary shareholders	78,937	44,800
Weighted average ordinary shares	617,425	699,851
Basic and fully diluted earnings per ordinary share - on weighted average shares *($)*	128	64
Proposed appropriations:		
Ordinary shares dividend	9,306	-
Preference shares dividend	61,376	57,374
Charitable contributions by shareholders	4,000	-
	74,682	57,374

The proposed ordinary share dividend is $15 (2010: nil) per share payable only on issued shares, excluding treasury shares (other than shares allocated to the employees but not vested) that are held on the record date.

The proposed preference share dividend of $120 (2010: $120) per share represents an annual dividend on issued preference shares, excluding the forfeited shares, at the rate of 12%.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding AFS co-investments and cash flow hedges fair value changes, revaluation reserve and proposed appropriations, by the number of ordinary shares outstanding at year end, is $743.66 per share (June 30, 2010: $591.60 per share). On a fully diluted basis, taking into account all allocated, unvested shares issued at year end, the book value per ordinary share is $714.89 per share (June 30, 2010: $570.01 per share).

19. 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 the 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.

19. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30 2011 and 2010:

$000s Description	June 30, 2011 Notional value	Positive fair value*	Negative fair value	June 30, 2010 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	440,377	4,081	(48)	431,158	16,926	(261)
ii) Cashflow hedges						
Coupon on long-term debt	92,570	863	-	81,481	3,199	-
Total forward foreign exchange contracts	532,947	4,944	(48)	512,639	20,125	(261)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	563,062	23,440	-	563,855	4,563	-
ii) Cashflow hedges - floating rate debt	500,000	-	(1,503)	-	-	-
Total interest rate hedging contracts	1,063,062	23,440	(1,503)	563,855	4,563	-
Total – Hedging Derivatives	1,596,009	28,384	(1,551)	1,076,494	24,688	(261)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	32,007	1,507	(1,526)	15,483	27	(165)
Total - Derivatives on behalf of clients	32,007	1,507	(1,526)	15,483	27	(165)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	11,645	(12,412)	350,000	16,738	(18,752)
Forward foreign exchange contracts	346,359	2,830	(3,787)	264,971	17,532	(7,322)
Currency options	2,251	15	(15)	2,251	71	(71)
Cross currency swaps	265,838	652	(3,513)	334,800	15,710	-
Interest rate options	-	-	-	100,000	-	(628)
Total – Other Derivatives	964,448	15,142	(19,727)	1,052,022	50,051	(26,773)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**2,592,464**	**45,033**	**(22,804)**	**2,143,999**	**74,766**	**(27,199)**

** Collateral amounting to $20.8 million (June 30, 2010 : $55.8 million) has been offset against the underlying derivatives positive fair value.*

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2011:

June 30, 2011 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	436,549	-	3,828	-	440,377
Interest rate swaps	-	17,875	34,678	510,509	563,062
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	92,570	-	-	-	92,570
Interest rate swaps	-	-	500,000	-	500,000
Derivatives on behalf of clients:					
Forward foreign exchange contracts	30,399	1,608	-	-	32,007
Other Derivatives:					
Interest rate swaps	-	300,000	-	50,000	350,000
Forward foreign exchange contracts	305,151	940	40,268	-	346,359
Currency options	-	-	2,251	-	2,251
Cross currency swaps	-	92,524	142,370	30,944	265,838
	864,669	412,947	723,395	591,453	2,592,464

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2010:

June 30, 2010 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	431,158	-	-	-	431,158
Interest rate swaps	-	28,875	69,611	465,369	563,855
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	81,481	-	-	-	81,481
Derivatives on behalf of clients:					
Forward foreign exchange contracts	13,050	2,433	-	-	15,483
Other Derivatives:					
Interest rate swaps	-	-	300,000	50,000	350,000
Forward foreign exchange contracts	100,352	120,523	44,096	-	264,971
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	206,148	128,652	-	334,800
Interest rate options	-	-	100,000	-	100,000
	626,041	357,979	644,610	515,369	2,143,999

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2011 were $25.5 million (June 30, 2010: gains of $47.7 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $22.8 million (June 30, 2010: losses of $48.3 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)
	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)
	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2011 was $0.7 million (June 30, 2010: $1.0 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2011***	*June 30, 2010*
Investment commitments to closed-end committed funds	169,911	200,672
Other investment commitments	3,213	4,203
Total investment commitments	173,124	204,875
Non-cancelable operating leases	57,809	63,712
Guarantees and letters of credit issued to third parties	13,993	14,046
Capital guarantees	-	5,876

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. These mainly relate to real estate investment and amount to $132.7 million (June 30, 2010: $132.7 million).

21. 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
- 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 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.

$000s		***June 30, 2011***		*June 30, 2010*
Gross Tier 1 capital		1,049,570		977,816
Less: regulatory deductions		(22,195)		(22,860)
Tier 1 capital - net (a)		1,027,375		954,956
Gross Tier 2 capital		10,767		16,522
Less: regulatory deductions		(10,767)		(16,522)
Tier 2 capital - net (b)		-		-
Regulatory capital base under Basel II (a) + (b)		1,027,375		954,956
	Principal / Notional amounts	***Risk weighted equivalents***	*Principal / Notional amounts*	*Risk weighted equivalents*
Risk weighted exposure ***$000s***	***June 30, 2011***	***June 30, 2011***	*June 30, 2010*	*June 30, 2010*
Credit risk				
Claims on sovereigns	67	-	67	-
Claims on non-central government public sector entities	8,487	-	15,675	-
Claims on banks	247,722	50,444	610,147	122,929
Claims on corporates	532,370	436,370	800,874	564,885
Co-investments (including hedge funds)	1,917,971	2,842,177	1,806,816	2,669,708
Other assets	75,070	75,070	73,715	73,715
Off-balance sheet items				
Commitments and contingent liabilities	377,647	183,133	421,229	255,674
Derivative financial instruments	2,592,464	19,952	2,143,999	29,734
Credit risk weighted exposure		3,607,146		3,716,645
Market risk				
Market risk weighted exposure		7,904		7,148
Operational risk				
Operational risk weighted exposure		386,890		454,169
Total risk weighted exposure ***(b)***		4,001,940		4,177,962
Risk asset ratio ***(a)/(b)***		**25.7%**		**22.9%**
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		**12.0%**
Capital cushion over minimum required as per CBB guidelines		**547,142**		**453,601**

22. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), which oversees the Group's risk management activities, and sets the Group's risk profile on an enterprise wide basis comprises members of senior management drawn from all key areas of the Group.

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 21). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently the aggregated economic capital is stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 19). With respect to the counterparty credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting arrangements with counterparties where possible.

The table below shows the relationship between internal rating and the category of the external rating grades:

Internal Rating	External Rating by S & P and Moody's
High	AAA to A
Standard	A- to B-

22. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

Short term funds, placements and derivatives are only with those counterparties that meet the High external rating and hence carry a minimal counterparty credit risk. The table below analyses the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2011 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	**Standard**					
Short-term funds	24,498	-	-	-	-	24,498	34,226
Placements with financial institutions and other liquid assets	341,395	-	-	-	-	341,395	349,507
Positive fair value of derivatives	45,033	-	-	-	-	45,033	84,352
Receivables and prepayments	-	171,107	99,582	43,497	(43,431)	270,755	298,086
Loans and advances	-	169,625	-	49,777	(49,570)	169,832	136,223
Co-investments - debt	-	72,949	-	-	-	72,949	76,781
Guarantees	-	146,714	-	-	-	146,714	149,679
Total	410,926	560,395	99,582	93,274	(93,001)	1,071,176	

June 30, 2010 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	Standard					
Short-term funds	21,242	-	-	-	-	21,242	38,207
Placements with financial institutions and other liquid assets	881,469	-	-	-	-	881,469	960,505
Positive fair value of derivatives	74,766	-	-	-	-	74,766	37,777
Receivables	-	164,788	118,552	38,410	(38,295)	283,455	261,674
Loans and advances	-	230,224	-	69,976	(52,607)	247,593	155,669
Co-investments - debt	-	91,606	-	-	-	91,606	63,288
Guarantees	-	152,643	-	-	-	152,643	175,227
Total	977,477	639,261	118,552	108,386	(90,902)	1,752,774	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2010: nil).

22. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The aging analysis of the past due but not impaired financial assets is given in the table below.

$000s	June 30, 2011	June 30, 2010
Up to 1 month	37,802	26,564
> 1 up to 3 months	34,398	11,996
> 3 up to 6 months	912	2,010
> 6 months up to 1 year	4,873	443
Over 1 year	21,597	77,539
Total	**99,582**	**118,552**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2011 amounts to $1,034 million (June 30, 2010: $736 million).

22. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Funding liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

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

June 30, 2011 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	24,649	-	24,649	-	-	-	-	24,649
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	-	-	-	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	136,324	95,230	231,554	68,882	-	-	-	300,436
Loans and advances	330	9,741	10,071	158,926	-	835	-	169,832
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	-	-	-	607,398
Corporate investment	-	32,743	32,743	1,088,992	-	-	-	1,121,735
Real estate investment	-	42,090	42,090	146,748	-	-	-	188,838
Premises, equipment and other assets	166	-	166	18,322	32,531	8,216	-	59,235
Total assets	870,498	318,330	1,188,828	1,595,587	32,996	34,975	6,165	2,858,551
Liabilities								
Deposits from clients - short term	318,028	-	318,028	-	-	-	-	318,028
Negative fair value of derivatives	2,421	5,933	8,354	5,473	-	955	8,022	22,804
Payables and accrued expenses	173,883	15,965	189,848	12,673	-	-	-	202,521
Deposits from clients - medium term	-	-	-	95,309	-	-	-	95,309
Medium-term debt*	-	68,183	68,183	516,729	-	-	-	584,912
Long-term debt	-	52,828	52,828	46,157	-	434,447	41,208	574,640
Total liabilities	494,332	142,909	637,241	676,341	-	435,402	49,230	1,798,214
Net gap	376,166	175,421	551,587	919,246	32,996	(400,427)	(43,065)	
Cumulative liquidity gap	376,166	551,587	551,587	1,470,833	1,503,829	1,103,402	1,060,337	

* Does not take in to account the $536.25 million undrawn revolvers of which $293.5 million net is to be repaid in December 2011 on maturity.

June 30, 2010 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	21,342	-	21,342	-	-	-	-	21,342
Placement with financial institutions and other liquid assets	878,469	-	878,469	3,000	-	-	-	881,469
Positive fair value of derivatives	11,688	21,882	33,570	13,340	344	20,425	7,087	74,766
Receivables and prepayments	66,852	216,790	283,642	32,333	-	-	-	315,975
Loans and advances	3,404	8,813	12,217	235,349	-	27	-	247,593
Co-investments								
Hedge funds	288,516	196,642	485,158	52,116	-	-	-	537,274
Corporate investment	-	216,685	216,685	836,080	-	-	-	1,052,765
Real estate investment	-	30,281	30,281	186,496	-	-	-	216,777
Premises, equipment and other assets	138	-	138	15,472	42,135	11,250	-	68,995
Total assets	1,270,409	691,093	1,961,502	1,374,186	42,479	31,702	7,087	3,416,956
Liabilities								
Deposits from financial institutions	-	-	-	-	-	-	-	-
Deposits from clients - short term	247,426	-	247,426	-	-	-	-	247,426
Negative fair value of derivatives	562	3,118	3,680	13,977	-	-	9,542	27,199
Payables and accrued expenses	116,336	20,045	136,381	7,961	-	-	-	144,342
Deposits from clients - medium term	-	-	-	90,693	-	-	-	90,693
Medium-term debt	349,954	-	349,954	971,394	-	-	-	1,321,348
Long-term debt	-	45,229	45,229	116,077	-	388,201	42,103	591,610
Total liabilities	714,278	68,392	782,670	1,200,102	-	388,201	51,645	2,422,618
Net gap	556,131	622,701	1,178,832	174,084	42,479	(356,499)	(44,558)	
Cumulative liquidity gap	556,131	1,178,832	1,178,832	1,352,916	1,395,395	1,038,896	994,338	

22. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

June 30, 2011 $000s	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from clients	318,223	190	96,008	-	-	-	414,421
Payables and accrued expenses	173,883	15,965	12,673	-	-	-	202,521
Medium-term debt	4,376	84,962	543,050	-	-	-	632,388
Long-term debt	10,429	72,213	130,426	100,845	646,391	56,060	1,016,364
	506,911	173,330	782,157	100,845	646,391	56,060	2,265,694
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	658,426	166,827	247,470	6,935	43,484	-	1,123,142
Contractual amounts receivable	(663,665)	(163,206)	(239,563)	(2,294)	(37,366)	-	(1,106,094)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,118)	(6,948)	(37,898)	(13,388)	19,993	142	(41,217)
Commitments	1,916	40,373	169,155	19,490	-	-	230,934
Guarantees	32,323	-	85,420	28,971	-	-	146,714
Total undiscounted financial liabilities	532,793	210,376	1,006,741	140,559	672,502	56,202	2,619,173

June 30, 2010 $000s	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from clients	247,778	278	91,563	-	-	-	339,619
Payables and accrued expenses	116,337	20,045	7,960	-	-	-	144,342
Medium-term debt	356,658	21,760	1,026,916	-	-	-	1,405,334
Long-term debt	9,734	64,673	202,991	93,347	604,679	60,100	1,035,524
	730,507	106,756	1,329,430	93,347	604,679	60,100	2,924,819
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	618,478	290,838	144,832	-	-	-	1,054,148
Contractual amounts receivable	(637,551)	(322,931)	(150,930)	-	-	-	(1,111,412)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(2,740)	(7,155)	(33,253)	(13,521)	15,175	(86)	(41,580)
Commitments	1,745	46,210	193,893	26,739	-	-	268,587
Guarantees	32,339	-	91,333	28,971	-	-	152,643
Total undiscounted financial liabilities	742,778	113,718	1,575,305	135,536	619,854	60,014	3,247,205

22. RISK MANAGEMENT (continued)

iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2011			June 30, 2010		
$000s	***Assets exposed to credit risk***	***Off-balance sheet items exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	855,936	146,714	1,002,650	1,311,565	146,767	1,458,332
Europe	59,203	-	59,203	262,277	-	262,277
Middle East	9,237	-	9,237	25,353	5,876	31,229
Other	86	-	86	936	-	936
Total	924,462	146,714	1,071,176	1,600,131	152,643	1,752,774

	June 30, 2011			June 30, 2010		
$000s	***Assets exposed to credit risk***	***Off-balance sheet exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	521,471	50,116	571,587	1,053,935	50,116	1,104,051
Consumer products	73,196	377	73,573	50,121	430	50,551
Consumer services	56,450	-	56,450	77,792	-	77,792
Distribution	32,979	-	32,979	63,472	-	63,472
Industrial products	70,226	-	70,226	157,479	-	157,479
Real estate	114,399	86,221	200,620	137,300	86,221	223,521
Technology and Telecom	47,682	-	47,682	30,337	-	30,337
Others	8,059	10,000	18,059	29,695	15,876	45,571
Total	924,462	146,714	1,071,176	1,600,131	152,643	1,752,774

22. RISK MANAGEMENT (continued)

iv) Market price risk

The principal market related risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, corporate investment and real estate investment, as well as on its debt financings. For purposes of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

In addition, the Group uses a variety of internal models to analyze the market price risks that may arise from adverse market movements.

Market price risk has been further detailed below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

iv) Market price risk (continued)

iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and VaR risk limits.

The Group's significant net hedged and un-hedged foreign currency positions are set out below.

$000s	***June 30, 2011***		*June 30, 2010*	
Long (Short)	***Net hedged exposure***	***Net unhedged exposure***	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	-	39,667	-	40,249
Euro	412,247	68	374,141	150
Pounds Sterling	16,593	(56)	36,368	245
Japanese Yen	(411,276)	213	(399,310)	594
	17,564	39,892	11,199	41,238

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. Value at Risk estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (a) Foreign currency risk (continued)

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	***2011***	*2010*
Average FX VaR	13	27
Year end FX VaR	5	14
Maximum FX VaR	91	133
Minimum FX VaR	1	2

iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with strict exposure limits that are approved by the Board of Directors. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $27.2 million (June 30, 2010: $16.8 million), which earn interest at an effective rate approximating 10.4% (June 30, 2010: 9.3%) per annum.
- Deposits from clients amounting to $7.2 million (June 30, 2010: $3.0 million) on which interest is paid at an effective rate of 0.9% (June 30, 2010: 5.1%) per annum reflecting the underlying maturity structure.
- Long term debt amounting to $125 million (June 30, 2010: $25 million) on which interest is paid at an effective rate of 2.9% (June 30, 2010: 8.1%) per annum reflecting the underlying maturity structure.

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (b) Interest rate risk (continued)

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	***June 30, 2011***	
Euro	(9,673)	6,819
Pounds Sterling	(715)	234
Japanese Yen	1,246	(13)
US Dollar	(1,849)	928
Others	145	(10)
Total	(10,846)	7,958

a) Figures in parenthesis above represent loss.

b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	***June 30, 2010***	
Euro	(6,654)	2,148
Pounds Sterling	(1,226)	352
Japanese Yen	942	(201)
US Dollar	(14,555)	3,866
Others	115	(4)
Total	(21,378)	6,161

a) Figures in parenthesis above represent loss.

b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

For the current year the change in US Dollar sensitivity is due to the $400 million pay fixed, receive floating interest rate swap entered in to by the Bank to hedge its exposure to 1-year Libor rates for the next fiscal year. The change in Euro sensitivity is mainly due to the yield curve uplift and change in the tenor profile of the underlying deals.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end.

22. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, corporate investment and real estate investment.

Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level, where an independent risk analysis is conducted at the pre-acquisition stage.

The table below summarizes the sensitivity of the Group's co-investments in CI–NA & Europe and real estate investment to changes in multiples / discount rates.

June 30, 2011 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	944,845	1,037,589	852,607	92,744	(92,238)
Real Estate Investment	Capitalization Rate	+/- 1%	188,838	223,822	158,782	34,984	(30,056)

June 30, 2010 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	889,953	941,696	842,050	51,743	(47,903)
Real Estate Investment	Capitalization Rate	+/- 1%	216,777	247,666	192,620	30,889	(24,157)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of CI–Technology, CI–MENA and strategic co-investments.

Co-investments in hedge funds

The Group manages the market price risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	**2011**	2010
Average VaR	40,583	43,714
Year end VaR	37,920	40,410
Maximum VaR	43,799	49,072
Minimum VaR	37,920	40,271

22. RISK MANAGEMENT (continued)

v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

23. 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.

The fair values of the Group's financial assets and liabilities on the 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 $1,016.3 million (June 30, 2010: $1,878.5 million) as compared to carrying value of $1,159.6 million (June 30, 2010: $1,912.9 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:

June 30, 2011 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	128,000	-	128,000
Positive fair value of derivatives	-	45,033	-	45,033
Co-investments				
Hedge funds	-	607,398	-	607,398
Corporate investment	3,571	-	1,080,661	1,084,232
Real estate investment	-	-	153,392	153,392
Total financial assets	3,571	780,431	1,234,053	2,018,055
Financial liabilities				
Negative fair value of derivatives	-	22,804	-	22,804
Total financial liabilities	-	22,804	-	22,804

June 30, 2010 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	253,000	-	253,000
Positive fair value of derivatives	-	74,766	-	74,766
Co-investments				
Hedge funds	-	537,274	-	537,274
Corporate investment	914	-	1,006,436	1,007,350
Real estate investment	-	-	170,586	170,586
Total financial assets	914	865,040	1,177,022	2,042,976
Financial liabilities				
Negative fair value of derivatives	-	27,199	-	27,199
Total financial liabilities	-	27,199	-	27,199

During the year ended June 30, 2011, there has been no transfer between Level 1 and Level 2 fair value measurements, but there has been a transfer of $ 2.6 million (2010: nil) from Level 3 to Level 1. This transfer represents the listing of an investment, previously categorized under level 3, on the stock exchange.

23. 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:

June 30, 2011 $000s	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations/ placements*	*Other movements***	*At end*
CI - NA & Europe						
Level 3	889,953	92,543	97,014	(253,177)	112,012	938,345
Others	-	6,500	-	-	-	6,500
Sub-total	**889,953**	**99,043**	**97,014**	**(253,177)**	**112,012**	**944,845**
CI - Technology						-
Level 3	45,288	3,016	13,745	-	4,199	66,248
Others	26,823	-	(765)	(15,722)	3,422	13,758
Sub-total	**72,111**	**3,016**	**12,980**	**(15,722)**	**7,621**	**80,006**
CI - MENA						
Level 3	18,112	3,820	589	-	1,190	23,711
Others	-	-	-	-	-	-
Sub-total	**18,112**	**3,820**	**589**	**-**	**1,190**	**23,711**
Strategic investments and other						
Level 3	53,083	1,000	292	(2,969)	951	52,357
Others	19,506	-	-	-	1,310	20,816
Sub-total	**72,589**	**1,000**	**292**	**(2,969)**	**2,261**	**73,173**
Real Estate Investment						
Level 3	170,586	72,511	(7,287)	(83,353)	935	153,392
Others	46,191	-	-	(15,745)	5,000	35,446
Sub-total	**216,777**	**72,511**	**(7,287)**	**(99,098)**	**5,935**	**188,838**
Total	**1,269,542**	**179,390**	**103,588**	**(370,966)**	**129,019**	**1,310,573**

*** Includes $1.9 million fair value movement in available for sale investments.**
****Other movements include add-on funding and foreign currency translation adjustments**

June 30, 2010 $000s	*At beginning*	*New acquisitions*	*Fair value movements*	*Movements relating to realizations*	*Other movements**	*At end*
CI - NA & Europe						
Level 3	769,392	156,256	97,690	(112,144)	(21,241)	889,953
Others	-	-	-	-	-	-
Sub-total	**769,392**	**156,256**	**97,690**	**(112,144)**	**(21,241)**	**889,953**
CI - Technology						
Level 3	45,483	29,003	1,286	(29,641)	(843)	45,288
Others	711	25,909	203	-	-	26,823
Sub-total	**46,194**	**54,912**	**1,489**	**(29,641)**	**(843)**	**72,111**
CI - MENA						
Level 3	13,696	4,416	-	-	-	18,112
Others	-	-	-	-	-	-
Sub-total	**13,696**	**4,416**	**-**	**-**	**-**	**18,112**
Strategic investments and other						
Level 3	54,603	623	(2,143)	-	-	53,083
Others	19,506	-	-	-	-	19,506
Sub-total	**74,109**	**623**	**(2,143)**	**-**	**-**	**72,589**
Real Estate Investment						
Level 3	239,077	36,986	(101,387)	(4,666)	576	170,586
Others	44,130	28,969	-	(26,908)	-	46,191
Sub-total	**283,207**	**65,955**	**(101,387)**	**(31,574)**	**576**	**216,777**
Total	**1,186,598**	**282,162**	**(4,351)**	**(173,359)**	**(21,508)**	**1,269,542**

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.8 million loss (2010: $0.2 million gain) for movements relating to Level 1 assets of CI–Technology.

24. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide employees with a secure compensation platform upon which they are encouraged to pursue outstanding returns and to reward them based on their results in line with the interests of clients and shareholders. This is achieved through a combination of cash salaries, variable bonuses dependent upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $1.0 million (2010: $0.4 million).

24. EMPLOYEE COMPENSATION (continued)

Programs for Investment Profit Participation

The Group's investment professionals in its corporate investment and real estate investment lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with the investment professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Similarly, certain of the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling four year period that will terminate in October 2012. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for Investment Participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including corporate investment, real estate investment and the Hedge Funds Program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group.

In some instances, the Group, together with third party lenders, also provides financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to or on behalf of employees as of June 30, 2011 is $97.6 million (June 30, 2010: $141.2 million).

Share Ownership Program

SIPCO Holdings Limited ("SHL") sponsors various share incentive plans under which eligible employees have previously received a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank via shares of SIPCO Limited and a beneficial interest in the preference shares of Investcorp Bank via shares in SIPCO Preferred Limited. These are restricted shares that have different vesting periods. These shares were awarded at their then current fair value.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these shares as they vest, since these awards occurred at the fair value of the shares. Both plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the shares.

25. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of directors and senior managers in the ordinary and preference shares of the Bank are set out below:

	Number of shares	
	June 30, 2011	*June 30, 2010*
Ordinary shares		
Directors	44,582	40,723
Senior Managers *	112,762	115,485
Total	157,344	156,208
Preference shares		
Directors	15,900	16,900
Senior Managers	7,731	10,173
Total	23,631	27,073

* These shares are held through SIPCO as stated in Note 1A (iii) and are not available for trading.

Of the directors' shareholding in ordinary shares, 10,704 (June 30, 2010: 6,721) are held directly and the remaining are held through various holding companies within the Group's ownership structure [see Note 1A (iii)], and are as a result subject to substantial transfer restrictions.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings, including those in their capacities as employees, for the year ended June 30, 2011 amounted to $5.9 million (2010: $6.1 million). Total dividends for the directors during the year, including preference share dividends, amounted to $3.3 million (2010: $2.0 million).

Further, of the staff compensation for the year set out in Note 5, $54.3 million (2010: $53.8 million) is attributable to senior management (excluding directors that are included above). The above mentioned remuneration of directors and senior management's remuneration is short-term in nature.

26. 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 HFP 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.

In addition to the compensation and benefits to employees and senior management and directors' remuneration disclosed in Notes 24 and 25, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2011***	*June 30, 2010*
Management fees	Investee companies	19,126	23,457
	Client companies	56,992	48,736
	Client companies associated with the HFP	28,347	28,574
Activity fees	Investee companies	28,691	41,376
Performance fees	Client companies associated with the HFP	6,084	18,841
	Client companies	31,134	584
Asset based income	Investee companies	20,427	2,749
	Client companies	5,447	4,942
Interest expense	Client companies	(220)	(415)
Provisions for impairment	Employee investment programs	1,025	(4,181)

26. RELATED PARTY TRANSACTIONS (continued)

In addition to the compensation and benefits to employees disclosed in Note 24 and senior management and directors' remuneration disclosed in Notes 25, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2011			*June 30, 2010*		
$000s	***Assets***	***Liabilities***	***Off-balance sheet***	*Assets*	*Liabilities*	*Off-balance sheet*
Outstanding balances						
Strategic shareholders	4,806	12,518	-	13,663	64,329	-
Investee companies	73,201	-	-	66,255	-	-
Investment holding companies	88,290	5,424	169,911	92,785	4,387	200,672
Client fund companies associated with the HFP	8,162	-	-	9,405	-	-
Directors and senior management	1,061	630	-	3,838	5,984	-
	175,520	18,572	169,911	185,946	74,700	200,672

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $422 million as at June 30, 2011 (June 30, 2010: $465 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the table on the previous page, to the extent they result from transactions with related parties.

INVESTCORP BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's management, under authorization from the Board is responsible for establishing and maintaining adequate internal controls over financial reporting. The Group's control processes over financial reporting are designed and implemented under the supervision of the Group's Board of Directors, Executive Chairman & CEO, Chief Financial Officer and General Counsel to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards.

The Group's internal controls over financial reporting include policies and procedures that (a) relate to the maintenance of records in a reasonable level of detail that fairly and accurately reflects transactions pertaining to the Group's assets; (b) provide reasonable assurance that these transactions have been properly authorized; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, utilization or disposal of the Group's assets that could have a material impact on the consolidated financial statements.

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2010 based on internal guidelines set by the Board Audit Committee. Based on this assessment, management believes that, as of June 30, 2010 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

Nemir A. Kirdar Executive Chairman & Chief Executive Officer	Rishi Kapoor Chief Financial Officer	Stephanie R. Bess General Counsel

August 3, 2010

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C.

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 30 June 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2010 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C. (continued)

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 30 June 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst + Young

3 August 2010
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2010

$000s	*June 30, 2010*	*June 30, 2009*	*Note*	*Page*
ASSETS				
Cash and short-term funds	21,342	416,088	6	31
Placements with financial institutions and other liquid assets	881,469	713,217	6	31
Positive fair value of derivatives	74,766	56,150	20	47
Receivables and prepayments	315,975	335,741	7	32
Loans and advances	247,593	224,103	8	33
Co-investments				
Hedge funds	537,274	614,481	9	34
Private equity	1,052,765	903,391	10	35
Real estate	216,777	283,207	11	39
Total co-investments	1,806,816	1,801,079		
Premises, equipment and other assets	68,995	73,986		
TOTAL ASSETS	3,416,956	3,620,364		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	-	15,000		
Deposits from clients - short-term	247,426	289,873	13	40
Negative fair value of derivatives	27,199	33,287	20	47
Payables and accrued expenses	144,342	90,361	14	41
Deposits from clients - medium-term	90,693	83,212	13	40
Medium-term debt	1,321,348	1,635,515	15	41
Long-term debt	591,610	578,370	16	43
TOTAL LIABILITIES	2,422,618	2,725,618		
EQUITY				
Preference share capital	508,678	500,000	17	44
Ordinary shares at par value	200,000	200,000	17	44
Reserves	596,243	604,995		
Treasury shares	(161,669)	(150,507)		
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	65,430	16,926		
Ordinary shareholders' equity other than unrealized fair value changes, proposed dividend and revaluation reserve	700,004	671,414		
Proposed preference shares dividend	57,374	-	19	47
Unrealized fair value changes and revaluation reserve	(271,718)	(276,668)	18	46
TOTAL EQUITY	994,338	894,746		
TOTAL LIABILITIES AND EQUITY	3,416,956	3,620,364		

Abdul-Rahman Salim Al-Ateeqi
Chairman

Nemir A. Kirdar
Executive Chairman & CEO

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

CONSOLIDATED STATEMENT OF INCOME

$000s	***2010***	***2009***	*Note*	*Page*
FEE INCOME				
Management fees	104,320	107,359		
Activity fees	68,652	21,715		
Performance fees	45,957	301		
Fee income ***(a)***	218,929	129,375	2	20
ASSET BASED INCOME				
Investment income				
Private equity	25,259	12,389		
Hedge funds	91,284	(323,797)		
Real estate	11,475	20,153		
Treasury and other asset based income	18,108	72,883		
Asset based income (loss) ***(b)***	146,126	(218,372)		
Gross operating income (loss) (a) + (b)	365,055	(88,997)		
Provision for impairment	(11,669)	(22,246)	12	40
Interest expense	(58,030)	(114,976)		
Operating expenses	(188,831)	(206,322)	5	30
Net operating income (loss) before fair value changes of private equity and real estate co-investments	106,525	(432,541)		
Fair value changes of private equity and real estate co-investments **(c)**	(4,351)	(348,086)	18	46
NET INCOME (LOSS)	102,174	(780,627)		
Basic and fully diluted earnings (loss) per ordinary share ($)	64	(1,120)	19	47
TOTAL REVENUE (a)+(b)+(c)	360,704	(437,083)		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***2010***	*2009*	*Note*	*Page*
NET INCOME (LOSS) (AS ABOVE)	102,174	(780,627)		
Other comprehensive income				
Fair value movements - net unrealized gains on cashflow hedges	8,654	12,122	18	46
Revaluation surplus on premises and equipment	-	11,240	18	46
Other comprehensive income	8,654	23,362		
TOTAL COMPREHENSIVE INCOME (LOSS)	110,828	(757,265)		

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2010

			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 June 30, 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	-	-	-	-	-	-	-	(780,627)	-	-	-	12,122	11,240	23,362	(757,265)
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(93,571)	-	93,571	-	-	-	93,571	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	348,086		(348,086)	-	-	-	(348,086)	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	475	-	-	-	-	(475)	(475)	-
Treasury shares purchased during the year	-	-	-	-	-	-	(51,278)	-	-	-	-	-	-	-	(51,278)
Treasury shares sold during the year	-	-	-	-	-	-	30,344	-	-	-	-	-	-	-	30,344
Loss on sale of treasury shares	-	-	(48,029)	-	-	(48,029)	48,029	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(63,278)	-	-	-	-	-	(63,278)
Preference share issuance proceeds	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	500,000
Share issue expenses	-	-	(947)	-	-	(947)	-	-	-	-	-	-	-	-	(947)
Balance at June 30, 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	-	-	-	-	-	-	-	102,174	-	-	-	8,654	-	8,654	110,828
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(1,463)	-	1,463	-	-	-	1,463	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	4,351	-	(4,351)	-	-	-	(4,351)	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	816	-	-	-	-	(816)	(816)	-
Treasury shares purchased during the year	-	-	-	-	-	-	(62,203)	-	-	-	-	-	-	-	(62,203)
Treasury shares sold / financed during the year	-	-	-	-	-	-	43,068	-	-	-	-	-	-	-	43,068
Loss on sale of treasury shares	-	-	(7,973)	-	-	(7,973)	7,973	-	-	-	-	-	-	-	-
Proposed appropriation	-	-	-	-	-	-	-	(57,374)	57,374	-	-	-	-	-	-
Preference share issuance proceeds	15,132	-	-	-	-	-	-	-	-	-	-	-	-	-	15,132
Share issue expenses	-	-	(779)	-	-	(779)	-	-	-	-	-	-	-	-	(779)
Non-vested preference shares issued to employees	(11,309)	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,309)
Vesting during the year	5,680	-	-	-	-	-	-	-	-	-	-	-	-	-	5,680
Forfeitures during the year	(825)	-	-	-	-	-	-	-	-	-	-	-	-	-	(825)
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**65,430**	**57,374**	**(299,919)**	**6,573**	**11,679**	**9,949**	**(271,718)**	**994,338**

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

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

$000s	*2010*	*2009*	*Note*	*Page*
OPERATING ACTIVITIES				
Net income (loss)	102,174	(780,627)		
Adjustments for non-cash items in net income (loss)				
Fair value changes	4,351	348,086	18	46
Depreciation	7,594	7,245	5	30
Provisions for impairment	11,669	22,246	12	40
Amortization of transaction costs of borrowings	7,834	4,533		
Preference shares vesting -net of forfeitures	4,855	-		
Net income (loss) adjusted for non-cash items	138,477	(398,517)		
Changes in:				
Operating capital				
Receivables and prepayments	13,378	121,331	7	32
Loans and advances	(28,771)	97,265	8	33
Deposits from clients - short-term	(42,447)	(148,539)	13	40
Unfunded deal acquisitions	-	(234,321)		
Payables and accrued expenses	53,981	(126,764)	14	41
Co-investments				
Hedge funds	77,207	1,406,327	9	34
Private equity	(52,338)	(116,059)	10	35
Real estate	(34,957)	(52,445)	11	39
Fair value of derivatives	28,279	18,342		
Other assets	5	32		
NET CASH FROM OPERATING ACTIVITIES	152,814	566,652		
FINANCING ACTIVITIES				
Deposits from financial institutions	(15,000)	(370,469)		
Deposits from clients - medium-term	7,481	(36,395)	13	40
Medium-term revolvers drawn	-	557,500		
Medium-term debt issued (net of transaction costs)	174,409	-	15	41
Medium-term debt repaid	(492,000)	(42,000)	15	41
Long-term debt repaid	(35,499)	(407,263)	16	43
Treasury shares purchased (ordinary) - net	(19,135)	(20,934)		
Preference share issuance proceeds - net	3,044	499,053		
Dividends paid	-	(63,278)		
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(376,700)	116,214		
INVESTING ACTIVITIES				
Placements with financial institutions and other liquid assets (non cash equivalent)	(63,000)	-	6	31
Investment in premises and equipment	(2,608)	(5,131)		
NET CASH USED IN INVESTING ACTIVITIES	(65,608)	(5,131)		
Net (decrease) increase in cash and cash equivalents	(289,494)	677,735		
Cash and cash equivalents at beginning	1,129,305	451,570		
Cash and cash equivalents at end	839,811	1,129,305		
Cash and cash equivalents comprise:			6	31
Cash balances with banks	21,342	35,100		
Cash in transit	-	380,988		
Placements with financial institutions and other liquid assets	818,469	713,217		
	839,811	1,129,305		

Cash and cash equivalents comprise cash and short-term funds, cash in transit, together with placements with financial institutions and other liquid assets that have original contractual maturities of three months or less.

Additional cash flow information

$000s	*2010*	*2009*
Interest paid	(53,672)	(123,354)
Interest received	16,126	21,498

The attached notes 1 to 27 are an integral part of these 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)].

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided 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 consolidated financial statements for the year ended June 30, 2010 were authorized for issue in accordance with a resolution of the Board of Directors dated August 3, 2010.

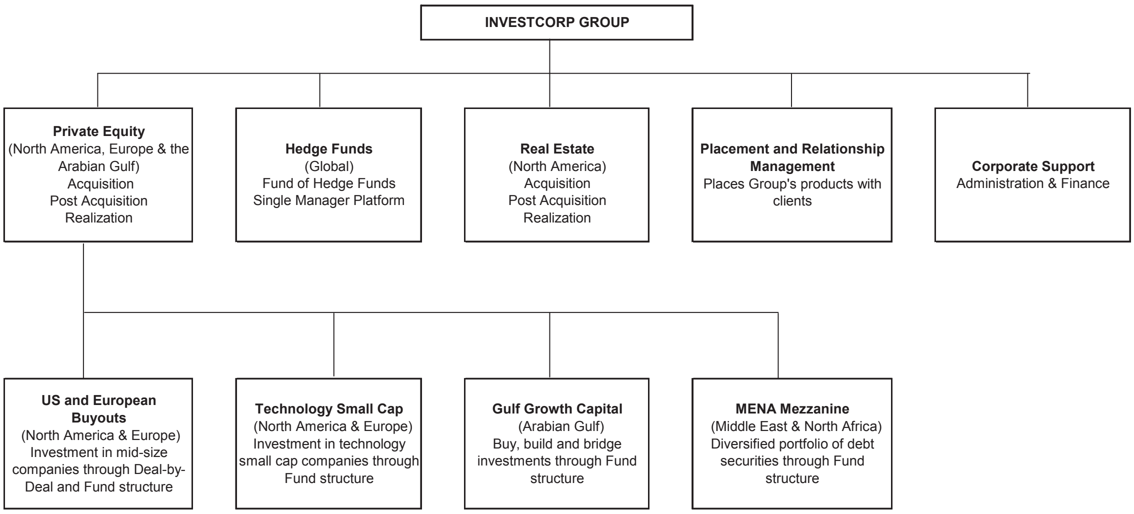
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 four products namely, (a) US and European Buyouts, (b) Technology Small Cap investments and (c) Gulf Growth Capital, and (d) MENA Mezzanine Fund.

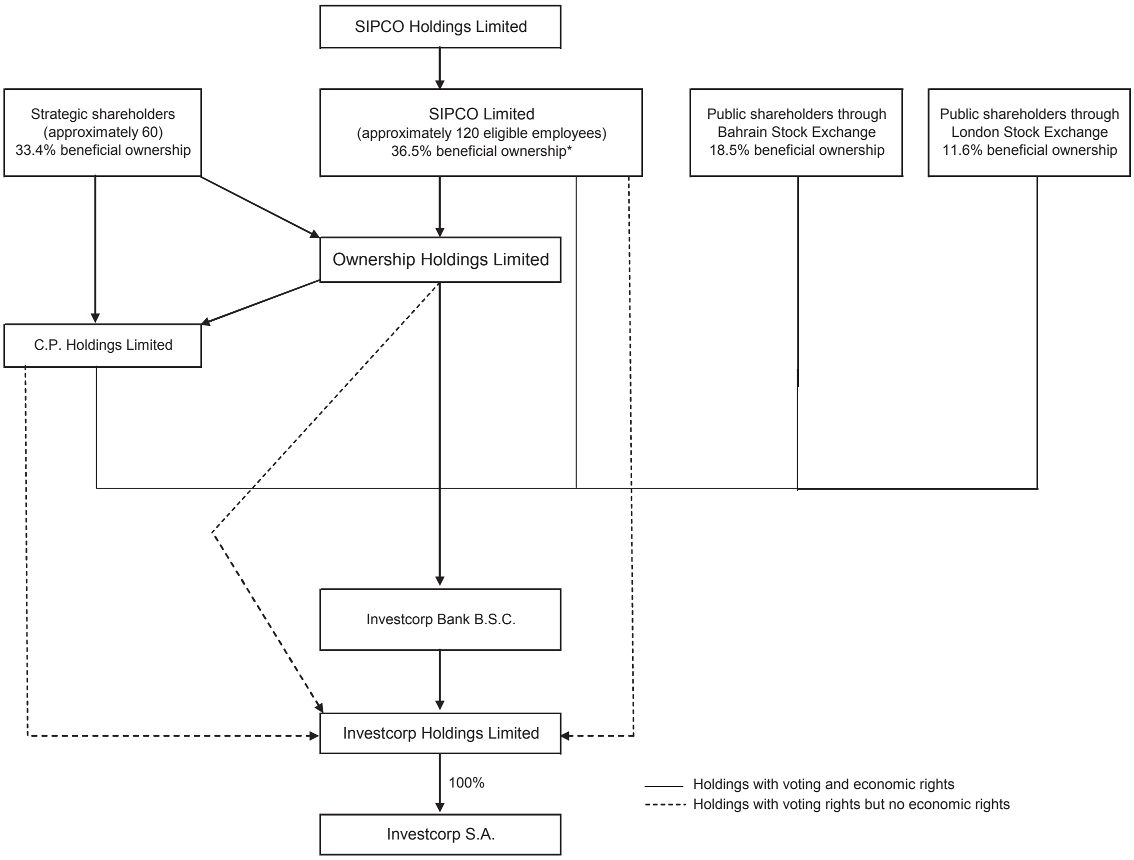
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Includes 15.5% in shares and GDRs that are held for future sale to management under the SIP Plan and third parties. These are classified as treasury shares on the Bank's balance sheet. The Group has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of shares for the SIP Plan.

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"), a 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 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 and Series B 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 subject to the payment of a nominal amount in respect of IHL's ordinary shares. 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 originally incorporated in Luxembourg and transferred to Cayman Islands during the current fiscal year. 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries 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. (Cayman Islands)	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
	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 consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years except as noted below.

Of all the applicable changes in IFRS (including IAS 27R – *Consolidated and separate Financial Statements* and IFRS 3R – *Business Combinations*) during the year, management has adopted IFRS 7 Amendment – *Improving Disclosures about Financial Instruments* as in its view, this was the only significant change that impacts the Group's consolidated financial statements. 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 24, and the liquidity risk disclosures in Note 23 (ii) are not significantly impacted by the amendments.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have already been issued, to be applied to financial statements for financial years commencing on or after the following dates:

- Amendments to IFRS 2 — Group Cash-settled Share-based Payment Transactions, 1 January 2010.
- Amendments to IFRS 1 — Additional Exemptions for First-time Adopters, 1 January 2010.
- Amendments to IFRS 1 — Limited Exemption from Comparative IFRS 7 Disclosures, 1 July 2010
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, 1 January 2010.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective (continued)

- IFRS 8 Operating Segments, 1 January 2010.
- IAS 1 Presentation of Financial Statements, 1 January 2010.
- IAS 7 Statement of Cash Flows, 1 January 2010.
- IAS 17 Leases, 1 January 2010.
- IAS 36 Impairment of Assets, 1 January 2010.
- IAS 39 Financial Instruments: Recognition and Measurement, 1 January 2010.
- IAS 32 Amendment - Classification of Rights Issues, 1 February 2010
- IAS 24 Amendment - Related Party Disclosures, 1 January 2011
- IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement, 1 January 2011
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments 1 July 2010
- 2009 Improvements to IFRSs, 1 January 2010
- IFRS 9 - Financial Instruments: Classification and Measurement, 1 January 2013

The Group is considering the implications of the standards, the impact on the Group's financial position and results and the timing of their adoption by the Group.

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group’s management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") private equity and real estate investments (see notes 10 and 11) and impairment provisions for financial assets other than FVTPL investments (see Note 12).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity.

Investments acquired with the intention of a long-term holding period, such as in private equity, real estate or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS")

b) Other liquid assets

Other liquid assets, which form part of placements with financial institutions and other liquid assets, are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL. The management has designated such assets as FVTPL.

iv) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVPTL investments are taken to consolidated statement of income and on AFS investments are taken to consolidated comprehensive income.

vi) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. Provisions are made against receivables as soon as they are considered doubtful.

vii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

viii) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 9.

ix) Co- investments in private equity and real estate

The Group's co-investments in private equity and real estate are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Co- investments in private equity and real estate (continued)

Certain debt investments out of the Group's co-investments in private equity and real estate are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

x) Derecognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xii) Impairment and un-collectibility of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cashflows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

In case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Bank carries building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the assets.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Buildings on freehold land	25 years
Leasehold and building improvements	10 - 15 years
Operating assets	3 - 10 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate at least at each financial year end.

xiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 25).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xv) Unfunded deal acquisitions

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvi) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xvii) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent resale of treasury shares at a price greater than cost is treated as non-distributable and included in share premium. Any deficit arising from the subsequent resale of treasury shares at a price lower than cost is charged first against the cumulative excess from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to retained earnings.

xviii) Dividends

Proposed dividends are disclosed as appropriations from equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xix) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to off set the recognized amounts and the Group intends to settle on a net basis.

xx) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 20.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxi) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

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 (continued)

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)
		4) MENA Mezzanine	- Closed-end fund(s)
2) Hedge Funds	2) Hedge Funds	5) Hedge Funds	- Fund of Hedge Funds - Single Managers
3) Real Estate	3) Real Estate	6) Real Estate	- Equity investments - Mezzanine debt investments
4) Corporate Support			- Liquidity / Working Capital / Funding

Each of the six 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)

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) ***MENA Mezzanine ("MENA")***

The MENA team, based in Bahrain targets to invest directly and indirectly in a diversified portfolio of mezzanine instruments, preferred equity securities, bridge loans, high yield debt securities, convertible and other similar income producing securities and obligations to generate current income and capital appreciation.

v) ***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.

vi) ***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 Arabian Gulf States, 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.

vii) ***Corporate Support***

Corporate Support comprises the Group's Administration, Finance and Management functions, which are collectively responsible for supporting the six 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 re-financings, 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, 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) BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2010 and 2009 by reporting segment are as follows:

June 30, 2010 *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	21,342	21,342
Placements with financial institutions and other liquid assets	-	-	-	881,469	881,469
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables and prepayments	-	-	-	315,975	315,975
Loans and advances	-	-	-	247,593	247,593
Co-investments	1,052,765	537,274	216,777	-	1,806,816
Premises, equipment and other assets	-	-	-	68,995	68,995
Total assets	1,052,765	537,274	216,777	1,610,140	3,416,956
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	49,054	-	198,372	247,426
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables and accrued expenses	11,736	3,062	3,497	126,047	144,342
Deposits from clients - medium term	-	4,539	-	86,154	90,693
Medium-term debt	88,951	269,385	42,146	920,866	1,321,348
Long-term debt	340,713	35,036	61,514	154,347	591,610
Total liabilities	441,400	361,076	107,157	1,512,985	2,422,618
Total equity	611,365	176,198	109,620	97,155	994,338
Total liabilities and equity	1,052,765	537,274	216,777	1,610,140	3,416,956

June 30, 2009 *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	416,088	416,088
Placements with financial institutions and other liquid assets	-	-	-	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)

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

The consolidated statements of income for the years ended June 30, 2010 and 2009 by reporting segments are as follows:

July 2009 - June 2010 $000s	Private Equity	Hedge Funds	Real Estate	Corporate Support	Total
Fee income					
Management fees	67,212	24,654	12,454	-	104,320
Activity fees	62,350	-	6,302	-	68,652
Performance fees	26,532	18,841	584	-	45,957
Gross fee income (a)	156,094	43,495	19,340	-	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	-	(149,443)
Net fee income (loss)	61,718	4,518	3,250	-	69,486
Asset based income					
Interest income	4,618	-	1,044	11,851	17,513
Treasury and other asset based income	20,641	91,284	10,431	6,257	128,613
Fair value changes	97,036	-	(101,387)	-	(4,351)
Gross asset based income (loss) (b)	122,295	91,284	(89,912)	18,108	141,775
Provision for impairment	-	-	-	(11,669)	(11,669)
Interest expense	(10,838)	(11,134)	(3,956)	(32,102)	(58,030)
Expenses attributable to asset based income	(19,667)	(7,538)	(3,430)	(8,753)	(39,388)
Net asset based income (loss)	91,790	72,612	(97,298)	(34,416)	32,688
Net income (loss)	153,508	77,130	(94,048)	(34,416)	102,174
Total revenue (a) + (b)	278,389	134,779	(70,572)	18,108	360,704

July 2008 - June 2009 $000s	Private Equity	Hedge Funds	Real Estate	Corporate Support	Total
Fee income					
Management fees	55,799	38,714	12,846	-	107,359
Activity fees	23,322	-	(1,607)	-	21,715
Performance fees	-	(579)	880	-	301
Gross fee income (a)	79,121	38,135	12,119	-	129,375
Expenses attributable to fee income	(102,091)	(50,459)	(16,820)	-	(169,370)
Net fee income (loss)	(22,970)	(12,324)	(4,701)	-	(39,995)
Asset based income					
Interest income	229	-	2,030	17,213	19,472
Treasury and other asset based income (loss)	12,160	(323,797)	18,123	55,670	(237,844)
Fair value changes	(241,810)	-	(106,276)	-	(348,086)
Gross asset based (loss) income (b)	(229,421)	(323,797)	(86,123)	72,883	(566,458)
Provision for impairment	-	-	-	(22,246)	(22,246)
Interest expense	(22,841)	(44,666)	(12,751)	(34,718)	(114,976)
Expenses attributable to asset based income	(12,950)	(12,355)	(4,742)	(6,905)	(36,952)
Net asset based (loss) income	(265,212)	(380,818)	(103,616)	9,014	(740,632)
Net (loss) income	(288,182)	(393,142)	(108,317)	9,014	(780,627)
Total revenue (a) + (b)	(150,300)	(285,662)	(74,004)	72,883	(437,083)

2. SEGMENT REPORTING (continued)

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

Total revenue of $278.4 million (2009: $(150.3) million) from private equity asset class includes $41.4 million, $19.9 million and $0.9 million (2009: $17.0 million and $22.1 million and nil) relating to Technology Small Cap Investments, Gulf Growth Capital and MENA Mezzanine Fund 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 year (2009: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $17.5 million (June 30, 2009: $19.5 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Note 23 (iii) presents the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2010 $000s	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	21,342	-	-	21,342
Placements with financial institutions and other liquid assets	253,000	628,469	-	-	881,469
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables	-	283,455	-	-	283,455
Loans and advances	-	247,593	-	-	247,593
Co-investments					
Hedge funds	537,274	-	-	-	537,274
Private equity	968,018	48,254	36,493	-	1,052,765
Real estate					
Debt	-	34,191	-	-	34,191
Equity	182,586	-	-	-	182,586
Total financial assets	1,940,878	1,263,304	36,493	74,766	3,315,441
Non-financial assets					
Prepayments					32,520
Premises, equipment and other assets					68,995
Total assets					3,416,956
Financial liabilities					
Deposits from clients*	-	338,119	-	-	338,119
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables	-	138,772	-	-	138,772
Medium term debt	-	1,321,348	-	-	1,321,348
Long term debt*	-	591,610	-	-	591,610
Total financial liabilities	-	2,389,849	-	27,199	2,417,048
Non-financial liabilities					
Deferred income					5,570
Total liabilities					2,422,618

* Adjusted for related fair value hedges.

June 30, 2009 $000s	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	416,088	-	-	416,088
Placements with financial institutions and other liquid assets	-	713,217	-	-	713,217
Positive fair value of derivatives	-	-	-	56,150	56,150
Receivables	-	308,241	-	-	308,241
Loans and advances	-	224,103	-	-	224,103
Co-investments					
Hedge funds	614,481	-	-	-	614,481
Private equity	867,521	-	35,870	-	903,391
Real estate					
Debt	-	44,130	-	-	44,130
Equity	239,077	-	-	-	239,077
Total financial assets	1,721,079	1,705,779	35,870	56,150	3,518,878
Non-financial assets					
Prepayments					27,500
Premises, equipment and other assets					73,986
Total assets					3,620,364
Financial liabilities					
Deposits from financial institutions	-	15,000	-	-	15,000
Deposits from clients*	-	373,085	-	-	373,085
Negative fair value of derivatives	-	-	-	33,287	33,287
Payables	-	83,102	-	-	83,102
Medium term debt	-	1,635,515	-	-	1,635,515
Long term debt*	-	578,370	-	-	578,370
Total financial liabilities	-	2,685,072	-	33,287	2,718,359
Non-financial liabilities					
Deferred income					7,259
Total liabilities					2,725,618

* Adjusted for related fair value hedges.

4. 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	June 30, 2010 Clients	June 30, 2010 Investcorp	June 30, 2010 Affiliates and co-investors	June 30, 2010 Total	June 30, 2009 Clients	June 30, 2009 Investcorp	June 30, 2009 Affiliates and co-investors	June 30, 2009 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	853	70	6	929	875	70	6	951
- MENA mezzanine investments	105	50	-	155	-	-	-	-
Sub total	1,853	386	91	2,330	1,770	336	91	2,197
Closed-end Invested Funds								
- Technology small cap investments	209	23	10	242	223	30	10	263
Deal-by-deal investments								
- US and European buyouts	2,598	852	368	3,818	2,540	714	443	3,697
Strategic and other investments	-	73	-	73	-	74	-	74
Total private equity	**4,660**	**1,334**	**469**	**6,463**	**4,533**	**1,154**	**544**	**6,231**
Hedge Funds								
Fund of hedge funds	2,125	77	3	2,205	1,566	132	3	1,701
Single managers	1,289	265	6	1,560	980	380	10	1,370
Structured and levered products	351	538	2	891	548	333	-	881
Total hedge funds	**3,765**	**880**	**11**	**4,656**	**3,094**	**845**	**13**	**3,952**
Real Estate								
Closed-end Committed Funds	253	28	4	285	253	27	4	284
Deal-by-deal investments	859	181	32	1,072	903	247	42	1,192
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate	**1,112**	**217**	**36**	**1,365**	**1,156**	**282**	**46**	**1,484**
Corporate Support								
Client call accounts held in trust	170	-	-	170	67	-	-	67
Total	**9,707**	**2,431**	**516**	**12,654**	**8,850**	**2,281**	**603**	**11,734**
Summary by category:								
Closed-end Committed Funds	2,106	414	95	2,615	2,023	363	95	2,481
Closed-end Invested Funds	209	23	10	242	223	30	10	263
Hedge Funds	3,765	880	11	4,656	3,094	845	13	3,952
Deal-by-deal investments	3,627	1,114	400	5,141	3,510	1,043	485	5,038
Total	**9,707**	**2,431**	**516**	**12,654**	**8,850**	**2,281**	**603**	**11,734**
Summary by segments:								
Private Equity								
- US and European buyouts	3,074	1,051	439	4,564	3,016	913	514	4,443
- Technology small cap investments	628	90	24	742	642	97	24	763
- Gulf Growth Capital	853	70	6	929	875	70	6	951
- MENA mezzanine investments	105	50	-	155	-	-	-	-
- Strategic and other investments	-	73	-	73	-	74	-	74
Hedge Funds	3,765	880	11	4,656	3,094	845	13	3,952
Real Estate	1,112	217	36	1,365	1,156	282	46	1,484
Corporate Support	170	-	-	170	67	-	-	67
Total	**9,707**	**2,431**	**516**	**12,654**	**8,850**	**2,281**	**603**	**11,734**

4. 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.

5. OPERATING EXPENSES

$000s	***2010***	*2009*
Staff compensation	47,379	67,574
Incentive compensation expense	63,843	52,403
Other personnel costs	16,756	16,921
Professional fees	15,621	18,280
Travel and business development	9,758	12,015
Administration and research	12,664	14,415
Technology and communication	3,147	4,572
Premises	11,156	11,463
Depreciation	7,594	7,245
Other	913	1,434
Total	188,831	206,322

6. LIQUIDITY

$000s	*June 30, 2010*	*June 30, 2009*
Cash balances with banks	21,342	35,100
Cash in transit	-	380,988
Placements with financial institutions and other liquid assets	818,469	713,217
Cash and cash equivalents	839,811	1,129,305
Placements with financial institutions and other liquid assets (non cash equivalent)	63,000	-
Total accessible liquidity	902,811	1,129,305
Less: medium and long-term debt maturing within three months *	(261,250)	(142,000)
Net cash liquidity	641,561	987,305
Add: undrawn medium-term revolvers (see Note 15)	-	-
Net accessible liquidity	641,561	987,305
Co-investments in hedge funds (excluding gated funds)	518,286	571,481
Net liquidity	1,159,847	1,558,786

* Net of forward start facility available to be drawn within three months

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, undrawn committed medium-term revolvers and forward start facility 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 $19.0 million (2009: $43.0 million) which is not immediately available due to gating clauses imposed by the underlying fund managers.

Cash and short-term funds comprise the Group's cash, balances in nostro accounts and short-term government securities. Cash in transit as of previous year end mainly related to proceeds for issuance of preference shares and redemptions from hedge funds for which notices had been issued, the proceeds of which were received during the year.

Other liquid assets represent financial assets including credit linked notes and funded credit default swaps. The referenced risk for these assets is highly rated sovereigns. Since the embedded derivative in these instruments is not separated, these are carried as FVTPL assets in accordance with IAS 39.

7. RECEIVABLES AND PREPAYMENTS

$000s	***June 30, 2010***	*June 30, 2009*
Subscriptions receivable	143,830	111,116
Capital issuance proceeds receivable	-	110,495
Receivables from investee companies	90,912	76,487
Investment disposal proceeds receivable	11,536	3,188
Hedge funds related receivables	52,159	14,046
Accrued interest receivable	6,396	5,009
Prepaid expenses	32,520	27,500
Other receivables	16,917	19,807
	354,270	367,648
Provision for impairment (see Note 12)	(38,295)	(31,907)
Total	315,975	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.

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 due from financial institutions and other financial assets, from investee companies on investment debt and from investment holding companies on working capital advances.

8. LOANS AND ADVANCES

$000s	June 30, 2010	June 30, 2009
Advances to HFP Funds, Real Estate Funds and Technology Funds	11,224	11,985
Advances to investment holding companies	141,413	130,011
Advances to Employee Investment Programs	141,188	121,604
Other advances	6,375	7,829
	300,200	271,429
Provision for impairment (see Note 12)	(52,607)	(47,326)
Total	247,593	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 and Technology 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.

9. CO-INVESTMENTS IN HEDGE FUNDS

Co-investments in hedge funds comprise a portion of the Group's liquidity deployed together with 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		***June 30, 2010***	*June 30, 2009*
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	76,918	128,919
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	-	-
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	264,777	379,970
Structured and leveraged products	Investments across structural themes funds and structured embedded leverage products	195,515	102,775
Other Hedge Funds investments	Mix of small investments across several theme funds	64	2,817
Total balance sheet co-investments		537,274	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.

10. CO-INVESTMENTS IN PRIVATE EQUITY

$000s	*June 30, 2010*	*June 30, 2009*
US and European buyouts [See Note 10 (a)]	889,953	769,392
Technology small cap investments [See Note 10 (b)]	72,111	46,194
Gulf growth capital [See Note 10 (c)]	18,112	13,696
Strategic and other investments [See Note 10 (d)]	72,589	74,109
Total co-investments in private equity	1,052,765	903,391

10 (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.

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

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

$000s VINTAGE *	***June 30, 2010***	*June 30, 2009*
Vintage 1997 (1997 - 2000)	180,205	181,343
Vintage 2001 (2001 - 2004)	137,996	85,014
Vintage 2005 (2005 - 2008)	402,353	381,006
Vintage 2009 (2009 - 2012)	169,399	122,029
Total	889,953	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.

Summary by sector and location:

	June 30, 2010			June 30, 2009		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	87,447	-	87,447	22,355	-	22,355
Industrial Products	15,043	300,540	315,583	38,920	313,392	352,312
Technology and Telecom	178,082	-	178,082	164,248	-	164,248
Industrial Services	167,529	54,565	222,094	80,807	52,284	133,091
Distribution	73,478	13,269	86,747	77,830	19,556	97,386
Total	521,579	368,374	889,953	384,160	385,232	769,392

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

10 (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 10 (a).

The carrying values of Group's co-investments in technology small cap deals at June 30, 2010 and June 30, 2009 are:

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2010 Total*
Technology Fund I						
North America	496	914	54	1,444	696	3,604
Sub-Total	496	914	54	1,444	696	3,604
Technology Fund II						
North America	5,003	356	3,946	1,520	-	10,825
Europe	-	-	8,860	-	-	8,860
Sub-Total	5,003	356	12,806	1,520	-	19,685
Technology Fund III						
North America	-	9,961	-	3,122	-	13,083
Europe	-	-	-	7,983	-	7,983
Sub-Total	-	9,961	-	11,105	-	21,066
Direct Co-Investment						
Europe	-	-	13,557	14,199	-	27,756
Sub-Total	-	-	13,557	14,199	-	27,756
Total	5,499	11,231	26,417	28,268	696	72,111

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2009 Total*
Technology Fund I						
North America	528	1,922	201	1,136	521	4,308
Sub-Total	528	1,922	201	1,136	521	4,308
Technology Fund II						
North America	5,563	450	3,714	2,005	-	11,732
Europe	-	-	14,343	-	-	14,343
Sub-Total	5,563	450	18,057	2,005	-	26,075
Technology Fund III						
North America	-	5,121	-	-	-	5,121
Europe	-	-	-	10,690	-	10,690
Sub-Total	-	5,121	-	10,690	-	15,811
Total	6,091	7,493	18,258	13,831	521	46,194

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

10 (c) GULF GROWTH CAPITAL

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2010 and June 30, 2009:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2010 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Kuwait	4,416	-	-	**4,416**
Total	**4,416**	**4,889**	**8,807**	**18,112**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2009 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Total	**-**	**4,889**	**8,807**	**13,696**

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 EBITDA multiples based valuation methodology.

10 (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 $36.1 million (June 30, 2009: $38.2 million) that are classified as FVTPL.

11. 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 at June 30, 2010 and at June 30, 2009 are:

$000s	*Number of*	*Region*					*June 30, 2010*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	14	26,598	-	-	-	6,795	33,393
Hotels	15	18,160	6,842	1,783	6,126	-	32,911
Retail	34	-	1,347	1,393	5,704	213	8,657
Industrial	4	4,752	-	-	-	4	4,756
Core Plus Total	67	49,510	8,189	3,176	11,830	7,012	79,717
Mezzanine debt		27,849	730	48	107	530	29,264
Opportunistic	9	34,156	-	31,292	-	34,006	99,454
Strategic and other		8,342	-	-	-	-	8,342
Total	76	119,857	8,919	34,516	11,937	41,548	216,777

$000s	*Number of*	*Region*					*June 30, 2009*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	15	76,835	-	-	-	11,089	87,924
Hotels	15	17,685	8,828	1,718	7,168	-	35,399
Retail	34	5,231	1,407	1,125	4,687	213	12,663
Industrial	4	5,594	-	-	-	4	5,598
Core Plus Total	68	105,345	10,235	2,843	11,855	11,306	141,584
Mezzanine debt		38,630	49	48	107	522	39,356
Opportunistic	12	27,575	-	30,761	-	35,590	93,926
Strategic and other		8,341	-	-	-	-	8,341
Total	80	179,891	10,284	33,652	11,962	47,418	283,207

12. PROVISIONS FOR IMPAIRMENT

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

$000s Categories	*At beginning*	*Charge for the year*	*At end*
Receivables	31,907	6,388	38,295
Loans and advances	47,326	5,281	52,607
Total	79,233	11,669	90,902
As at June 30, 2009	56,987	22,246	79,233

13. DEPOSITS FROM CLIENTS

$000s	*June 30, 2010*	*June 30, 2009*
SHORT-TERM:		
Call accounts	105,726	72,564
Short-term deposits	385	21,049
Transitory balances	141,315	196,260
Total deposits from clients - short-term	247,426	289,873
MEDIUM-TERM:		
Medium-term deposits	22,860	23,956
Investment holding companies' deposits	50,949	26,682
Discretionary and other deposits	16,884	32,574
Total deposits from clients - medium-term	90,693	83,212
Total	338,119	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 a 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 4 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.

13. DEPOSITS FROM CLIENTS (continued)

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.

14. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2010***	*June 30, 2009*
Accrued expenses - employee compensation	69,200	28,638
Vendor and other trade payables	35,459	34,473
Investment related payables	18,654	8,890
Deferred income	5,570	7,259
Accrued interest payable	15,459	11,101
Total	144,342	90,361

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

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.

15. MEDIUM-TERM DEBT

The table below shows the total medium-term facilities, net of the transaction costs of borrowings, outstanding at year end.

$000s	***June 30, 2010***	*June 30, 2009*
Medium-term revolvers [See Note 15 (a)]	797,500	797,500
Medium-term debt [See Note 15 (b)]	543,442	846,500
Transaction costs of borrowings	(19,594)	(8,485)
	1,321,348	1,635,515

15 MEDIUM-TERM DEBT (continued)

15 (a) MEDIUM-TERM REVOLVERS

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

		June 30, 2010			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	March 2013	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 rates of commitment fees when undrawn.

15 (b) MEDIUM-TERM DEBT

		June 30, 2010			June 30, 2009		
$000s	**Maturity**	**Size**	**Average outstanding**	**Current outstanding**	*Size*	*Average outstanding*	*Current outstanding*
5-year Eurodollar facility	June 2009	42,000	-	-	42,000	26,219	-
5-year Eurodollar facility	December 2009	142,000	52,636	-	142,000	142,000	142,000
5-year Eurodollar facility	December 2009	350,000	160,137	-	350,000	350,000	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	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	19,000	19,000
3-year Multi-currency facility	March 2013	192,953	49,126	192,953	-	-	-
5-year Eurodollar facility	April 2013	135,500	135,500	135,500	135,500	135,500	135,500
Total		1,081,453	616,399	547,453	888,500	872,719	846,500
Foreign exchange translation adjustments				(4,011)			-
Total				543,442			846,500

These facilities carry LIBOR-based floating rates of interest.

15 (c) FORWARD START FACILITY

During the current year, the Group entered into a $575m, 3-year multi-currency refinancing facility. The facility is split into various tranches available at various dates with the first draw down made in March 2010 and last to be made in December 2011.

$000s	**Forward Start date**	**Maturity**	**Category**	**Size**
Forward start 3-year Multi-currency facility maturing in March 2013				
Tranche B1	July 2010	March 2013	Funded	61,250
Tranche B2	July 2010	March 2013	Revolver	46,250
Tranche C	September 2010	March 2013	Funded	27,500
Tranche D	December 2011	March 2013	Revolver	246,500
Total				381,500

16. LONG-TERM DEBT

		June 30, 2010		June 30, 2009	
$000s	*Final Maturity*	*Average outstanding*	*Current outstanding*	*Average outstanding*	*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	1,438	-	12,683	2,624
$40 Million Private Placement	December 2010	30,000	30,000	37,813	30,000
$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	March 2013	41,877	35,000	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	46,684	35,750	61,073	53,625
$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
		568,577	549,328	735,356	584,827
Foreign exchange translation adjustments			85,657		53,187
Fair value adjustments			(39,904)		(55,774)
Transaction costs of borrowings			(3,471)		(3,870)
Total			591,610		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.

17. SHARE CAPITAL AND RESERVES

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

	June 30, 2010			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	515,132	1,000	515,132	500,000	1,000	500,000
			715,132			700,000

A distribution schedule of each class of shares, setting out the number of shares and beneficial shareholders and percentage of total outstanding shares in the following categories is set out below:

Ordinary shares	*June 30, 2010*			*June 30, 2009*		
	No. of shares	*No. of shareholders*	*% of total outstanding shares*	*No. of shares*	*No. of shareholders*	*% of total outstanding shares*
Less than 1%	281,407	368	35%	278,299	371	35%
1% up to less than 5%	28,651	2	4%	104,317	11	13%
5% up to less than 10%	111,501	3	14%	87,497	2	11%
10% up to less than 20%	83,058	1	10%	83,058	1	10%
More than 20%*	171,660	1	22%	162,731	1	20%
Treasury shares	123,723	1	15%	84,098	1	11%
	800,000	376	100%	800,000	387	100%

* Represents 21.5% (June 30, 2009: 20%) shares held by the custodian of the GDR Depositary.

Preference shares	*June 30, 2010*			*June 30, 2009*		
	No. of shares	*No. of shareholders*	*% of total outstanding shares*	*No. of shares*	*No. of shareholders*	*% of total outstanding shares*
Less than 1%	78,107	94	15%	43,520	36	9%
1% up to less than 5%	66,200	5	13%	61,480	7	12%
5% up to less than 10%	-	-	0%	25,000	1	5%
10% up to less than 20%	370,000	4	72%	70,000	1	14%
More than 20%	-	-	0%	300,000	3	60%
Treasury shares	825	1	0%	-	-	0%
	515,132	104	100%	500,000	48	100%

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.

17. SHARE CAPITAL AND RESERVES (continued)

Preference shares

During the year, the Group obtained shareholder and regulatory 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, 515,132 preference shares were issued amounting to $515.1 million.

The table below summarizes the preference shares in issuance as of the balance sheet date:

Preference Share Series	*Call Date*	*No. of shares*	*Par Value*
			$000s
Series B1	June 30, 2014	117,270	117,270
Series B2	July 15, 2014	204,010	204,010
Series B3	August 12, 2014	74,975	74,975
Series C	August 12, 2014	100,000	100,000
Series D	December 21, 2014	18,877	18,877
Total		515,132	515,132

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 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.

Of the total preference shares issued, 11,309 preference shares were issued to employees during the year. As per the terms of the issue, the vesting will take place over a period of 24 months commencing from July 1, 2009 and the Group recognizes the related expense over the vesting period. Total vesting for the year is 5,680 shares and accordingly the Group has recognized related expense of $4.9 million in the current year.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes net gains resulting from the sale of treasury shares held by the Bank. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB.

Statutory reserve

The Bahrain Commercial Companies Law, requires the maintenance of a statutory reserve equal to 50% of the Bank's issued and paid up ordinary share capital of $200 million, which amounts to $100 million. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law.

17. SHARE CAPITAL AND RESERVES (continued)

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a resolution of shareholders at a general meeting and approval of the CBB.

Treasury shares

Ordinary shares held as treasury include 123,723 shares (June 30 2009:15,298 shares) that are held by SIPCO Limited which are funded by the Group.

During the year the Group arranged $40 million third party financing transaction for SIPCO Limited that is secured by a portion of the Bank's shares owned by SIPCO Limited. The financing is non-recourse to the Group. Proceeds from the financing were used to repay loans due to the Group in respect of Group funded shares. This reduced the amount of the treasury shares deducted from gross equity and increased net equity by an equivalent amount.

Unrealized fair value changes and reserves

This consists of (i) unrealized fair value of FVTPL private equity and real estate co-investments transferred from retained earnings, (ii) fair value changes for AFS investments recognized directly in equity (iii) fair value changes of cash flow hedges recognized directly in equity and (iv) revaluation reserve of premises and equipment recognized directly in equity.

As of June 30, 2010 the Group had an accumulated deficit, including unrealized fair value changes of private equity and real estate co-investments, of $234.5 million (June 30, 2009: accumulated deficit of $280.1 million).

18. UNREALIZED FAIR VALUE CHANGES AND REVALUATION RESERVES

Movements in fair value changes relating to FVTPL co-investments, AFS co-investments, cash flow hedges and revaluation reserve are set out below:

	Fair value changes and revaluation reserve						
	FVTPL Investments			Available			
$000s	Private equity	Real estate	Sub-Total	for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2008	(41,103)	(1,413)	(42,516)	6,573	(9,097)	-	(45,040)
Net realized loss recycled to statement of income	-	-	-	-	6,563	-	6,563
Net unrealized (losses) gains for the year	(241,810)	(106,276)	(348,086)		5,559	11,240	(331,287)
Transfer of realized losses and depreciation to retained earnings	89,844	3,727	93,571	-	-	(475)	93,096
Balance at June 30, 2009	(193,069)	(103,962)	(297,031)	6,573	3,025	10,765	(276,668)
Net realized loss recycled to statement of income	-	-	-	-	5,838	-	5,838
Net unrealized gains / (losses) for the year	97,036	(101,387)	(4,351)	-	2,816		(1,535)
Transfer of realized losses / (gains) and depreciation to retained earnings	(17,891)	19,354	1,463	-	-	(816)	647
Balance at June 30, 2010	(113,924)	(185,995)	(299,919)	6,573	11,679	9,949	(271,718)

Refer to Note 20 for fair valuation of cash flow hedges.

19. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

Earnings per ordinary share is computed by dividing net income for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The Group's earnings per share for the year and proposed preference shares dividend are as follows:

$000s	*2010*	*2009*
Net income (loss)	102,174	(780,627)
Less : Prposed preference shares dividend	(57,374)	-
Net income (loss) attributable to ordinary shareholders	44,800	(780,627)
Weighted average ordinary shares	699,851	696,987
Basic and fully diluted earnings (loss) per ordinary share - on weighted average shares *($)*	64	(1,120)
Proposed preference shares dividend	57,374	-

The proposed preference share dividend represents pro rata dividend on issued preference shares at the rate of 12% per annum.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding AFS co-investments and cash flow fair value changes, revaluation reserves and proposed dividend, by the number of ordinary shares outstanding at year end, is $594.43 per share (June 30, 2009: $522.95 per share).

20. 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.

20. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30 year ends:

Hedged item	June 30, 2010			June 30, 2009		
$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						
Long - term debts	431,158	16,926	(261)	436,444	6,383	(145)
ii) Cashflow hedges						
Coupon on long-term debt	81,481	3,199	-	78,934	1,336	-
Total forward foreign exchange contracts	512,639	20,125	(261)	515,378	7,719	(145)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	563,855	4,563	-	553,732	13,753	(431)
ii) Cashflow hedges - floating rate debt	-	-	-	250,000	-	(1,405)
Total interest rate hedging contracts	563,855	4,563	-	803,732	13,753	(1,836)
Total – Hedging Derivatives	1,076,494	24,688	(261)	1,319,110	21,472	(1,981)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	15,483	27	(165)	216,788	3,683	(3,854)
Total - Derivatives on behalf of clients	15,483	27	(165)	216,788	3,683	(3,854)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	16,738	(18,752)	384,750	15,877	(17,367)
Interest rate caps	-	-	-	601,000	-	-
Forward foreign exchange contracts	264,971	17,532	(7,322)	695,992	10,502	(10,052)
Currency option	2,251	71	(71)	2,251	33	(33)
Cross Currency swaps	334,800	15,710	-			
Interest rate options	100,000	-	(628)			
Equity options	-	-	-	100,000	4,583	-
Total – Other Derivatives	1,052,022	50,051	(26,773)	1,783,993	30,995	(27,452)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**2,143,999**	**74,766**	**(27,199)**	**3,319,891**	**56,150**	**(33,287)**

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2010:

June 30, 2010 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	431,158	-	-	-	431,158
Interest rate swaps	-	28,875	69,611	465,369	563,855
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	81,481	-	-	-	81,481
Derivates on behalf of clients					
Forward foreign exchange contracts	13,050	2,433	-	-	15,483
Other Derivatives:					
Interest rate swaps	-	-	300,000	50,000	350,000
Forward foreign exchange contracts	100,352	120,523	44,096	-	264,971
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	206,148	128,652	-	334,800
Interest rate options	-	-	100,000	-	100,000
	626,041	357,979	644,610	515,369	2,143,999

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2009:

June 30, 2009 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	226,617	209,827	-	-	436,444
Interest rate swaps	-	5,572	110,195	437,965	553,732
Cross currency swaps					-
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	78,934	-	-	-	78,934
Interest rate swaps	250,000	-	-	-	250,000
Derivates on behalf of clients					
Forward foreign exchange contracts	164,764	865	51,159	-	216,788
Other Derivatives:					
Interest rate swaps	-	-	334,750	50,000	384,750
Interest rate caps	601,000	-	-	-	601,000
Forward foreign exchange contracts	572,077	3,392	120,523	-	695,992
Currency option	-	-	2,251	-	2,251
Equity options	-	100,000	-	-	100,000
	1,893,392	319,656	618,878	487,965	3,319,891

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2010 were $47.7 million (June 30, 2009: $8.4 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $48.3 million (June 30, 2009: $9.7 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2010 $000s	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed Coupon on long-term debt *	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)
	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)

June 30, 2009 $000s	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed Coupon on long-term debt *	(6,744)	(6,744)	(53,953)	(215,811)	(283,252)
Interest rate risk					
Interest on medium term debt	(1,125)	-	-	-	(1,125)
	(7,869)	(6,744)	(53,953)	(215,811)	(284,377)

* Theses forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note.

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2010 was $1.0 million (June 30, 2009: $6.6 million).

21. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2010***	*June 30, 2009*
Investment commitments to closed-end committed funds	200,672	173,782
Other investment commitments	4,203	6,750
Total investment commitments	204,875	180,532
Non-cancelable operating leases	63,712	72,854
Guarantees and letters of credit issued to third parties	146,767	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 $33.7 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 or her 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 CBB 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 year, this financing was settled and exposure was taken on the Group's balance sheet.

The Group is engaged in litigations in various jurisdictions. The litigations involves 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.

22. 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 measurement of risk weighted exposures, the Group has chosen:

- standardized approach for credit risk of all exposures [see Note 23 (i)].
- the VaR model for market risk [see Note 23 (iv)].
- basic indicator approach for operational risk [see Note 23 (v)].

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

$000s		June 30, 2010		June 30, 2009
Gross Tier 1 capital		994,338		894,746
Less: regulatory deductions		(39,382)		(20,363)
Tier 1 capital - net		954,956		874,383
Tier 2 capital -net		-		10,827
Regulatory capital base under Basel II (a)		954,956		885,210

Risk weighted exposure *$000s*	**Principal / Notional amounts** *June 30, 2010*	**Risk weighted equivalents** *June 30, 2010*	Principal / Notional amounts *June 30, 2009*	Risk weighted equivalents *June 30, 2009*
Credit risk				
Claims on sovereigns	67	-	125,077	-
Claims on non-central government public sector entities	15,675	-	277,742	-
Claims on banks	610,147	122,929	734,306	146,861
Claims on corporates	800,874	564,885	408,531	408,531
Co-investments (including hedge funds)	1,806,816	2,669,708	1,801,079	2,781,038
Other assets	73,715	73,715	184,059	183,967
Off-balance sheet items				
Commitments and contingent liabilities	421,229	255,674	451,196	268,736
Derivative financial instruments	2,143,999	29,734	3,319,891	19,005
Credit risk weighted exposure		3,716,645		3,808,138
Market risk				
Market risk weighted exposure		7,148		7,900
Operational risk				
Operational risk weighted exposure		454,169		600,847
Total risk weighted exposure *(b)*		4,177,962		4,416,885
Risk asset ratio *(a)/(b)*		**22.9%**		**20.0%**
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		**12.0%**

23. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), the Group's primary risk management decision-making body, comprising members of senior management drawn from all key areas of the Group, guides and assists with overall management of the Group's risk profile on an enterprise wide basis.

The Group's primary risk management objective is to support its business objectives with sufficient risk capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 22). The economic capital requirement for each reporting segment is determined using a dynamic VaR approach. For this purpose dynamic VaR is calculated by using a five-year planning horizon, 99% one tailed confidence level and by recognizing diversification benefits across asset classes. In addition to the dynamic VaR approach, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

(i) Credit risk

The Group is exposed to credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 20). With respect to the credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate credit risks through documented netting arrangements with counterparties where possible.

The table below shows the relationship between internal rating and the category of the external rating grades:

Internal Rating	**External Rating by S & P and Moody's**
High	AAA to A
Standard	A- to B-

23. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

Short term funds, placements and derivatives are only with those counterparties that meet the minimum standard external rating and hence carry a minimal credit risk. The table below analyses the Group's maximum credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2010 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	21,242	-	-	-	-	21,242	38,207
Placements with financial institutions and other liquid assets	881,469	-	-	-	-	881,469	960,505
Positive fair value of derivatives	-	74,766	-	-	-	74,766	37,777
Receivables and prepayments	-	164,788	118,552	38,410	(38,295)	283,455	261,674
Loans and advances	-	230,224	-	69,976	(52,607)	247,593	155,669
Co-investments - debt	-	82,445	-	-	-	82,445	63,288
Guarantees	-	152,643	-	-	-	152,643	175,227
Total	902,711	704,866	118,552	108,386	(90,902)	1,743,613	

June 30, 2009 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	415,996	-	-	-	-	415,996	164,711
Placements with financial institutions and other liquid assets	713,217	-	-	-	-	713,217	332,529
Positive fair value of derivatives	-	56,150	-	-	-	56,150	21,711
Receivables	-	196,283	111,116	32,749	(31,907)	308,241	271,228
Loans and advances	-	197,745	-	73,684	(47,326)	224,103	113,664
Co-investments - debt	-	44,130	-	-	-	44,130	31,350
Guarantees	-	197,810	-	-	-	197,810	202,325
Total	1,129,213	692,118	111,116	106,433	(79,233)	1,959,647	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2009: nil).

23. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

The aging analysis of the past due but not impaired is given in the table below.

$000s	***June 30, 2010***	*June 30, 2009*
Upto 1 month	26,564	4,808
> 1 upto 3 months	11,996	2,611
> 3 upto 6 months	2,010	553
> 6 months upto 1 year	443	3,783
Over 1 year	77,539	99,361
Total	**118,552**	**111,116**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2010 amounts to $736 million (June 30, 2009: $763 million).

23. RISK MANAGEMENT (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources and maintained long-dated maturities of liabilities. The Group manages assets with liquidity in mind, and monitors liquidity on a daily basis (see Note 6).

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

June 30, 2010 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total Upto 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	21,342	-	21,342	-	-	-	-	21,342
Placement with financial institutions and other liquid assets	878,469	-	878,469	3,000	-	-	-	881,469
Positive fair value of derivatives	11,688	21,882	33,570	13,340	344	20,425	7,087	74,766
Receivables and prepayments	66,852	216,790	283,642	32,333	-	-	-	315,975
Loans and advances	3,404	8,813	12,217	235,349	-	27	-	247,593
Co-investments in hedge funds	288,516	196,642	485,158	52,116	-	-	-	537,274
Private equity co-investments	-	216,685	216,685	836,080	-	-	-	1,052,765
Real estate co-investments	-	30,281	30,281	186,496	-	-	-	216,777
Premises, equipment and other assets	138	-	138	15,472	42,135	11,250	-	68,995
Total assets	1,270,409	691,093	1,961,502	1,374,186	42,479	31,702	7,087	3,416,956
Liabilities								
Deposits from clients - short term	247,426	-	247,426	-	-	-	-	247,426
Negative fair value of derivatives	562	3,118	3,680	13,977	-	-	9,542	27,199
Payables and accrued expenses	116,336	20,045	136,381	7,961	-	-	-	144,342
Deposits from clients - medium term	-	-	-	90,693	-	-	-	90,693
Medium-term debt	349,954	-	349,954	971,394	-	-	-	1,321,348
Long-term debt	-	45,229	45,229	116,077	-	388,201	42,103	591,610
Total liabilities	714,278	68,392	782,670	1,200,102	-	388,201	51,645	2,422,618
Net gap	556,131	622,701	1,178,832	174,084	42,479	(356,499)	(44,558)	
Cumulative liquidity gap	556,131	1,178,832	1,178,832	1,352,916	1,395,395	1,038,896	994,338	

June 30, 2009 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total Upto 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	416,088	-	416,088	-	-	-	-	416,088
Placement with financial institutions and other liquid assets	713,217	-	713,217	-	-	-	-	713,217
Positive fair value of derivatives	4,436	8,301	12,737	8,797	1,233	868	32,515	56,150
Receivables and prepayments	118,899	47,594	166,493	169,248	-	-	-	335,741
Loans and advances	13,306	23,073	36,379	187,724	-	-	-	224,103
Co-investments in hedge funds	69,685	391,412	461,097	141,513	11,871	-	-	614,481
Private equity co-investments	-	18,424	18,424	860,808	24,159	-	-	903,391
Real estate co-investments	-	38,414	38,414	244,793	-	-	-	283,207
Premises, equipment and other assets	142	-	142	22,304	40,289	11,251	-	73,986
Total assets	1,335,773	527,218	1,862,991	1,635,187	77,552	12,119	32,515	3,620,364
Liabilities								
Deposits from financial institutions	15,000	-	15,000	-	-	-	-	15,000
Deposits from clients - short term	289,873	-	289,873	-	-	-	-	289,873
Negative fair value of derivatives	11,771	170	11,941	13,389	-	-	7,957	33,287
Payables and accrued expenses	39,170	51,191	90,361	-	-	-	-	90,361
Deposits from clients - medium term	-	-	-	83,212	-	-	-	83,212
Medium-term debt	22,000	470,000	492,000	1,143,515	-	-	-	1,635,515
Long-term debt	-	40,392	40,392	161,017	-	-	376,961	578,370
Total liabilities	377,814	561,753	939,567	1,401,133	-	-	384,918	2,725,618
Net gap	957,959	(34,535)	923,424	234,054	77,552	12,119	(352,403)	
Cumulative liquidity gap	957,959	923,424	923,424	1,157,478	1,235,030	1,247,149	894,746	

23. RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal values) determined by using the forward yield curve for the relevant periods. The Group however manages the inherent liquidity risk based on future cash flows discounted to present values.

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months upto 1 year*	*>1 year upto 5 years*	*>5 years upto 10 years*	*>10 years upto 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from clients	247,778	278	91,563	-	-	-	339,619
Payables and accrued expenses	116,337	20,045	7,960	-	-	-	144,342
Medium-term debt	356,658	21,760	1,026,916	-	-	-	1,405,334
Long-term debt	9,734	64,673	202,991	93,347	604,679	60,100	1,035,524
	730,507	106,756	1,329,430	93,347	604,679	60,100	2,924,819
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	618,478	290,838	144,832	-	-	-	1,054,148
Contractual amounts receivable	(637,551)	(322,931)	(150,930)	-	-	-	(1,111,412)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(2,740)	(7,155)	(33,253)	(13,521)	15,175	(86)	(41,580)
Commitments	1,745	46,210	193,893	26,739	-	-	268,587
Guarantees	107,796	-	15,876	28,971	-	-	152,643
Total undiscounted financial liabilities	818,235	113,718	1,499,848	135,536	619,854	60,014	3,247,205

June 30, 2009 *$000s*	*Up to 3 months*	*>3 months upto 1 year*	*>1 year upto 5 years*	*>5 years upto 10 years*	*>10 years upto 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from financial institutions	15,077	-	-	-	-	-	15,077
Deposits from clients	272,475	79,320	22,243	-	-	-	374,038
Payables and accrued expenses	39,170	51,191	-	-	-	-	90,361
Medium-term debt	25,360	481,188	1,172,015	-	-	-	1,678,563
Long-term debt	2,532	65,930	247,631	87,641	175,282	463,005	1,042,021
	354,614	677,629	1,441,889	87,641	175,282	463,005	3,200,060
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	1,026,484	214,177	164,208	-	-	-	1,404,869
Contractual amounts receivable	(1,020,109)	(217,524)	(174,443)	-	-	-	(1,412,076)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(208)	5,537	18,737	9,885	(9,764)	(512)	23,675
Commitments	1,717	44,376	173,450	33,843	-	-	253,386
Guarantees	162,886	19,048	15,876	-	-	-	197,810
Total undiscounted financial liabilities	525,384	743,243	1,639,717	131,369	165,518	462,493	3,667,724

23. RISK MANAGEMENT (continued)

(iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2010			June 30, 2009		
$000s	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	1,182,927	146,767	1,329,694	1,058,119	191,934	1,250,053
Europe	159,138	-	159,138	127,953	-	127,953
Middle East	247,969	5,876	253,845	561,460	5,876	567,336
Other	936	-	936	14,305	-	14,305
Total	1,590,970	152,643	1,743,613	1,761,837	197,810	1,959,647

	June 30, 2010			June 30, 2009		
$000s	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	1,055,788	50,116	1,105,904	1,351,954	83,136	1,435,090
Consumer products	18,125	430	18,555	19,760	-	19,760
Consumer services	32,291	-	32,291	12,083	-	12,083
Distribution	42,425	-	42,425	8,616	-	8,616
Industrial products	81,289	-	81,289	45,916	-	45,916
Real estate	97,084	86,221	183,305	94,136	61,250	155,386
Technology and Telecom	23,873	-	23,873	28,678	19,048	47,726
Others	240,095	15,876	255,971	200,694	34,376	235,070
Total	1,590,970	152,643	1,743,613	1,761,837	197,810	1,959,647

23. RISK MANAGEMENT (continued)

(iv) Market risk

The principal market risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, private equity and real estate, as well as on its debt financings. For purposes of managing market risk, the Group has established appropriate procedures and limits approved by the Board of Directors.

The Group uses an internal model to calculate VaR for measuring unexpected future losses that may arise from adverse market movements. The Group's risk management team conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the CBB (see Note 22). Back testing is carried out for foreign exchange risk by comparing VaR based on a ten day holding period with the daily profit and loss and for equity price risk related to co-investments in hedge funds by comparing VaR based on a one month holding period with the actual performance for the month. The objective is to ensure that the assumptions used for computing VaR are reasonable and result in a VaR number that does not understate economic and regulatory risk capital requirements.

Market risk has been further analyzed and presented below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

23. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated monetary assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established risk limits.

The Group's significant net hedged and unhedged foreign currency positions are set out below.

$000s	June 30, 2010		June 30, 2009	
Long (Short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	-	40,249	-	39,140
Euro	47,265	150	221,919	(1,182)
Pounds Sterling	36,368	245	(22,087)	(768)
Japanese Yen	(399,310)	594	(409,332)	(86)
	(315,677)	41,238	(209,500)	37,104

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk.

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	2010	2009
Average FX VaR	27	27
Year end FX VaR	14	50
Maximum FX VaR	133	114
Minimum FX VaR	2	3

23. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $4.8 million (June 30, 2009: $4.7 million), which earn interest at an effective rate approximating 10% (June 30, 2009: 10%) per annum.
- Deposits from clients amounting to $3.0 million (June 30, 2009: $26.9 million) on which interest is paid at an effective rate of 5.1% (June 30, 2009: 2.0%) per annum reflecting the underlying maturity structure.
- Long term debt amounting to $25 million (June 30, 2009: $50 million) on which interest is paid at an effective rate of 8.1% (June 30, 2009: 8.1%) per annum reflecting the underlying maturity structure.

The following table depicts the sensitivity of the Group's net income to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	*Sensitivity to net income for +200 basis points*	
Currency	*June 30, 2010*	*June 30, 2009*
Euro	(6,836)	(8,702)
Pounds Sterling	(1,271)	(1,317)
Japanese Yen	934	1,737
US Dollar	(14,020)	(21,026)
Others	182	391
Total	(21,011)	(28,917)

a) Figures in parenthesis above represent loss.
b) The impact of a negative 200 basis points change would be opposite and approximate the above values.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end. The Group actively manages its interest rate gap exposure, with a bias towards floating rates.

23. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, private equity and real estate.

Co-investments in private equity and real estate

The Group manages the equity price risk of its co-investments in private equity and real estate on a portfolio basis as well as at the individual investment level.

The sensitivity of the Group's co-investments in private equity and real estate to changes in multiples / discount rates is discussed in Note 24.

Co-investments in hedge funds

The Group manages the market risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

	Based on balance sheet exposure		Based on gross exposure	
$000s	**2010**	2009	**2010**	2009
Average VaR	28,665	59,109	43,714	62,063
Year end VaR	22,653	34,526	40,410	48,817
Maximum VaR	37,516	86,365	49,072	88,519
Minimum VaR	22,653	34,526	40,271	44,660
Maximum hedge funds exposure	671,244	2,069,564	983,756	2,090,421
Minimum hedge funds exposure	524,647	614,481	843,043	868,828

23. RISK MANAGEMENT (continued)

(v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

As part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk
- It uses best in class qualitative standards expected under the Basel II Standardized Approach.
- Financial Controls and Risk Management with involvement from Internal Audit have jointly conducted Control Risk Self Assessment (CRSA) workshops with each line of business head, identifying and highlighting various operational risk aspects.
- An operational risk framework is in place with a dedicated unit within Risk Management.
- The team works with all departments to identify key operational risks and has set up appropriate controls infrastructure.
- Identification of key risk indicators, key risk controls, observations of loss data, definitions and structures related to operational risk at each business level have been completed.
- Where necessary, a mitigation plan is in place to improve the control environment and its ownership allocated to the 'Operational Risk Specialist' of the relevant line of business.

24. 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 except for fixed rate liabilities effectively carried at amortized cost. The fair value of such liabilities amount to $1,878.5 million (June 30, 2009: $1,993.6 million) as compared to carrying value of $1,912.9 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:

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:

June 30, 2010 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	253,000	-	253,000
Positive fair value of derivatives	-	74,766	-	74,766
Co-investments				
Hedge funds	-	537,274	-	537,274
Private equity	914	-	1,003,597	1,004,511
Real estate	-	-	182,586	182,586
Total financial assets	914	865,040	1,186,183	2,052,137
Financial liabilities				
Negative fair value of derivatives	-	27,199	-	27,199
Total financial liabilities	-	27,199	-	27,199

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.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A reconciliation of the opening and closing amounts of financial assets (including those measured using Level 1 input and assets at amortized cost) is given below:

June 30, 2010 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements*	*Movements relating to realizations/ placements**	*Other movements**	*At end*
US and European Buyouts						
Level 3	769,392	153,417	97,690	(112,144)	(21,241)	887,114
Others	-	2,839	-	-	-	2,839
Sub-total	**769,392**	**156,256**	**97,690**	**(112,144)**	**(21,241)**	**889,953**
Technology Small Cap Investments						-
Level 3	45,483	29,003	1,286	(29,641)	(843)	45,288
Others	711	25,909	203	-	-	26,823
Sub-total	**46,194**	**54,912**	**1,489**	**(29,641)**	**(843)**	**72,111**
Gulf Growth Capital						
Level 3	13,696	4,416	-	-	-	18,112
Others	-	-	-	-	-	-
Sub-total	**13,696**	**4,416**	**-**	**-**	**-**	**18,112**
Strategic investments and other						
Level 3	54,603	623	(2,143)	-	-	53,083
Others	19,506	-	-	-	-	19,506
Sub-total	**74,109**	**623**	**(2,143)**	**-**	**-**	**72,589**
Real Estate						
Level 3	239,077	48,986	(101,387)	(4,666)	576	182,586
Others	44,130	16,969	-	(26,908)	-	34,191
Sub-total	**283,207**	**65,955**	**(101,387)**	**(31,574)**	**576**	**216,777**
Total	**1,186,598**	**282,162**	**(4,351)**	**(173,359)**	**(21,508)**	**1,269,542**

June 30, 2009 *$000s*	*At beginning*	*New acquisitions*	*Fair value movements*	*Movements relating to realizations*	*Other movements**	*At end*
US and European Buyouts						
Level 3	921,821	146,256	(243,646)	(62,007)	6,968	769,392
Sub-total	**921,821**	**146,256**	**(243,646)**	**(62,007)**	**6,968**	**769,392**
Technology Small Cap Investments						
Level 3	32,634	11,623	2,699	-	(1,473)	45,483
Others	1,574	-	(863)	-	-	711
Sub-total	**34,208**	**11,623**	**1,836**	**-**	**(1,473)**	**46,194**
Gulf Growth Capital						
Level 3	-	13,696	-	-	-	13,696
Sub-total	**-**	**13,696**	**-**	**-**	**-**	**13,696**
Strategic investments and other						
Level 3	53,607	-	(3,307)	-	4,303	54,603
Others	19,506	-	-	-	-	19,506
Sub-total	**73,113**	**-**	**(3,307)**	**-**	**4,303**	**74,109**
Real Estate						
Level 3	318,639	-	(106,276)	(10,775)	37,489	239,077
Others	18,399	16,225	-	(2,876)	12,382	44,130
Sub-total	**337,038**	**16,225**	**(106,276)**	**(13,651)**	**49,871**	**283,207**
Total	**1,366,180**	**187,800**	**(351,393)**	**(75,658)**	**59,669**	**1,186,598**

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.2 million gain (June 2009: $0.9 million loss) for movements relating to Level 1 assets of Technology Small Cap Investments.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table below summarizes the sensitivity of the Group's co-investments in US and European Buyouts and real estate to changes in multiples / discount rates.

June 30, 2010 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
US and European Buyouts	EBITDA Multiples	+/- 0.5x	889,953	941,696	842,050	51,743	(47,903)
Real Estate	Capitalization Rate	+/- 1%	216,777	247,666	192,620	30,889	(24,157)

June 30, 2009 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
US and European Buyouts	EBITDA Multiples	+/- 0.5x	769,392	864,962	685,067	95,570	(84,325)
Real Estate	Capitalization Rate	+/- 1%	283,207	346,912	180,711	63,705	(102,496)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of TSI, GGC and strategic co-investments.

25. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide a competitive total compensation package for employees versus comparable financial services firms operating in similar geographic locations. This is achieved through a combination of cash salaries, variable bonuses dependant upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $0.4 million (2009: $0.6 million).

25. EMPLOYEE COMPENSATION (continued)

Programs for Investment Profit Participation

The Group's investment professionals in its private equity and real estate investment lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with the investment professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Similarly, the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling period. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for Investment Participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including private equity investments, real estate investments and the Hedge Funds Program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group.

In some instances, the Group, together with third party lenders, also provides financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to or on behalf of employees as of June 30, 2009 is $141.2 million (June 30, 2009: $146.4 million), of which nil (June 30, 2009: $16.4 million) was from third parties. Third party financing was fully repaid during the year and exposure was taken on the Group's balance sheet (see Note 21).

Share Ownership Program

SIPCO sponsors a share incentive plan ("SIP Plan") under which eligible employees receive a portion of their annual performance incentive compensation in the form of a beneficial interest in the ownership of the Bank via shares of SIPCO. These shares have different vesting periods. The restricted shares are awarded at fair value, determined with reference to the market price of the GDRs of the Bank. Accordingly, the Group does not incur any additional costs or expenses in relation to the SIP Plan, since these awards occur at the fair value of the shares. It is important to note that the SIP Plan is therefore a fully paid up employee share ownership program, whereby employees effectively pay fair value for purchasing the shares.

26. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of directors and senior managers in the ordinary and preference shares of the Bank are set out below:

	Number of shares	
	June 30, 2010	*June 30, 2009*
Ordinary shares		
Directors	40,723	44,949
Senior Managers *	127,277	137,396
Total	168,000	182,345
Preference shares		
Directors	16,900	16,900
Senior Managers	11,309	-
Total	28,209	16,900

* These shares are held through SIPCO as stated in Note 1A (iii) and are not available for trading.

Of the directors' shareholding in ordinary shares, 6,721 (June 30, 2009: 8,253) are held directly and the remaining are held through various holding companies within the Group's ownership structure [see Note 1A (iii)], and are as a result subject to substantial transfer and trading restrictions.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings, including those in their capacities as employees, for the year ended June 30, 2010 amounted to $6.1 million (June 30, 2009: $6.3 million). Total dividends for the directors during the year, including preference share dividends, amounted to $1.97 million (June 30, 2009: $nil).

Further, of the staff compensation for the year set out in Note 5, $53.8 million (2009: $46.3 million) is attributable to senior management (excluding directors that are included above). The directors and senior management's remuneration is short-term in nature.

27. 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 HFP 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 these companies 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.

In addition to the compensation and benefits to employees and senior management and directors' remuneration disclosed in Notes 25 and 26, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2010***	*June 30, 2009*
Management fees	Investee companies	23,457	19,724
	Client companies	48,736	41,974
	Client companies associated with the HFP	28,574	42,619
Activity fees	Investee companies	41,376	19,775
Performance fees	Client companies associated with the HFP	18,841	(579)
	Client companies	584	881
Asset based income	Investee companies	2,749	21,367
	Client companies	4,942	7,328
Interest expense	Client companies	(415)	(2,113)
Provisions	Employee investment programs	(4,181)	(16,210)

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

	June 30, 2010			*June 30, 2009*		
$000s	***Assets***	***Liabilities***	***Off-balance sheet***	*Assets*	*Liabilities*	*Off-balance sheet*
<u>Outstanding balances</u>						
Strategic shareholders	13,663	64,329	-	3,052	55,870	-
Investee companies	66,255	-	-	60,382	-	-
Investment holding companies	92,785	4,387	200,672	84,110	199,491	173,782
Client fund companies associated with the HFP	9,405	-	-	18,513	-	-
Directors and senior management	3,838	5,984	-	466	6,136	-
	185,946	74,700	200,672	166,523	261,497	173,782

27. RELATED PARTY TRANSACTIONS (continued)

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $465 million as at June 30, 2010 (June 30, 2009: $459 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the above table to the extent they result from transactions with related parties.

INVESTCORP S.A.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

INVESTCORP S.A.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Investcorp S.A. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 30 June 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A. (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2012, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

16 September 2012
Manama, Kingdom of Bahrain

INVESTCORP S.A.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2012

$000s	*June 30, 2012*	*June 30, 2011*	*Notes*	*Page*
ASSETS				
Cash and short-term funds	146,783	6,477		
Placements with financial institutions and other liquid assets	194,567	341,395		
Positive fair value of derivatives	81,250	45,033	18	43
Receivables and prepayments	270,197	286,580	6	29
Loans and advances	188,602	169,813	7	30
Co-investments				
Hedge funds	414,098	607,398	8	31
Corporate investment	1,221,790	1,121,735	9	32
Real estate investment	154,460	188,838	10	36
Total co-investments	1,790,348	1,917,971		
Premises, equipment and other assets	17,775	20,752		
TOTAL ASSETS	2,689,522	2,788,021		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from clients - short-term	156,909	258,612	12	37
Negative fair value of derivatives	39,160	22,804	18	43
Payables and accrued expenses	202,722	191,407	13	38
Deposits from clients - medium-term	119,241	95,309	12	37
Medium-term debt	567,256	584,912	14	39
Long-term debt	560,491	574,640	15	40
TOTAL LIABILITIES	1,645,779	1,727,684		
EQUITY				
Preference share capital	511,465	511,465	16	41
Ordinary shares at par value	200,000	200,000	16	41
Reserves	233,046	242,880		
Treasury shares	(163,575)	(181,287)		
Retained earnings	189,362	187,976		
Ordinary shareholders' equity excluding proposed appropriations, unrealized fair value changes recognized directly in equity and revaluation reserve	458,833	449,569		
Proposed appropriations	66,096	74,682		
Unrealized fair value changes recognized directly in equity and revaluation reserve	7,349	24,621	17	42
TOTAL EQUITY	1,043,743	1,060,337		
TOTAL LIABILITIES AND EQUITY	2,689,522	2,788,021		

Rishi Kapoor
Director

Jonathan Minor
Director

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2012

CONSOLIDATED STATEMENT OF INCOME

$000s	***2012***	*2011*	*Notes*	*Page*
FEE INCOME				
Management fees	88,103	93,189		
Activity fees	84,172	65,743		
Performance fees	63,750	38,508		
Fee income ***(a)***	236,025	197,440	2	18
ASSET BASED INCOME				
Hedge funds	(50,218)	39,489		
Corporate investment	59,840	121,664		
Real estate investment	17,270	40,555		
Treasury and other asset based income	754	9,427		
Asset based income ***(b)***	27,646	211,135	2	18
Gross operating income (a) + (b)	263,671	408,575	2	18
Provisions for impairment	(1,088)	(2,099)	11	36
Interest expense	(46,691)	(53,480)	2	18
Operating expenses	(148,480)	(212,683)	5	28
NET INCOME	67,412	140,313		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***2012***	*2011*	*Notes*	*Page*
NET INCOME (AS ABOVE)	67,412	140,313		
Other comprehensive income				
Fair value movements - available for sale investments	(1,986)	(1,860)	17	42
Fair value movements - cashflow hedges	(15,286)	8,229	17	42
Revaluation loss on premises and equipment	-	(3,034)	17	42
Other comprehensive (loss) income	(17,272)	3,335		
TOTAL COMPREHENSIVE INCOME	50,140	143,648		

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

			Reserves							Unrealized fair value changes and revaluation reserve recognized directly in equity				
$000s	**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, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**(228,011)**	**57,374**	**6,573**	**11,679**	**3,471**	**21,723**	**994,338**
Total comprehensive income	-	-	-	-	-	-	-	140,313	-	(1,860)	8,229	(3,034)	3,335	143,648
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	437	-	-	-	(437)	(437)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(23,062)	-	-	-	-	-	-	(23,062)
Loss on sale of treasury shares	-	-	(3,444)	-	-	(3,444)	3,444	-	-	-	-	-	-	-
Preference share dividends paid	-	-	-	-	-	-	-	-	(57,374)	-	-	-	-	(57,374)
Proposed appropriations / transfers:														
Preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Ordinary share dividend	-	-	-	-	-	-	-	(9,306)	9,306	-	-	-	-	-
Transfer of general reserve to retained earnings	-	-	-	-	(50,000)	(50,000)	-	50,000	-	-	-	-	-	-
Transfer of fair value losses to share premium	-	-	(299,919)	-	-	(299,919)	-	299,919	-	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	-	(4,000)	4,000	-	-	-	-	-
Vesting of preference shares during the year - net	2,787	-	-	-	-	-	-	-	-	-	-	-	-	2,787
Balance at June 30, 2011	**511,465**	**200,000**	**142,880**	**100,000**	**-**	**242,880**	**(181,287)**	**187,976**	**74,682**	**4,713**	**19,908**	**-**	**24,621**	**1,060,337**
Total comprehensive income / (loss)	-	-	-	-	-	-	-	67,412	-	(1,986)	(15,286)	-	(17,272)	50,140
Treasury shares sold / vested during the period - net	-	-	-	-	-	-	7,878	-	-	-	-	-	-	7,878
Loss on sale and vesting of treasury shares	-	-	(9,834)	-	-	(9,834)	9,834	-	-	-	-	-	-	-
Approved appropriations for fiscal 2011 paid:														
Preference share dividend	-	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	-	(9,306)	-	-	-	-	(9,306)
Charitable contributions by shareholders	-	-	-	-	-	-	-	-	(4,000)	-	-	-	-	(4,000)
Preference share dividend forfeited	-	-	-	-	-	-	-	70	-	-	-	-	-	70
Proposed preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	-	(4,720)	4,720	-	-	-	-	-
Balance at June 30, 2012	**511,465**	**200,000**	**133,046**	**100,000**	**-**	**233,046**	**(163,575)**	**189,362**	**66,096**	**2,727**	**4,622**	**-**	**7,349**	**1,043,743**

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

$000s	*2012*	*2011*	*Notes*	*Page*
OPERATING ACTIVITIES				
Net income	67,412	140,313		
Adjustments for non-cash items in net income				
Depreciation	3,768	4,313	5	28
Provisions for impairment	1,088	2,099	11	36
Amortization of transaction costs of borrowings	7,437	7,760		
Vesting of share awards - net of forfeitures	3,265	2,787		
Net income adjusted for non-cash items	82,970	157,272		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	10,000	50,000		
Receivables and prepayments	15,699	19,240	6	29
Loans and advances	(19,193)	69,372	7	30
Deposits from clients - short-term	(101,703)	62,580	12	37
Payables and accrued expenses	11,315	75,563	13	38
Co-investments				
Hedge funds	193,300	(70,124)	8	31
Corporate investment	(102,041)	(70,830)	9	32
Real estate investment	34,378	27,939	10	36
Fair value of derivatives	2,140	86,526		
Other assets	(55)	(28)		
NET CASH FROM OPERATING ACTIVITIES	126,810	407,510		
FINANCING ACTIVITIES				
Deposits from financial institutions	-	-		
Deposits from clients - medium-term	23,932	4,616	12	37
Medium-term revolvers drawn	50,346	-		
Medium-term revolvers repaid on maturity	(50,000)	(150,000)	14	39
Medium-term revolvers repaid and available for drawdown	-	(490,000)	14	39
Medium-term debt issued (net of transaction costs)	-	88,750	14	39
Medium-term debt repaid	(19,000)	(200,000)	14	39
Long-term debt repaid	(57,875)	(62,875)	15	40
Treasury shares sold (purchased) - net	4,613	(23,062)		
Dividends and charitable contributions paid	(74,612)	(57,374)		
NET CASH USED IN FINANCING ACTIVITIES	(122,596)	(889,945)		
INVESTING ACTIVITY				
Investment in premises and equipment	(736)	(549)		
NET CASH USED IN INVESTING ACTIVITY	(736)	(549)		
Net increase (decrease) in cash and cash equivalents	3,478	(482,984)		
Cash and cash equivalents at beginning of the year	334,872	817,856		
Cash and cash equivalents at end of the year	338,350	334,872		
Cash and cash equivalents comprise:				
Cash and short-term funds	19,114	6,477		
Cash in transit	127,669	-		
Placements with financial institutions and other liquid assets	191,567	328,395		
	338,350	334,872		
Total accessible liquidity comprises:				
Cash and cash equivalents	338,350	334,872		
Placements with financial institutions and other liquid assets (non-cash equivalent)	3,000	13,000		
Undrawn revolvers	297,404	536,250		
Total accessible liquidity*	638,754	884,122		

* In addition to the above, the group has $414.1 million (June 30, 2011: $607.4 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information

$000s	*2012*	*2011*
Interest paid	(53,978)	(58,526)
Interest received	17,180	20,443

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

Investcorp S.A. (the "Company") was originally incorporated as a limited liability company in the Grand Duchy of Luxembourg and qualified as a financial holding company. On May 18, 2010, the Company shifted its domicile to the Cayman Islands as a limited liability company incorporated as an exempted company. The address of the registered office of the Company is at the offices of Paget Brown Company Ltd., Boundary Hall, Cricket Square, P.O. Box 1111, Grand Cayman, KY1-1102, Cayman Islands.

The Company is a holding company owning various subsidiaries (together the "Group" or "Investcorp"). The activities of the Company are substantially transacted through its subsidiaries. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

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 consolidated financial statements for the year ended June 30, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated September 16, 2012.

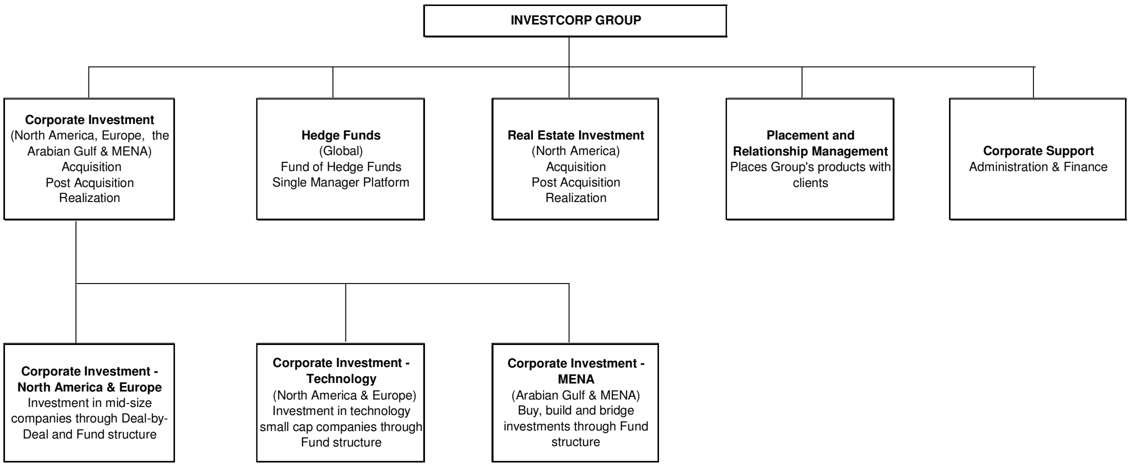
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 corporate investment, hedge funds and real estate investment. Within the corporate investment asset class the Group offers three products namely, (a) Corporate investment–North America & Europe, (b) Corporate investment–Technology and (c) Corporate investment–MENA.

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.

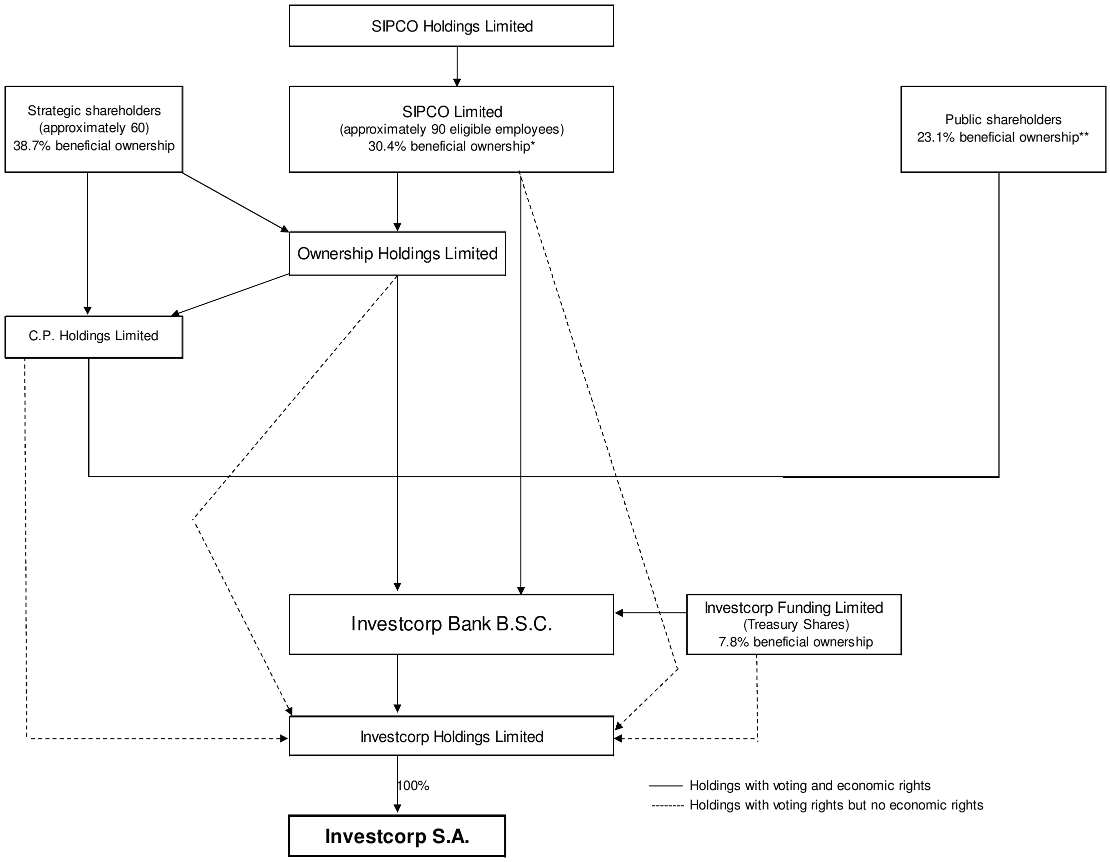


1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership

The Company is wholly owned by Investcorp Holdings Limited ('IHL' or the "Parent Company"), incorporated in the Cayman Islands as a limited liability company. Investcorp Bank B.S.C. (the "Bank"), incorporated in the Kingdom of Bahrain, is the parent company of IHL.



*Includes 13.5% in shares of the Bank that are held for potential future allocation to the Employee Share Ownership Plan and 2% un-vested shares under the Employee Share
** Includes 0.3% beneficial ownership of Bank shares held in the form of unlisted Global Depositary Receipts.

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 own beneficial interests in 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 consolidated financial statements incorporate the financial statements of the Company 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 entities held in a fiduciary capacity.

The Company is the principal asset holding operating entity within the Group and consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of the Bank are held by the Company or subsidiaries that are owned directly or indirectly by the Company.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries is illustrated below:

Parent	Wholly owned significant subsidiaries		Description of principal activities
Investcorp S.A. (Cayman Islands)			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
	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 to non-United States client investment holding companies for corporate and real estate investments.
	Investcorp Investment Advisers Limited (Cayman Islands)		Company that provides investment management and advisory services to investment funds including hedge funds and is an 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 Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity.
	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) arranges M&A transactions in the UK.
	Investcorp International Holdings Inc. (USA)		The Group's holding company in the United States of America
		Investcorp International Inc. (USA)	Employs the group's United States-based employees.
		N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and real estate funds and is an SEC registered broker dealer
		Investcorp Investment Advisers LLC (USA)	Company that provides investment management and advisory services in the United States for investment funds, including hedge funds, and is an SEC registered investment advisor.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and the IFRS Interpretations Committee (the "IFRIC") interpretations that are applicable for the current fiscal year:

- Amendments to IAS 24 - Related Party Disclosures
- Amendments to IAS 32 - Presentation
- Amendments to IFRS 7 - Financial Instruments Disclosures
- Amendments to IFRS 3 - Business Combinations
- Amendments to IAS 1 - Presentation of Financial Statements

The adoption of the above amendments did not have any material impact on the consolidated financial position or performance of the Group.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any material impact on the accounting policies, consolidated financial position or performance of the Group:

- IFRS 3 - Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);
- IFRS 3 - Business Combinations (Un-replaced and voluntarily replaced share-based payment award);
- IAS 27 - Consolidated and Separate Financial Statements;
- IAS 34 - Interim Financial Reporting; and
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments.

New standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective are listed below together with their effective date. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date.

- IAS 1 - amendment – Financial Statement Presentation, 1 July 2012
- IAS 19 - amendment – Employee Benefits, 1 January 2013
- IFRS 9 - Financial Instruments; Classification And Measurement, 1 January 2015
- IFRS 10 - Consolidated Financial Statements, 1 January 2013
- IFRS 11 - Joint Arrangements, 1 January 2013
- IFRS 12 - Disclosure of Interests in Other Entities, 1 January 2013
- IFRS 13 - Fair Value Measurement, 1 January 2013
- IAS 27 - Separate Financial Statements, 1 January 2013
- IAS 28 - Investments in Associates and Joint Ventures Separate Financial Statements,1 January 2013

The management is considering the implications of these standards and amendments, their impact on the Group's consolidated financial position and results and the timing of their adoption by the Group.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") co-investments in corporate investment and real estate investment (see notes 9 and 10), the determination of performance fee on assets under management and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of financial assets, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

iv) Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these investments to maturity.

Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS").

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Other liquid assets

Other liquid assets, which form part of "placements with financial institutions and other liquid assets", are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL assets. The management has designated such assets as FVTPL assets.

v) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. The financial statements of the Company's subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

vi) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

vii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

viii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

ix) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income. The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Co- investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Certain debt investments made in connection with the Group's co-investments in corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

xi) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xii) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xiii) Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Impairment and un-collectability of financial assets (continued)

In the case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

xiv) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Group carries certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Leasehold and building improvements	10 - 15 years
Operating assets	3 - 23 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate, at least at each financial year end.

xv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 22).

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xv) *Payables, accruals and provisions (continued)*

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xvi) Unfunded deal acquisitions

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.

xvii) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, cash in transit, other liquid funds and placements with financial institutions that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

xviii) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xix) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against any previously established reserve from past transactions in treasury shares, and where such reserve is insufficient, then any difference is charged to retained earnings.

xx) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xxi) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis.

xxii) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxii) Derivative financial instruments (continued)

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 18.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

xxiii) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value during the year.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

2. SEGMENT REPORTING

A. ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging investments in, and managing such investments in, alternative investment assets for institutional and high net worth clients through operating centers in the Kingdom of Bahrain, London, New York and Riyadh. 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 corporate investment, hedge funds and real estate investment is classified as asset based income.

2. SEGMENT REPORTING (continued)

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 product asset classes 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) Corporate investment	1) Corporate investment	1) Corporate investment–North America & Europe	- Deal by deal offerings - Closed-end fund(s)
		2) Corporate investment–Technology	- Closed-end fund(s)
		3) Corporate investment–MENA	- Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	- Fund of hedge funds - Single managers - Structured and levered products
3) Real estate investment	3) Real estate investment	5) Real estate investment	- Equity investments - Mezzanine debt investments
4) Corporate support			- Liquidity/working capital /funding

Each of the five lines of business is comprised of 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) Corporate Investment–North America & Europe ("CI-NA & Europe")

The CI–NA & Europe team, based in London and New York, arranges corporate 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) ***Corporate Investment–Technology (“CI-Technology)***

The CI–Technology 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 primarily 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) ***Corporate Investment–MENA (“CI-MENA”)***

The CI–MENA team, based in the Kingdom of 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 wider Middle East and North Africa (MENA) region, including Turkey. 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 Fund.

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 HF business 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 Investment (“RE”)***

The RE team, based in New York, arranges investments in North America-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.

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.

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.

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.

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 corporate investment and real estate 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 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 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.

2. SEGMENT REPORTING (continued)

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2012 and 2011 by reporting segment are as follows:

June 30, 2012 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	146,783	146,783
Placements with financial institutions and other liquid assets	-	-	-	194,567	194,567
Positive fair value of derivatives	-	-	-	81,250	81,250
Receivables and prepayments	-	-	-	270,197	270,197
Loans and advances	-	-	-	188,602	188,602
Co-investments	1,221,790	414,098	154,460	-	1,790,348
Premises, equipment and other assets	-	-	-	17,775	17,775
Total assets	1,221,790	414,098	154,460	899,174	2,689,522
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	61,607	-	95,302	156,909
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	165,987	276	35	36,424	202,722
Deposits from clients - medium term	11,438	12,734	21,982	73,087	119,241
Medium-term debt	218,268	60,080	15,605	273,303	567,256
Long-term debt	229,430	64,287	42,858	223,916	560,491
Total liabilities	625,123	198,984	80,480	741,192	1,645,779
Total equity	596,667	215,114	73,980	157,982	1,043,743
Total liabilities and equity	1,221,790	414,098	154,460	899,174	2,689,522

June 30, 2011 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	6,477	6,477
Placements with financial institutions and other liquid assets	-	-	-	341,395	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables and prepayments	-	-	-	286,580	286,580
Loans and advances	-	-	-	169,813	169,813
Co-investments	1,121,735	607,398	188,838	-	1,917,971
Premises, equipment and other assets	-	-	-	20,752	20,752
Total assets	1,121,735	607,398	188,838	870,050	2,788,021
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	94,211	-	164,401	258,612
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	18,784	5,214	4,613	162,796	191,407
Deposits from clients - medium term	22,567	2,057	4,141	66,544	95,309
Medium-term debt	177,367	248,186	39,231	120,128	584,912
Long-term debt	323,991	39,735	51,840	159,074	574,640
Total liabilities	542,709	389,403	99,825	695,747	1,727,684
Total equity	579,026	217,995	89,013	174,303	1,060,337
Total liabilities and equity	1,121,735	607,398	188,838	870,050	2,788,021

2. SEGMENT REPORTING (continued)

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

The consolidated statements of income for the years ended June 30, 2012 and June 30, 2011 by reporting segments are as follows:

July 2011 - June 2012 $000s	***Corporate investment***	***Hedge funds***	***Real estate investment***	***Corporate support***	***Total***
Fee income					
Management fees	56,581	22,472	9,050	-	88,103
Activity fees	72,133	(491)	12,530	-	84,172
Performance fees	54,854	8,548	348	-	63,750
Gross fee income (a)	183,568	30,529	21,928	-	236,025
Expenses attributable to fee income	(81,173)	(30,460)	(13,651)	-	(125,284)
Net fee income	102,395	69	8,277	-	110,741
Asset based income					
Interest income	5,219	-	8,436	3,820	17,475
Treasury and other asset based income (loss)	54,621	(50,218)	8,834	(3,066)	10,171
Gross asset based income (loss) (b)	59,840	(50,218)	17,270	754	27,646
Provisions for impairment	-	-	-	(1,088)	(1,088)
Interest expense	(18,336)	(14,105)	(5,064)	(9,186)	(46,691)
Expenses attributable to asset based income	(15,897)	(4,485)	(2,261)	(553)	(23,196)
Net asset based income (loss)	25,607	(68,808)	9,945	(10,073)	(43,329)
Net income (loss)	128,002	(68,739)	18,222	(10,073)	67,412
Gross operating income (loss) (a) + (b)	243,408	(19,689)	39,198	754	263,671

July 2010 - June 2011 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	58,245	25,041	9,903	-	93,189
Activity fees	45,211	13,833	6,699	-	65,743
Performance fees	30,388	6,084	2,036	-	38,508
Gross fee income (a)	133,844	44,958	18,638	-	197,440
Expenses attributable to fee income	(100,196)	(46,704)	(12,915)	-	(159,815)
Net fee income (loss)	33,648	(1,746)	5,723	-	37,625
Asset based income					
Interest income	3,376	-	3,651	11,637	18,664
Treasury and other asset based income	118,288	39,489	36,904	(2,210)	192,471
Gross asset based income (b)	121,664	39,489	40,555	9,427	211,135
Provisions for impairment	-	-	-	(2,099)	(2,099)
Interest expense	(17,138)	(13,685)	(3,785)	(18,872)	(53,480)
Expenses attributable to asset based income	(31,435)	(8,298)	(9,004)	(4,131)	(52,868)
Net asset based income (loss)	73,091	17,506	27,766	(15,675)	102,688
Net income (loss)	106,739	15,760	33,489	(15,675)	140,313
Gross operating income (a) + (b)	255,508	84,447	59,193	9,427	408,575

2. SEGMENT REPORTING (continued)

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

Gross operating income of $243.4 million (2011: $255.5 million) from the corporate investment asset class includes $ 38.1 million and $27 million (2011: $43.4 million and $19.3 million) relating to CI–Technology and CI–MENA respectively. The balance relates to CI–NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2011: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $17.5 million (2011: $18.7 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9 and 20 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2012 $000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	-	146,783	-	-	146,783
Placements with financial institutions and other liquid assets	3,000	191,567	-	-	194,567
Positive fair value of derivatives	-	-	-	81,250	81,250
Receivables	-	231,710	-	-	231,710
Loans and advances	-	188,602	-	-	188,602
Co-investments					
Hedge funds	414,098	-	-	-	414,098
Corporate investment	1,149,345	56,851	15,594	-	1,221,790
Real estate investment					
Debt	-	43,444	-	-	43,444
Equity	111,016	-	-	-	111,016
Total financial assets	1,677,459	858,957	15,594	81,250	2,633,260
Non-financial assets					
Prepayments					38,487
Premises, equipment and other assets					17,775
Total assets					2,689,522
Financial liabilities					
Deposits from clients*	-	276,150	-	-	276,150
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	-	196,305	-	-	196,305
Medium term debt	-	567,256	-	-	567,256
Long term debt*	-	560,491	-	-	560,491
Total financial liabilities	-	1,600,202	-	39,160	1,639,362
Non-financial liabilities					
Deferred income					6,417
Total liabilities					1,645,779

* Adjusted for related fair value hedges.

June 30, 2011 $000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	-	6,477	-	-	6,477
Placements with financial institutions and other liquid assets	128,000	213,395	-	-	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables	-	256,899	-	-	256,899
Loans and advances	-	169,813	-	-	169,813
Co-investments					
Hedge funds	607,398	-	-	-	607,398
Corporate investment	1,067,748	37,503	16,484	-	1,121,735
Real estate investment					
Debt	-	35,446	-	-	35,446
Equity	153,392	-	-	-	153,392
Total financial assets	1,956,538	719,533	16,484	45,033	2,737,588
Non-financial assets					
Prepayments					29,681
Premises, equipment and other assets					20,752
Total assets					2,788,021
Financial liabilities					
Deposits from clients*	-	353,921	-	-	353,921
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	-	186,410	-	-	186,410
Medium term debt	-	584,912	-	-	584,912
Long term debt*	-	574,640	-	-	574,640
Total financial liabilities	-	1,699,883	-	22,804	1,722,687
Non-financial liabilities					
Deferred income					4,997
Total liabilities					1,727,684

* Adjusted for related fair value hedges.

4. 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:

	June 30, 2012				June 30, 2011			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate Investment ("CI")								
Closed-end Committed Funds								
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
Closed-end Invested Funds								
CI - Technology	213	31	10	254	214	36	10	260
Deal-by-deal investments								
CI - NA & Europe	2,112	876	319	3,307	1,988	831	323	3,142
Strategic and other investments	-	88	-	88	-	73	-	73
Total corporate investment	**4,078**	**1,332**	**414**	**5,824**	**3,955**	**1,277**	**418**	**5,650**
Hedge Funds*								
Fund of hedge funds	2,090	86	1	2,177	2,648	138	4	2,790
Single managers	1,351	254	4	1,609	870	263	-	1,133
Structured products	107	371	4	482	211	609	6	826
Total hedge funds	**3,548**	**711**	**9**	**4,268**	**3,729**	**1,010**	**10**	**4,749**
Real Estate Investment								
Closed-end Committed Funds	75	25	-	100	150	27	-	177
Closed-end Invested Funds	98	15	2	115	56	1	2	59
Deal-by-deal investments	844	124	28	996	756	166	29	951
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate investment	**1,017**	**172**	**30**	**1,219**	**962**	**202**	**31**	**1,195**
Corporate Support								
Client call accounts held in trust	179	-	-	179	241	-	-	241
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**
Summary by category:								
Closed-end Committed Funds	1,828	362	85	2,275	1,903	364	85	2,352
Closed-end Invested Funds	311	46	12	369	270	37	12	319
Hedge Funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Deal-by-deal investments	3,135	1,096	347	4,578	2,985	1,078	352	4,415
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**
Summary by segments:								
Corporate investment								
CI - NA & Europe	2,588	1,082	383	4,053	2,464	1,037	387	3,888
CI - Technology	637	92	25	754	638	97	25	760
CI - MENA	853	70	6	929	853	70	6	929
Strategic and other investments	-	88	-	88	-	73	-	73
Hedge Funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Real Estate Investment	1,017	172	30	1,219	962	202	31	1,195
Corporate Support	179	-	-	179	241	-	-	241
Total	**8,822**	**2,215**	**453**	**11,490**	**8,887**	**2,489**	**459**	**11,835**

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

4. ASSETS UNDER MANAGEMENT (continued)

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for corporate investment and real estate investment are stated at fair values while the other categories are stated at 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, or placed on deposit with Investcorp. 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.

5. OPERATING EXPENSES

$000s	***2012***	*2011*
Staff compensation	67,545	130,209
Other personnel costs	14,629	17,266
Professional fees	23,383	22,999
Travel and business development	9,095	9,691
Administration and research	14,460	13,476
Technology and communication	2,984	3,017
Premises	10,509	10,675
Depreciation	3,768	4,313
Other	2,107	1,037
Total	148,480	212,683

6. RECEIVABLES AND PREPAYMENTS

$000s	*June 30, 2012*	*June 30, 2011*
Subscriptions receivable	44,363	106,884
Receivables from investee and holding companies	152,906	102,417
Investment disposal proceeds receivable	6,910	58,977
Hedge funds related receivables	29,491	10,599
Accrued interest receivable	4,912	4,617
Prepaid expenses	38,487	29,681
Other receivables	114	16,836
	277,183	330,011
Provisions for impairment (see Note 11 & 20(i))	(6,986)	(43,431)
Total	270,197	286,580

Receivables arise largely from subscriptions by clients to the Group's investment products, fees earned in respect of the Group's investment management, investment performance and other transactional services, 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 and other receivables, which are due from investee companies and performance fee accrued on client assets under management.

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 from HFP funds for management and administrative services and performance fees.

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.

7. LOANS AND ADVANCES

$000s	June 30, 2012	June 30, 2011
Advances to Gulf Opportunity Fund and Technology Funds	11,939	-
Advances to investment holding companies	79,584	114,181
Advances to Employee Investment Programs	94,667	97,617
Other advances	14,264	7,585
	200,454	219,383
Provisions for impairment (see Note 11 & 20(i))	(11,852)	(49,570)
Total	188,602	169,813

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 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. In both cases the advances, in management's opinion, 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 a margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

8. 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. The underlying hedge fund managers invest in a variety of financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in several emerging hedge fund managers on its single manager platform. An emerging manager is typically a manager 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	*June 30, 2012*	*June 30, 2011*
Direct fund investments	116,052	400,734
Structured and leveraged products	298,046	206,664
Total balance sheet co-investments	414,098	607,398

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 into 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.

Out of the total co-investment in hedge funds, $29 million (June 30, 2011: $8.9 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 14).

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2012	June 30, 2011
Corporate Investment - North America & Europe [See Note 9 (a)]	1,027,179	944,845
Corporate Investment - Technology [See Note 9 (b)]	83,073	80,006
Corporate Investment - MENA [See Note 9 (c)]	23,977	23,711
Strategic and other investments [See Note 9 (d)]	87,561	73,173
Total corporate co-investments	1,221,790	1,121,735

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE

The Group's co-investments in CI–NA & Europe are classified as FVTPL investments.

The fair value of unquoted CI–NA and Europe co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve 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, in which event 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 that 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 recent measure of specific fair value for an individual investment is not available, the fair value is determined by 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 referred to above.

9. CORPORATE CO-INVESTMENTS (continued)

9 (a) CORPORATE INVESTMENT–NORTH AMERICA & EUROPE (continued)

The carrying values of the Group's co-investments in CI–NA & Europe are:

$000s VINTAGE *	June 30, 2012	June 30, 2011
Vintage 1997 (1997 - 2000)	165,601	182,040
Vintage 2001 (2001 - 2004)	10,686	43,901
Vintage 2005 (2005 - 2008)	514,461	508,105
Vintage 2009 (2009 - 2012)	336,431	210,799
Total	1,027,179	944,845

* 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:

	June 30, 2012			June 30, 2011		
$000s	North America	Europe	Total	North America	Europe	Total
Consumer Products	12,656	-	12,656	47,743	-	47,743
Industrial Products	-	344,005	344,005	-	381,465	381,465
Technology and Telecom	165,786	-	165,786	182,225	-	182,225
Industrial Services	238,338	62,231	300,569	138,593	44,638	183,231
Distribution	164,769	39,394	204,163	126,801	23,380	150,181
Total	581,549	445,630	1,027,179	495,362	449,483	944,845

9. CORPORATE CO-INVESTMENTS (continued)

9 (b) CORPORATE INVESTMENT–TECHNOLOGY

Similar to CI–NA & Europe, the Group's co-investments in CI–Technology are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–Technology is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers and 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. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for CI–NA & Europe co-investments as described in Note 9 (a).

The carrying values of Group's co-investments in CI–Technology deals at June 30, 2012 and June 30, 2011 are:

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2012 Total*
Technology Fund I						
North America	762	1,574	-	1,956	172	4,464
Sub-Total	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
Sub-Total	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
Sub-Total	-	27,489	3,424	21,209	-	52,122
Total	4,006	29,162	25,229	24,504	172	83,073

$000s	*Communication Infrastructure*	*Wireless Data*	*Digital Content*	*Enterprise Software*	*Other*	*June 30, 2011 Total*
Technology Fund I						
North America	921	1,015	54	1,475	194	3,659
Sub-Total	921	1,015	54	1,475	194	3,659
Technology Fund II						
North America	5,165	448	5,622	1,632	-	12,867
Europe	-	-	19,315	-	-	19,315
Sub-Total	5,165	448	24,937	1,632	-	32,182
Technology Fund III						
North America	-	16,624	-	4,209	-	20,833
Europe	-	-	-	13,145	-	13,145
Sub-Total	-	16,624	-	17,354	-	33,978
Direct Co-Investment						
Europe	-	-	10,187	-	-	10,187
Sub-Total	-	-	10,187	-	-	10,187
Total	6,086	18,087	35,178	20,461	194	80,006

9. CORPORATE CO-INVESTMENTS (continued)

9 (c) CORPORATE INVESTMENT –MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2012 and June 30, 2011:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2012 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	9,445	**9,445**
Kuwait	6,537	-	-	**6,537**
Turkey	-	-	7,995	**7,995**
Total	**6,537**	**-**	**17,440**	**23,977**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2011 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,196	**8,196**
UAE	-	6,975	-	**6,975**
Kuwait	4,720	-	-	**4,720**
Turkey	-	-	3,820	**3,820**
Total	**4,720**	**6,975**	**12,016**	**23,711**

Similar to CI–NA & Europe, and CI–Technology the co-investments in CI–MENA are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–MENA 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 an EBITDA multiples based valuation methodology.

9 (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 $36.3 million (June 30, 2011: $35.9 million) that are classified as FVTPL, of which $25.3 million was valued based on information provided by the investment manager.

10. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate investment 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.

Certain of the debt investments forming part of Core Plus and Debt portfolio, in real estate properties are classfied as held-to-maturity ("HTM") investments amouting to $43.4 million (June 30, 2011 $35.4 million).

The carrying values of the Group's co-investments in real estate invesment portfolios in the United States at June 30, 2012 and at June 30, 2011 are:

$000s

PORTFOLIO TYPE	*June 30, 2012*	*June 30, 2011*
Core Plus	83,438	102,172
Debt	26,927	27,637
Opportunistic	35,878	50,687
Strategic and other	8,217	8,342
Total	154,460	188,838

11. PROVISIONS FOR IMPAIRMENT

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

$000s ***12 months to June 30, 2012***				
Categories	***At beginning***	***Charge***	***Written-off***	***At end***
Receivables (Note 6 & 20(i))	43,431	684	(37,129)	6,986
Loans and advances (Note 7 & 20(i))	49,570	404	(38,122)	11,852
Total	93,001	1,088	(75,251)	18,838
12 months to June 30, 2011	90,902	2,099	-	93,001

12. DEPOSITS FROM CLIENTS

$000s	*June 30, 2012*	*June 30, 2011*
SHORT-TERM:		
Call accounts	152,871	103,506
Short-term deposits	4,038	5,987
Transitory balances	-	149,119
Total deposits from clients - short-term	156,909	258,612
MEDIUM-TERM:		
Medium-term deposits	37,438	18,598
Investment holding companies' deposits	66,605	59,540
Discretionary and other deposits	15,198	17,171
Total deposits from clients - medium-term	119,241	95,309
Total	276,150	353,921

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.

13. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2012***	*June 30, 2011*
Accrued expenses - employee compensation	16,785	74,700
Vendor and other trade payables	19,632	24,630
Unfunded deal acquisitions	153,104	73,009
Investment related payables	3,658	3,658
Deferred income	6,417	4,997
Accrued interest payable	3,126	10,413
Total	202,722	191,407

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.

14. MEDIUM-TERM DEBT

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

			June 30, 2012			June 30, 2011		
$000s	*Maturity*	*Tranche Type*	*Size*	*Average utilization*	*Current outstanding*	*Size*	*Average utilization*	*Current outstanding*
5-year Eurodollar facility	July 2010	*Revolver*	-	-	-	150,000	11,507	-
5-year Eurodollar facility	July 2010	*Funded*	-	-	-	150,000	11,507	-
5-year Eurodollar facility	September 2010	*Funded*	-	-	-	50,000	10,685	-
5-year Eurodollar facility	December 2011	*Revolver*	-	115,164	-	500,000	423,906	50,000
5.5-year Eurodollar facility	December 2011	*Revolver*	-	-	-	40,000	33,096	-
5-year Floating rate medium-term note	June 2012	*Funded*	-	18,429	-	19,000	19,000	19,000
3-year Multi-currency facility	March 2013	*Funded*	281,703	281,703	281,703	281,703	271,028	281,703
3-year Multi-currency facility	March 2013	*Revolver*	292,750	55,737	-	292,750	-	-
5-year Eurodollar facility	April 2013	*Revolver*	107,500	107,500	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	*Funded*	135,500	135,500	135,500	135,500	135,500	135,500
2-year structured facility	February 2014	*Revolver*	55,000	12,598	50,346	-	-	-
Total			872,453	726,631	575,049	1,726,453	1,023,729	593,703
Foreign exchange translation adjustments					(2,747)			3,328
Transaction costs of borrowings					(5,046)			(12,119)
					567,256			584,912

All medium-term facilities carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year Multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

The 2-year structured revolving facility of $55 million (June 30, 2011: Nil) 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 Company and the Bank entered into a $504 million equivalent, multi-currency senior unsecured forward start facility. This facility is split into various tranches available at various dates 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%. The facility is subject to certain customary covenants, including maintaining minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

$000s	Final Maturity	June 30, 2012 Average outstanding	June 30, 2012 Current outstanding	June 30, 2011 Average outstanding	June 30, 2011 Current outstanding
PRIVATE NOTES					
$40 Million Private Placement	December 2010	-	-	13,933	-
$20 Million Private Placement	November 2011	6,776	-	20,000	20,000
$20 Million Private Placement	April 2012	19,945	-	20,000	20,000
$71.5 Million Private Placement	May 2012	17,826	-	33,595	17,875
$75 Million Bi-lateral Placement	March 2013	20,000	20,000	21,151	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
		473,125	428,578	517,257	486,453
Foreign exchange translation adjustments			133,604		128,501
Fair value adjustments			1,131		(37,128)
Transaction costs of borrowings			(2,822)		(3,186)
Total			560,491		574,640

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.

16. SHARE CAPITAL AND RESERVES

Ordinary Share Capital

The Company's subscribed ordinary share capital comprises 200,000 (June 30, 2011: 200,000) ordinary shares of $1,000 (June 30, 2011: $1,000) each.

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 Company'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 ordinary shareholders. The preference shares take priority over the Company's ordinary shares for payment of dividends and distribution of assets in the event of a liquidation or dissolution.

3,667 preference shares allocated to employees have been forfeited during the year ended June 30, 2011 and are carried as treasury shares by the Group, resulting in 511,465 (June 30, 2011: 511,465) net issued preference shares reported as part of equity.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. During the fiscal year 2011, the Company netted the fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

General reserve

The general reserve, established in accordance with the articles of association of the Company, is only distributable following a recommendation by the ordinary shareholders. During the fiscal year 2011, the Company transferred $50 million of the general reserve to retained earnings. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

16. SHARE CAPITAL AND RESERVES (continued)

Treasury shares

These represent the Bank's ordinary shares purchased by the Group and also those purchased by SIPCO Limited, which are funded by the Group. These shares are treated as treasury shares in the financial statements and are deducted from the Equity of the Group

Of the 800,000 issued ordinary shares of the Bank,186,698 (June 30 2011: 203,607) ordinary shares were held as treasury shares as at June 30, 2012. Treasury shares include the equivalent of 16,000 shares (June 30 2011: 20,000) allocated to the employees for which the income statement charge will be taken in the future, based on management's best estimate of future vesting. These relate to 24,000 shares which were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Bank has taken an income statement charge of $1.8 million (2011: $1.0 million) in the current year based on management's best estimate of the number of shares that are likely to vest.

17. UNREALIZED FAIR VALUE CHANGES RECOGNIZED DIRECTLY IN EQUITY AND REVALUATION RESERVE

This consists of unrealized fair value changes of AFS investments, cash flow hedges and revaluation reserve of premises and equipment recognized directly in equity.

Movements in fair value changes relating to AFS investments, cash flow hedges and revaluation reserve are set out below:

$000s	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2010	6,573	11,679	3,471	21,723
Net realized loss recycled to statement of income	-	1,279	-	1,279
Net unrealized (losses)/gains for the year	(1,860)	6,950	-	5,090
Revaluation loss on premises and equipment	-	-	(3,034)	(3,034)
Transfer of depreciation to retained earnings	-	-	(437)	(437)
Balance at June 30, 2011	4,713	19,908	-	24,621
Net realized gain recycled to statement of income	-	(792)	-	(792)
Net unrealized losses for the year	(1,986)	(14,494)	-	(16,480)
Transfer of depreciation to retained earnings	-	-		
Balance at June 30, 2012	2,727	4,622	-	7,349

Refer to Note 18 for fair valuation of cash flow hedges.

18. 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 the 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.

18. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2012 and June 30, 2011:

$000s Description	*June 30, 2012* Notional value	Positive fair value*	Negative fair value	*June 30, 2011* 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	455,855	19,603	(85)	440,377	4,081	(48)
ii) Cashflow hedges						
Forecasted transactions	2,578	50	-	-	-	-
Coupon on long-term debt	84,674	3,573	-	92,570	863	-
Total forward foreign exchange contracts	543,107	23,226	(85)	532,947	4,944	(48)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	550,585	37,790	-	563,062	23,440	-
ii) Cashflow hedges - floating rate debt	650,000	-	(16,938)	500,000	-	(1,503)
Total interest rate hedging contracts	1,200,585	37,790	(16,938)	1,063,062	23,440	(1,503)
Total – Hedging Derivatives	1,743,692	61,016	(17,023)	1,596,009	28,384	(1,551)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	27,698	1,650	(1,690)	32,007	1,507	(1,526)
Total - Derivatives on behalf of clients	27,698	1,650	(1,690)	32,007	1,507	(1,526)
C) OTHER DERIVATIVES						
Interest rate swaps	50,000	15,327	(15,328)	350,000	11,645	(12,412)
Forward foreign exchange contracts	374,701	2,988	(4,586)	346,359	2,830	(3,787)
Currency options	2,251	20	(20)	2,251	15	(15)
Cross currency swaps	250,680	249	(513)	265,838	652	(3,513)
Total – Other Derivatives	677,632	18,584	(20,447)	964,448	15,142	(19,727)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,449,022**	**81,250**	**(39,160)**	**2,592,464**	**45,033**	**(22,804)**

** Collateral amounting to $39.3 million (June 30, 2011 : $20.8 million) has been offset against the underlying derivatives positive fair value.*

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2012:

June 30, 2012 *$000s*	*Notional amounts by term to maturity* *Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	198,700	257,155	-	-	455,855
Interest rate swaps	-	-	34,696	515,889	550,585
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	-	84,674	-	-	84,674
Interest rate swaps	400,000	100,000	-	150,000	650,000
Forcasted transactions	2,578	-	-	-	2,578
Derivatives on behalf of clients:					
Forward foreign exchange contracts	3,253	24,445	-	-	27,698
Other Derivatives:					
Interest rate swaps	-	-	-	50,000	50,000
Forward foreign exchange contracts	352,653	22,048	-	-	374,701
Currency options	-	-	2,251	-	2,251
Cross currency swaps	-	-	250,680	-	250,680
	957,184	488,322	287,627	715,889	2,449,022

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2011:

June 30, 2011 *$000s*	*Notional amounts by term to maturity* *Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	436,549	-	3,828	-	440,377
Interest rate swaps	-	17,875	34,678	510,509	563,062
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	92,570	-	-	-	92,570
Interest rate swaps	-	-	500,000	-	500,000
Derivatives on behalf of clients:					
Forward foreign exchange contracts	30,399	1,608	-	-	32,007
Other Derivatives:					
Interest rate swaps	-	300,000	-	50,000	350,000
Forward foreign exchange contracts	305,151	940	40,268	-	346,359
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	92,524	142,370	30,944	265,838
	864,669	412,947	723,395	591,453	2,592,464

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2012 were $ 20.7 million (June 30, 2011: losses of $25.5 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $23.0 million (June 30, 2011: gains of $22.8 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2012 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Forecasted transactions	(50)	-	-	-	(50)
Fixed coupon on long-term debt *	(8,154)	(8,154)	(65,231)	(212,001)	(293,540)
Interest rate risk					
Fixed coupon on long-term debt *	(1,412)	(2,098)	(12,555)	(2,760)	(18,825)
	(9,616)	(10,252)	(77,786)	(214,761)	(312,415)

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)
	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2012 was $1.5 million (June 30, 2011: $0.7 million).

19. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	*June 30, 2012*	*June 30, 2011*
Investment commitments to closed-end funds	146,843	169,911
Other investment commitments	2,860	3,213
Total investment commitments	149,703	173,124
Non-cancelable operating leases	49,591	57,809
Guarantees and letters of credit issued to third parties	63,993	13,993

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.

20. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), which oversees the Group's risk management activities, and sets the Group's risk profile on an enterprise wide basis is comprised of members of senior management drawn from all key areas of the Group.

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital. The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently the aggregated economic capital is stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 18). With respect to the counterparty credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting and margin arrangements with counterparties, where possible, via ISDA and CSA agreements.

Risk Management maintains an overall external rating-based methodology for setting Board approved counterparty limits. For rated counterparties, credit ratings from at least two rating agencies are used for developing counterparty limits. All non-rated counterparties are screened through detailed due diligence and credit analysis prior to the assumption of credit exposures to them by Investcorp. These non-rated counterparties are categorized under the 'Standard' internal rating for financial reporting purposes.

20. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The table below shows the relationship between internal rating* and the category of the external rating grades:

Internal Rating	External Rating by S & P and Moody's
High	AAA to A
Standard	A- to B-

* The internal rating is used to determine provisions and impairments for financial reporting purposes.

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

The table below analyses the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any credit enhancements.

June 30, 2012 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	Standard					
Short-term funds	145,303	1,467	-	-	-	146,770	48,396
Placements with financial institutions and other liquid assets	180,187	14,380	-	-	-	194,567	287,213
Positive fair value of derivatives	54,006	27,244	-	-	-	81,250	70,473
Receivables	-	208,901	22,809	6,986	(6,986)	231,710	210,722
Loans and advances	-	188,602	-	11,852	(11,852)	188,602	122,051
Co-investments - debt	-	100,295	-	-	-	100,295	86,622
Guarantees	-	63,993	-	-	-	63,993	105,354
Total	379,496	604,882	22,809	18,838	(18,838)	1,007,187	

June 30, 2011 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired* (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*	*Average balance*
	Credit risk rating						
	High	Standard					
Short-term funds	6,326	-	-	-	-	6,326	34,226
Placements with financial institutions and other liquid assets	341,395	-	-	-	-	341,395	349,507
Positive fair value of derivatives	45,033	-	-	-	-	45,033	84,352
Receivables	-	157,251	99,582	43,497	(43,431)	256,899	298,086
Loans and advances	-	169,606	-	49,777	(49,570)	169,813	136,223
Co-investments - debt	-	72,949	-	-	-	72,949	76,781
Guarantees	-	146,714	-	-	-	146,714	146,714
Total	392,754	546,520	99,582	93,274	(93,001)	1,039,129	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2011: nil).

20. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The aging analysis of the past due but not impaired financial assets is given in the table below.

$000s	June 30, 2012	June 30, 2011
Up to 1 month	2,261	37,802
> 1 up to 3 months	6,251	34,398
> 3 up to 6 months	2,947	912
> 6 months up to 1 year	51	4,873
Over 1 year	11,299	21,597
Total	**22,809**	**99,582**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2012 amounts to $403 million (June 30, 2011: $1,034 million).

20. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems, and scenario analyses that are incorporated into a contingency funding plan. The framework is consistent with regulatory requirements and is subject to Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

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

June 30, 2012 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	146,783	-	146,783	-	-	-	-	146,783
Placement with financial institutions and other liquid assets	191,567	3,000	194,567	-	-	-	-	194,567
Positive fair value of derivatives	7,455	11,322	18,777	1,352	588	44,970	15,563	81,250
Receivables and prepayments	81,839	31,124	112,963	157,234	-	-	-	270,197
Loans and advances	9,963	40,907	50,870	137,732	-	-	-	188,602
Co-investments								
Hedge funds	277,690	104,009	381,699	32,399	-	-	-	414,098
Corporate investment	197,757	178,868	376,625	845,165	-	-	-	1,221,790
Real estate investment	4,477	25,625	30,102	124,358	-	-	-	154,460
Premises, equipment and other assets	13	-	13	3,246	13,133	1,383	-	17,775
Total assets	917,544	394,855	1,312,399	1,301,486	13,721	46,353	15,563	2,689,522
Liabilities								
Deposits from clients - short term	156,909	-	156,909	-	-	-	-	156,909
Negative fair value of derivatives	3,004	3,850	6,854	514	-	12,529	19,263	39,160
Payables and accrued expenses	169,471	26,856	196,327	6,395	-	-	-	202,722
Deposits from clients - medium term	-	-	-	119,241	-	-	-	119,241
Medium-term debt*	-	12,705	12,705	554,551	-	-	-	567,256
Long-term debt	-	19,404	19,404	26,038	-	466,873	48,176	560,491
Total liabilities	329,384	62,815	392,199	706,739	-	479,402	67,439	1,645,779
Net gap	588,160	332,040	920,200	594,747	13,721	(433,049)	(51,876)	
Cumulative liquidity gap	588,160	920,200	920,200	1,514,947	1,528,668	1,095,619	1,043,743	

* Does not take in to account the $297.4 million undrawn revolvers of which $292.8 million is to be repaid in March 2013 on maturity. Further, the medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

June 30, 2011 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	6,477	-	6,477	-	-	-	-	6,477
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	-	-	-	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	122,468	95,230	217,698	68,882	-	-	-	286,580
Loans and advances	330	9,741	10,071	158,907	-	835	-	169,813
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	-	-	-	607,398
Corporate investment	-	32,743	32,743	1,088,992	-	-	-	1,121,735
Real estate investment	-	42,090	42,090	146,748	-	-	-	188,838
Premises, equipment and other assets	15	-	15	3,846	15,509	1,382	-	20,752
Total assets	838,319	318,330	1,156,649	1,581,092	15,974	28,141	6,165	2,788,021
Liabilities								
Deposits from clients - short term	258,612	-	258,612	-	-	-	-	258,612
Negative fair value of derivatives	2,421	5,933	8,354	5,473	-	955	8,022	22,804
Payables and accrued expenses	162,769	15,965	178,734	12,673	-	-	-	191,407
Deposits from clients - medium term	-	-	-	95,309	-	-	-	95,309
Medium-term debt*	-	68,183	68,183	516,729	-	-	-	584,912
Long-term debt	-	52,828	52,828	46,157	-	434,447	41,208	574,640
Total liabilities	423,802	142,909	566,711	676,341	-	435,402	49,230	1,727,684
Net gap	414,517	175,421	589,938	904,751	15,974	(407,261)	(43,065)	
Cumulative liquidity gap	414,517	589,938	589,938	1,494,689	1,510,663	1,103,402	1,060,337	

20. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective earliest contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

June 30, 2012 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from clients	156,909	657	120,514	-	-	-	278,080
Payables and accrued expenses	169,471	26,856	6,395	-	-	-	202,722
Medium-term debt*	2,276	34,856	596,226	-	-	-	633,358
Long-term debt	10,254	33,016	108,707	101,739	636,798	52,020	942,534
	338,910	95,385	831,842	101,739	636,798	52,020	2,056,694
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	559,637	387,110	256,406	-	-	-	1,203,153
Contractual amounts receivable	(567,521)	(400,372)	(253,475)	-	-	-	(1,221,368)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,921)	(3,509)	(29,773)	(25,400)	(3,813)	(119)	(66,535)
Commitments	1,900	35,642	150,291	11,461	-	-	199,294
Guarantees	63,993	-	-	-	-	-	63,993
Total undiscounted financial liabilities	392,998	114,256	955,291	87,800	632,985	51,901	2,235,231

* The medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

June 30, 2011 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from clients	258,807	190	96,008	-	-	-	355,005
Payables and accrued expenses	162,769	15,965	12,673	-	-	-	191,407
Medium-term debt	4,376	84,962	543,050	-	-	-	632,388
Long-term debt	10,429	72,213	130,426	100,845	646,391	56,060	1,016,364
	436,381	173,330	782,157	100,845	646,391	56,060	2,195,164
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	658,426	166,827	247,470	6,935	43,484	-	1,123,142
Contractual amounts receivable	(663,665)	(163,206)	(239,563)	(2,294)	(37,366)	-	(1,106,094)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,118)	(6,948)	(37,898)	(13,388)	19,993	142	(41,217)
Commitments	1,916	40,373	169,155	19,490	-	-	230,934
Guarantees	32,323	-	85,420	28,971	-	-	146,714
Total undiscounted financial liabilities	462,263	210,376	1,006,741	140,559	672,502	56,202	2,548,643

20. RISK MANAGEMENT (continued)

iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2012			June 30, 2011		
$000s	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	631,153	63,993	695,146	809,797	146,714	956,511
Europe	233,832	-	233,832	58,956	-	58,956
Middle East	78,209	-	78,209	23,662	-	23,662
Total	943,194	63,993	1,007,187	892,415	146,714	1,039,129

	June 30, 2012			June 30, 2011		
$000s	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	505,721	116	505,837	498,950	50,116	549,066
Consumer products	52,749	377	53,126	73,196	377	73,573
Consumer services	68,742	-	68,742	56,450	-	56,450
Distribution	29,517	-	29,517	27,490	-	27,490
Industrial products	106,958	-	106,958	70,226	-	70,226
Real estate	134,079	53,500	187,579	114,399	86,221	200,620
Technology and Telecom	44,207	-	44,207	47,682	-	47,682
Others	1,221	10,000	11,221	4,022	10,000	14,022
Total	943,194	63,993	1,007,187	892,415	146,714	1,039,129

20. RISK MANAGEMENT (continued)

iv) Market price risk

The principal market related risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, corporate investment and real estate investment, as well as on its debt financings. For purposes of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

In addition, for internal risk assessments, the Group uses a variety of internal models to analyze the market price risks that may arise from adverse market movements.

Market price risk has been further detailed below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and Value at Risk ("VaR") risk limits.

The Group's significant net hedged and un-hedged foreign currency positions are set out below.

$000s	*June 30, 2012*		*June 30, 2011*	
Long (Short)	*Net hedged exposure*	*Net unhedged exposure*	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	-	39,774	-	39,667
Euro	367,331	356	412,247	68
Pounds Sterling	58,168	122	16,593	(56)
Japanese Yen	(467,559)	521	(411,276)	213
	(42,060)	40,773	17,564	39,892

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (a) Foreign currency risk (continued)

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	*2012*	*2011*
Average FX VaR	6	13
Year end FX VaR	11	5
Maximum FX VaR	28	91
Minimum FX VaR	1	1

iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with strict exposure limits that are approved by the Board of Directors. The Group does not take interest rate trading positions and all its interest rate risk is typically in the banking book where hedge accounting applies. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $51.1 million (June 30, 2011: $27.2 million), which earn interest at an effective rate approximating 11.6% (June 30, 2011: 10.4%) per annum.
- Deposits from clients amounting to $37.7 million (June 30, 2011: $7.2 million) on which interest is paid at an effective rate of 4.66% (June 30, 2011: 0.9%) per annum reflecting the underlying maturity structure.

Apart from the above, the Group has fixed interest rate on long term debt amounting to $650 million (June 30, 2011: $125 million) at an effective rate of 1.2% (June 30, 2011: 2.9%) per annum. This includes $400 million and $100 million of debt converted to fixed rate using interest rate swaps with short term maturities in July 2012 and March 2013 respectively. The remaining $150 million is part of a tactical move to take advantage of the low interest rate yields in the current environment and to hedge against any volatility in the future cash flows.

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (b) Interest rate risk (continued)

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	*June 30, 2012*	
Euro	(7,691)	1,864
Pounds Sterling	(1,333)	432
Japanese Yen	880	(167)
US Dollar	(8,207)	3,187
Others	155	(3)
Total	(16,196)	5,313

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	*June 30, 2011*	
Euro	(9,673)	6,819
Pounds Sterling	(715)	234
Japanese Yen	1,246	(13)
US Dollar	(1,849)	928
Others	145	(10)
Total	(10,846)	7,958

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end.

The Group has used the standardized approach to calculate the credit spread risk arising from credit derivative instruments such as credit linked notes (CLN) and funded credit default swaps (Funded CDS) where the referenced risk is highly rated sovereigns. The specific risk capital allocation against such exposures amounted to nil (June 30, 2011: $0.3 million and general risk capital allocation amounted to $0.02 million (June 30, 2011: $0.25 million).

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, corporate investment and real estate investment.

Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level, where an independent risk analysis is conducted at the pre-acquisition stage.

The table below summarizes the sensitivity of the Group's Level 3 co-investments in CI–NA & Europe, CI – Technology and real estate investment to changes in multiples / discount rates.

June 30, 2012 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	1,006,019	1,086,918	913,401	80,899	(92,618)
CI - Technology	EBITDA Multiples	+/- 0.5x	76,815	84,537	69,093	7,722	(7,722)
Real Estate Investment	Capitalization Rate	+/- 1%	111,016	149,277	76,103	38,261	(34,913)
June 30, 2011 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	944,845	1,037,589	852,607	92,744	(92,238)
CI - Technology	EBITDA Multiples	+/- 0.5x	80,006	84,249	75,763	4,243	(4,243)
Real Estate Investment	Capitalization Rate	+/- 1%	188,838	223,822	158,782	34,984	(30,056)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of CI–MENA, and in the equity of the Group in respect of AFS strategic co-investments.

Co-investments in hedge funds

The Group manages the market price risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	**2012**	2011
Average VaR	37,154	40,583
Year end VaR	31,060	37,920
Maximum VaR	41,598	43,799
Minimum VaR	31,060	37,920

20. RISK MANAGEMENT (continued)

v) Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events (such as natural disasters, changes in regulation or outsourcing of operations). Investcorp includes in this definition legal risk but excludes reputational and strategic risks.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout Investcorp. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

As a part of the Basel 2 implementation, Investcorp has put an operational risk framework in place. Under this framework Investcorp applies the Basic Indicator Approach ("BIA") to measure operational risk. Under this approach, Investcorp's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient which has been set at 15 per cent in the CBB's Basel 2 capital adequacy framework.

Investcorp's operational risk framework, which is based on BIA for regulatory reporting, is being revised to include, in the first and second phases, a maker/checker process, an updated review of Risk and Control Self-Assessment and a tracker of material losses by Investcorp's lines of business. Subsequent to the implementation of these revisions, monitoring and reporting processes for operational risk exposures will be implemented for upward reporting to senior management and the Board

21. 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.

The fair values of the Group's financial assets and liabilities on the 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 $813.0 million (June 30, 2011: $1,016.3 million) as compared to carrying value of $1,135.6 million (June 30, 2011: $1,159.6 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:

June 30, 2012 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	3,000	-	3,000
Positive fair value of derivatives	-	81,250	-	81,250
Co-investments				
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	6,258	498,348	1,269,697	1,774,303
Financial liabilities				
Negative fair value of derivatives	-	39,160	-	39,160
Total financial liabilities	-	39,160	-	39,160

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

June 30, 2011 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	128,000	-	128,000
Positive fair value of derivatives	-	45,033	-	45,033
Co-investments				
Hedge funds	-	607,398	-	607,398
Corporate investment	3,571	-	1,080,661	1,084,232
Real estate investment	-	-	153,392	153,392
Total financial assets	3,571	780,431	1,234,053	2,018,055
Financial liabilities				
Negative fair value of derivatives	-	22,804	-	22,804
Total financial liabilities	-	22,804	-	22,804

During the years ended June 30, 2012 and June 30, 2011, there were no transfers of instruments between Level 1, 2 and 3 of the fair value measurement hierarchy.

21. 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:

June 30, 2012 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations / placements*	*Other movements***	*At end*
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 - MENA						
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**

June 30, 2011 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations / placements*	*Other movements***	*At end*
CI - NA & Europe						
Level 3	889,953	47,928	97,014	(208,562)	112,012	938,345
Others	-	6,500	-	-	-	6,500
Sub-total	**889,953**	**54,428**	**97,014**	**(208,562)**	**112,012**	**944,845**
CI - Technology						
Level 3	45,288	3,016	13,745	-	4,199	66,248
Others	26,823	-	(765)	(15,722)	3,422	13,758
Sub-total	**72,111**	**3,016**	**12,980**	**(15,722)**	**7,621**	**80,006**
CI - MENA						
Level 3	18,112	3,820	589	-	1,190	23,711
Sub-total	**18,112**	**3,820**	**589**	**-**	**1,190**	**23,711**
Strategic investments and other						
Level 3	53,083	1,000	292	(2,969)	951	52,357
Others	19,506	-	-	-	1,310	20,816
Sub-total	**72,589**	**1,000**	**292**	**(2,969)**	**2,261**	**73,173**
Real Estate Investment						
Level 3	170,586	32,292	(7,287)	(43,134)	935	153,392
Others	46,191	-	-	(15,745)	5,000	35,446
Sub-total	**216,777**	**32,292**	**(7,287)**	**(58,879)**	**5,935**	**188,838**
Total	**1,269,542**	**94,556**	**103,588**	**(286,132)**	**129,019**	**1,310,573**

*** Includes $1.9 million fair value loss in available for sale investments.**
****Other movements include add-on funding and foreign currency translation adjustments**

All the fair value movements noted above relate to financial assets based on Level 3, except for $2.6 million loss (2011: $0.8 million loss) for movements relating to Level 1 assets of CI–Technology.

22. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide employees with a secure compensation platform upon which they are encouraged to pursue outstanding returns and to reward them based on their results in line with the interests of clients and shareholders. This is achieved through a combination of cash salaries, variable bonuses dependent upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, the overall compensation paid to Investcorp's executives is highly correlated with Investcorp's net income.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these benefits, amounts to $1.8 million (2011: $1.0 million).

Programs for Investment Profit Participation

The Group's investment professionals in its corporate investment, real estate investment and placement and relationship management lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with these professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

22. EMPLOYEE COMPENSATION (continued)

Programs for Investment Participation

The Group's professional staff is also offered the opportunity to co-invest alongside clients in the Group's investment products that they manage, including corporate investment, real estate investment and the Hedge Funds lines of business. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group. Employees may also invest in other lines of business as long as they meet the accredited/sophisticated investor criteria imposed by the regulatory authorities in the country in which their office is located.

Historically, the Group, together with third party lenders, provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2012 is $94.7 million (June 30, 2011: $97.6 million).

Share Ownership Program

SIPCO Holdings Limited ("SHL") sponsors various employee share ownership plans under which eligible employees have previously received, and currently receive, a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank and have previously received a beneficial interest in the preference shares of the Bank These beneficial interests have different vesting periods and are not transferable.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these beneficial interests in the shares of the Bank as they are accounted for expected vesting, since these awards occurred at the fair value of the shares. This expense is recorded based upon expected vesting of the shares. These plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the beneficial interest in shares of the Bank.

23. 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 Company, 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.

In addition to the compensation and benefits to employees disclosed in Notes 22, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2012***	*June 30, 2011*
Management fees	Investee companies	19,154	19,126
	Client companies	53,250	56,992
	Client companies associated with the HF	25,603	28,347
Activity fees	Investee companies	45,726	28,691
Performance fees	Client companies associated with the HF	8,548	6,084
	Client companies	55,202	31,134
Asset based income	Investee companies	32,867	20,427
	Client companies	1,835	5,447
Interest expense	Client companies	407	(220)
Provisions for impairment	Employee investment programs	(156)	1,025

23. RELATED PARTY TRANSACTIONS (continued)

Of the staff compensation for the year set out in Note 5, $24.9 million (2011: $58.4 million) is attributable to senior management (including an employee who is also a director). Of the above mentioned remuneration of senior management, $21.6 million (June 30, 2011: $57.4 million) is short term in nature.

In addition to the compensation and benefits to employees disclosed in Note 22, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2012			*June 30, 2011*		
$000s	***Assets***	***Liabilities***	***Off-balance sheet***	*Assets*	*Liabilities*	*Off-balance sheet*
Outstanding balances						
Strategic shareholders	4,806	12,507	-	4,806	12,518	-
Investee companies	99,595	-	-	73,201	-	-
Investment holding companies	153,741	66,610	146,843	88,290	71,480	169,911
Client fund companies associated with the HFP	29,491	-	-	8,162	-	-
Directors and senior management	1,096	630	-	1,061	630	-
	288,729	79,747	146,843	175,520	84,628	169,911

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned with the interest of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $420 million as at June 30, 2012 (June 30, 2011: $422 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the table on the previous page, to the extent they result from transactions with related parties.

INVESTCORP S.A.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

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JUNE 30, 2011

Notes to the Consolidated Financial Statements

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Investcorp S.A. [the "Company"] and its subsidiaries [together the "Group"] which comprise the consolidated balance sheet as at 30 June 2011 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A. (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2011 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

2 August 2011
Manama, Kingdom of Bahrain

INVESTCORP S.A.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2011

$000s	*June 30, 2011*	*June 30, 2010*	*Note*	*Page*
ASSETS				
Cash and short-term funds	6,477	7,740		
Placements with financial institutions and other liquid assets	341,395	873,116		
Positive fair value of derivatives	45,033	74,766	18	46
Receivables and prepayments	286,580	310,956	6	30
Loans and advances	169,813	236,148	7	31
Co-investments				
Hedge funds	607,398	537,274	8	32
Corporate investment	1,121,735	1,052,765	9	33
Real estate investment	188,838	216,777	10	37
Total co-investments	1,917,971	1,806,816		
Premises, equipment and other assets	20,752	27,522		
TOTAL ASSETS	2,788,021	3,337,064		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from clients - short-term	258,612	196,032	12	38
Negative fair value of derivatives	22,804	27,199	18	46
Payables and accrued expenses	191,407	115,844	13	39
Deposits from clients - medium-term	95,309	90,693	12	38
Medium-term debt	584,912	1,321,348	14	40
Long-term debt	574,640	591,610	15	41
TOTAL LIABILITIES	1,727,684	2,342,726		
EQUITY				
Preference share capital	511,465	508,678	16	42
Ordinary shares at par value	200,000	200,000	16	42
Reserves	242,880	596,243		
Treasury shares	(181,287)	(161,669)		
Retained earnings excluding unrealized fair value of corporate and real estate co-investments	145,250	71,908		
Unrealized fair value of corporate and real estate co-investments	42,726	(299,919)		
Ordinary shareholders' equity excluding proposed dividends, unrealized fair value changes and revaluation reserve	449,569	406,563		
Proposed appropriations	74,682	57,374		
Unrealized fair value changes recognized directly in equity and revaluation reserve	24,621	21,723	17	43
TOTAL EQUITY	1,060,337	994,338		
TOTAL LIABILITIES AND EQUITY	2,788,021	3,337,064		

Rishi Kapoor
Director

Jonathan Minor
Director

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2011

CONSOLIDATED STATEMENT OF INCOME

$000s	*2011*	*2010*	Note	Page
FEE INCOME				
Management fees	93,189	104,320		
Activity fees	65,743	68,652		
Performance fees	38,508	45,957		
Fee income ***(a)***	197,440	218,929	2	25
ASSET BASED INCOME				
Hedge funds	39,489	91,284		
Corporate investment	121,664	122,295		
Real estate investment	40,555	(89,912)		
Treasury and other asset based income	9,427	13,055		
Asset based income ***(b)***	211,135	136,722	2	25
Gross operating income (a) + (b)	408,575	355,651	2	25
Provisions for impairment	(2,099)	(11,669)	11	38
Interest expense	(53,480)	(56,174)		
Operating expenses	(212,683)	(185,634)	5	29
NET INCOME	140,313	102,174		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	*2011*	*2010*	Note	Page
NET INCOME (AS ABOVE)	140,313	102,174		
Other comprehensive income				
Fair value movements - available for sale investments	(1,860)	-	17	43
Fair value movements - net unrealized gains on cashflow hedges	8,229	8,654	17	43
Revaluation loss on premises and equipment	(3,034)	-	17	43
Other comprehensive income	3,335	8,654		
TOTAL COMPREHENSIVE INCOME	143,648	110,828		

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

			Reserves						Unrealized fair value changes in corporate and real estate co-investments		Unrealized fair value changes and revaluation reserve recognized directly in equity				
$000s	**Preference share capital**	**Ordinary share capital**	**Share premium**	**Statutory reserve**	**General reserve**	**Total reserves**	**Treasury shares**	**Retained earnings**		**Proposed appropriations**	**Available for sale investments**	**Cash flow hedges**	**Revaluation reserve on premises and equipment**	**Total**	**Total equity**
Balance at June 30, 2009	500,000	200,000	454,995	100,000	50,000	604,995	(150,507)	23,589	(297,031)	-	6,573	3,025	4,102	13,700	894,746
Total comprehensive income	-	-	-	-	-	-	-	102,174	-	-	-	8,654	-	8,654	110,828
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(1,463)	1,463	-	-	-	-	-	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	4,351	(4,351)	-	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	631	-	-	-	-	(631)	(631)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(19,135)	-	-	-	-	-	-	-	(19,135)
Loss on sale of treasury shares	-	-	(7,973)	-	-	(7,973)	7,973	-	-	-	-	-	-	-	-
Proposed preference share dividends	-	-	-	-	-	-	-	(57,374)	-	57,374	-	-	-	-	-
Preference share issuance proceeds	15,132	-	-	-	-	-	-	-	-	-	-	-	-	-	15,132
Share issue expenses	-	-	(779)	-	-	(779)	-	-	-	-	-	-	-	-	(779)
Non-vested preference shares issued to employees	(11,309)	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,309)
Vesting of preference shares during the year - net	4,855	-	-	-	-	-	-	-	-	-	-	-	-	-	4,855
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**71,908**	**(299,919)**	**57,374**	**6,573**	**11,679**	**3,471**	**21,723**	**994,338**
Total comprehensive income	-	-	-	-	-	-	-	140,313	-	-	(1,860)	8,229	(3,034)	3,335	143,648
Transfer of unrealized gains to fair value changes	-	-	-	-	-	-	-	(42,726)	42,726	-	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	437	-	-	-	-	(437)	(437)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(23,062)	-	-	-	-	-	-	-	(23,062)
Loss on sale of treasury shares	-	-	(3,444)	-	-	(3,444)	3,444	-	-	-	-	-	-	-	-
Preference share dividends paid	-	-	-	-	-	-	-	-	-	(57,374)	-	-	-	-	(57,374)
Proposed appropriations / transfers:															
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	61,376	-	-	-	-	-
Ordinary share dividend	-	-	-	-	-	-	-	(9,306)	-	9,306	-	-	-	-	-
Transfer of general reserve to retained earnings	-	-	-	-	(50,000)	(50,000)	-	50,000	-	-	-	-	-	-	-
Transfer of fair value losses to share premium	-	-	(299,919)	-	-	(299,919)	-	-	299,919	-	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	-	(4,000)	-	4,000	-	-	-	-	-
Vesting of preference shares during the year - net	2,787	-	-	-	-	-	-	-	-	-	-	-	-	-	2,787
Balance at June 30, 2011	**511,465**	**200,000**	**142,880**	**100,000**	**-**	**242,880**	**(181,287)**	**145,250**	**42,726**	**74,682**	**4,713**	**19,908**	**-**	**24,621**	**1,060,337**

*Retained earnings other than fair value changes of corporate and real estate co-investments.

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

$000s	*2011*	*2010*	Note	Page
OPERATING ACTIVITIES				
Net income	140,313	102,174		
Adjustments for non-cash items in net income				
Depreciation	4,313	4,397	5	29
Provisions for impairment	2,099	11,669	11	38
Amortization of transaction costs of borrowings	7,760	7,834		
Preference shares vesting - net of forfeitures	2,787	4,855		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	50,000	(63,000)		
Receivables and prepayments	19,240	11,719	6	30
Loans and advances	69,372	(18,292)	7	31
Deposits from clients - short-term	62,580	(61,234)	12	38
Payables and accrued expenses	75,563	52,859	13	39
Co-investments				
Hedge funds	(70,124)	77,207	8	32
Corporate investment	(70,830)	(149,374)	9	33
Real estate investment	27,939	66,430	10	37
Fair value of derivatives	86,526	28,279		
Other assets	(28)	5		
NET CASH FROM OPERATING ACTIVITIES	407,510	75,528		
FINANCING ACTIVITIES				
Deposits from clients - medium-term	4,616	7,481	12	38
Medium-term revolvers repaid on maturity	(150,000)	-	14	40
Medium-term revolvers repaid and available for drawdown	(490,000)	-	14	40
Medium-term debt issued (net of transaction costs)	88,750	174,409	14	40
Medium-term debt repaid	(200,000)	(492,000)	14	40
Long-term debt repaid	(62,875)	(35,499)	15	41
Treasury shares purchased (ordinary) - net	(23,062)	(19,135)		
Preference share issuance proceeds - net	-	3,044		
Dividends paid	(57,374)	-		
NET CASH (USED IN) FINANCING ACTIVITIES	(889,945)	(361,700)		
INVESTING ACTIVITIES				
Investment in premises and equipment	(549)	(807)		
NET CASH USED IN INVESTING ACTIVITIES	(549)	(807)		
Net (decrease) in cash and cash equivalents	(482,984)	(286,979)		
Cash and cash equivalents at beginning of the year	817,856	1,104,835		
Cash and cash equivalents at end of the year	334,872	817,856		
Cash and cash equivalents comprise:				
Cash and short-term funds	6,477	7,740		
Placements with financial institutions and other liquid assets	328,395	810,116		
	334,872	817,856		
Total accessible liquidity comprises:				
Cash and cash equivalents	334,872	817,856		
Placements with financial institutions and other liquid assets (non-cash equivalents)	13,000	63,000		
Undrawn revolvers	536,250	-	14	40
Total accessible liquidity*	884,122	880,856		

* In addition to the above, the group has $607.4 million (June 30, 2010: $537.3 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information

$000s	*2011*	*2010*
Interest paid	(58,526)	(51,816)
Interest received	20,443	16,126

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

Investcorp S.A. (the "Company") was originally incorporated as a limited liability company in the Grand Duchy of Luxembourg and qualified as a financial holding company. During the previous fiscal year, on May 18, 2010, the Company shifted its domicile to the Cayman Islands as a limited liability company incorporated as an exempted company. The address of the registered office of the Company is at the offices of Paget Brown Company Ltd., Boundary Hall, Cricket Square, P.O. Box 1111, Grand Cayman, KY1-1102, Cayman Islands.

The Company is a holding company owning various subsidiaries (together the "Group" or "Investcorp"). The activities of the Company are substantially transacted through its subsidiaries. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

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 consolidated financial statements for the year ended June 30, 2011 were authorized for issue in accordance with a resolution of the Board of Directors dated August 2, 2011.

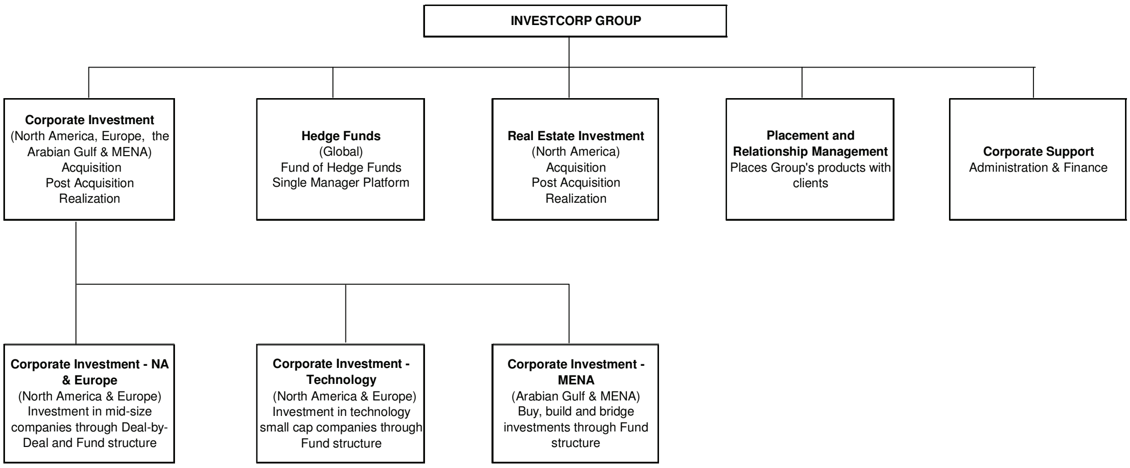
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 corporate investment, hedge funds and real estate investment. Within the corporate investment asset class the Group offers three products namely, (a) Corporate investment–NA & Europe, (b) Corporate investment–Technology and (c) Corporate investment–MENA.

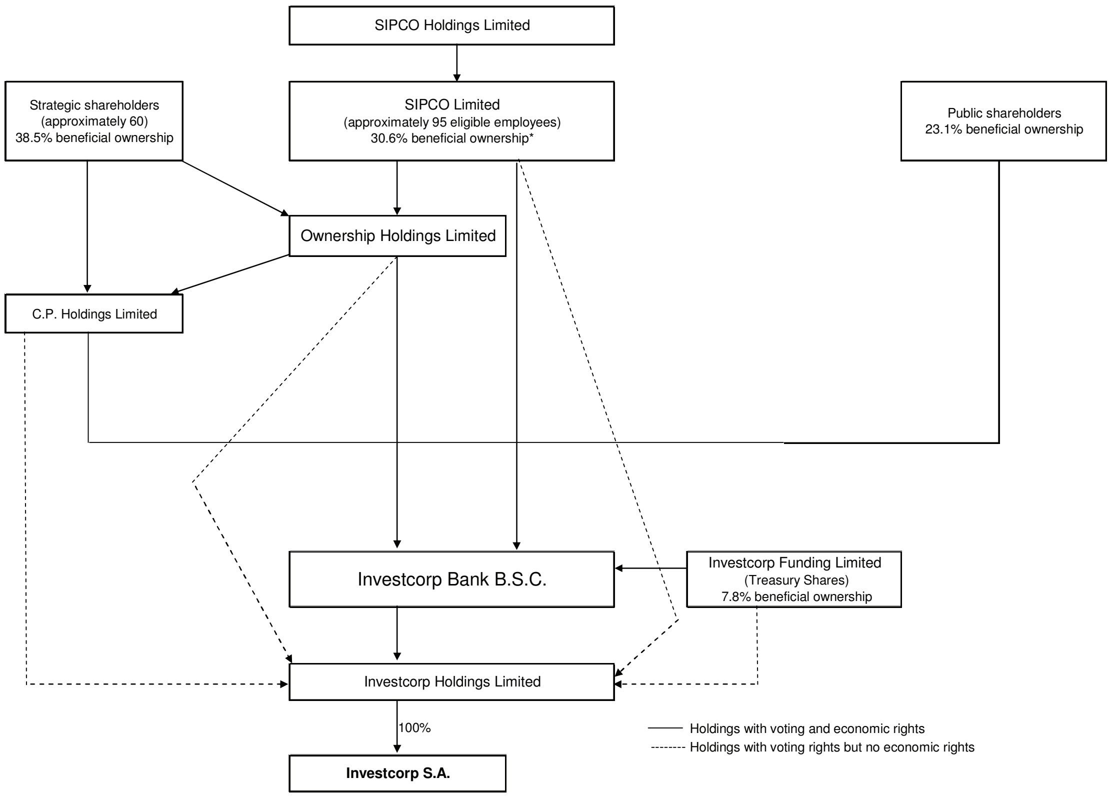
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Includes 14.7% in shares that are held for future sale to management and 3% shares allocated but not vested under the SIP Plan . On the balance sheet these shares are accounted for as the equivalent of treasury shares.

The Company is wholly owned by Investcorp Holdings Limited ('IHL' or the "Parent Company"), incorporated in the Cayman Islands as a limited liability company. Investcorp Bank B.S.C. (the "Bank"), incorporated in the Kingdom of Bahrain, is the parent company of IHL.

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 own beneficial interests in 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 consolidated financial statements incorporate the financial statements of the Company 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 Company is the principal asset holding operating entity within the Group and consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of the Bank are held by the Company or subsidiaries that are owned directly or indirectly by the Company.

INVESTCORP S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries 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. (Cayman Islands)			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
		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 corporate 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 Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity.
		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) arranges M&A transactions in the UK.
		Investcorp International Holdings Inc. (USA)		The Group's holding company 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 consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted during the year applicable for financial years beginning on or after the following dates:

- 2009 Improvements to IFRSs, 1 January 2010
- Amendments to IFRS 2 — Group Cash-settled Share-based Payment Transactions, 1 January 2010
- Amendments to IFRS 1 — Additional Exemptions for First-time Adopters, 1 January 2010
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, 1 January 2010
- IAS 1 Presentation of Financial Statements, 1 January 2010
- IAS 7 Statement of Cash Flows, 1 January 2010
- IAS 17 Leases, 1 January 2010
- IAS 36 Impairment of Assets, 1 January 2010
- IAS 39 Financial Instruments: Recognition and Measurement, 1 January 2010
- IAS 32 Amendment - Classification of Rights Issues, 1 February 2010
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments, 1 July 2010
- Amendments to IFRS 1 — Limited Exemption from Comparative IFRS 7 Disclosures, 1 July 2010
- 2010 Improvements to IFRSs, 1 July 2010

The adoption of the above amendments did not have any material impact on the financial position or performance of the Group.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have already been issued, to be applied to financial statements for financial years commencing on or after the following dates:

- 2010 Improvements to IFRSs, 1 January 2011
- IAS 24 Amendment - Related Party Disclosures, 1 January 2011
- IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement, 1 January 2011

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 1 Amendments – Severe hyperinflation and removal of fixed dates for first time adopters, 1 July 2011
- IFRS 7 Amendment - Financial Instruments: Disclosures, 1 July 2011.
- IAS 12 Amendments – Deferred Tax: Recovery of Underlying assets, 1 January 2012
- IAS 1 Amendment - Presentation of Financial Statements, 1 July 2012
- IFRS 9 - Financial Instruments: Classification and Measurement, 1 January 2015 (tentative)
- IFRS 10 : Consolidated Financial Statements, 1 January 2013
- IFRS 11 Joint Arrangements, 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities, 1 January 2013
- IFRS 13 Fair Value Measurement, 1 January 2013

The management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group’s management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") co-investments in corporate investment and real estate investment (see Notes 9 and 10) and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity.

Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS").

b) Other liquid assets

Other liquid assets, which form part of "placements with financial institutions and other liquid assets", are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL assets. The management has designated such assets as FVTPL assets.

iv) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVPTL investments are taken to the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

vi) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

vii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

viii) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

ix) Co- investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value change in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Co- investments in corporate investment and real estate investment (continued)

Certain debt investments out of the Group's co-investments in corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

x) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xii) Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

In case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Premises and equipment

Premises and equipment substantially comprise buildings and related leasehold improvements used by the Group as office premises.

The Group carries certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the assets.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Leasehold and building improvements	10 - 15 years
Operating assets	3 - 10 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate, at least at each financial year end.

xiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 22).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xv) Unfunded deal acquisitions

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.

xvi) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, placements with financial institutions and other liquid assets that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvii) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xviii) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against the cumulative surplus from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to retained earnings.

xix) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xx) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis.

xxi) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 18.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxii) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

2. SEGMENT REPORTING

A. ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging investments in, and managing such investments in, 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 corporate investment, hedge funds and real estate investment is classified as asset based income.

2. SEGMENT REPORTING (continued)

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 product asset classes 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)Corporate investment	1) Corporate investment	1) Corporate investment–NA & Europe	- Deal by deal offerings - Closed-end fund(s)
		2) Corporate investment–Technology	- Closed-end fund(s)
		3) Corporate investment–MENA	- Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	- Fund of hedge funds - Single managers - Structured and levered products
3) Real estate investment	3) Real estate investment	5) Real estate investment	- 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) ***Corporate Investment–NA & Europe ("CI-NA & Europe")***

The CI–NA & Europe team, based in London and New York, arranges corporate 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) ***Corporate Investment–Technology ("CI-Technology)***

The CI–Technology 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 primarily 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) ***Corporate Investment–MENA ("CI-MENA")***

The CI–MENA 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 wider Middle East and North Africa (MENA) region, including Turkey. 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 Fund.

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 Investment ("RE Investment")***

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 corporate investments 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.

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

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.

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 corporate investment and real estate 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 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 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.

2. SEGMENT REPORTING (continued)

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2011 and 2010 by reporting segment are as follows:

June 30, 2011 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	6,477	6,477
Placements with financial institutions and other liquid assets	-	-	-	341,395	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables and prepayments	-	-	-	286,580	286,580
Loans and advances	-	-	-	169,813	169,813
Co-investments	1,121,735	607,398	188,838	-	1,917,971
Premises, equipment and other assets	-	-	-	20,752	20,752
Total assets	1,121,735	607,398	188,838	870,050	2,788,021
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	94,211	-	164,401	258,612
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables and accrued expenses	18,784	5,214	4,613	162,796	191,407
Deposits from clients - medium term	22,567	2,057	4,141	66,544	95,309
Medium-term debt	177,367	248,186	39,231	120,128	584,912
Long-term debt	323,991	39,735	51,840	159,074	574,640
Total liabilities	542,709	389,403	99,825	695,747	1,727,684
Total equity	579,026	217,995	89,013	174,303	1,060,337
Total liabilities and equity	1,121,735	607,398	188,838	870,050	2,788,021

June 30, 2010 *$000s*	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Assets					
Cash and short-term funds	-	-	-	7,740	7,740
Placements with financial institutions and other liquid assets	-	-	-	873,116	873,116
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables and prepayments	-	-	-	310,956	310,956
Loans and advances	-	-	-	236,148	236,148
Co-investments	1,052,765	537,274	216,777	-	1,806,816
Premises, equipment and other assets	-	-	-	27,522	27,522
Total assets	1,052,765	537,274	216,777	1,530,248	3,337,064
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	49,054	-	146,978	196,032
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables and accrued expenses	11,736	3,062	3,497	97,549	115,844
Deposits from clients - medium term	-	4,539	-	86,154	90,693
Medium-term debt	88,951	269,385	42,146	920,866	1,321,348
Long-term debt	340,713	35,036	61,514	154,347	591,610
Total liabilities	441,400	361,076	107,157	1,433,093	2,342,726
Total equity	611,365	176,198	109,620	97,155	994,338
Total liabilities and equity	1,052,765	537,274	216,777	1,530,248	3,337,064

2. SEGMENT REPORTING (continued)

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

The consolidated statements of income for the years ended June 30, 2011 and 2010 by reporting segments are as follows:

July 2010 - June 2011 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	58,245	25,041	9,903	-	93,189
Activity fees	45,211	13,833	6,699	-	65,743
Performance fees	30,388	6,084	2,036	-	38,508
Gross fee income (a)	133,844	44,958	18,638	-	197,440
Expenses attributable to fee income	(100,196)	(46,704)	(12,915)	-	(159,815)
Net fee income (loss)	33,648	(1,746)	5,723	-	37,625
Asset based income					
Interest income	3,376	-	3,651	11,637	18,664
Treasury and other asset based income	118,288	39,489	36,904	(2,210)	192,471
Gross asset based income (b)	121,664	39,489	40,555	9,427	211,135
Provisions for impairment	-	-	-	(2,099)	(2,099)
Interest expense	(17,138)	(13,685)	(3,785)	(18,872)	(53,480)
Expenses attributable to asset based income	(31,435)	(8,298)	(9,004)	(4,131)	(52,868)
Net asset based income (loss)	73,091	17,506	27,766	(15,675)	102,688
Net income (loss)	106,739	15,760	33,489	(15,675)	140,313
Gross operating income (a) + (b)	255,508	84,447	59,193	9,427	408,575

July 2009 - June 2010 $000s	*Corporate investment*	*Hedge funds*	*Real estate investment*	*Corporate support*	*Total*
Fee income					
Management fees	67,212	24,654	12,454	-	104,320
Activity fees	62,350	-	6,302	-	68,652
Performance fees	26,532	18,841	584	-	45,957
Gross fee income (a)	156,094	43,495	19,340	-	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	-	(149,443)
Net fee income	61,718	4,518	3,250	-	69,486
Asset based income					
Interest income	4,618	-	1,158	11,851	17,627
Treasury and other asset based income	117,677	91,284	(91,070)	1,204	119,095
Gross asset based income (loss) (b)	122,295	91,284	(89,912)	13,055	136,722
Provisions for impairment	-	-	-	(11,669)	(11,669)
Interest expense	(10,838)	(11,134)	(3,956)	(30,246)	(56,174)
Expenses attributable to asset based income	(19,667)	(7,538)	(3,430)	(5,556)	(36,191)
Net asset based income (loss)	91,790	72,612	(97,298)	(34,416)	32,688
Net income (loss)	153,508	77,130	(94,048)	(34,416)	102,174
Gross operating income (loss) (a) + (b)	278,389	134,779	(70,572)	13,055	355,651

2. SEGMENT REPORTING (continued)

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

Gross operating income of $255.5 million (2010: $278.4 million) from the corporate investment asset class includes $ 43.4 million and $19.3 million (2010: $41.4 million and $19.9 million) relating to CI–Technology and CI–MENA respectively. The balance relates to CI–NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2010: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $18.7 million (June 30, 2010: $17.6 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9, 10 and 20 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2011 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	6,477	-	-	6,477
Placements with financial institutions and other liquid assets	128,000	213,395	-	-	341,395
Positive fair value of derivatives	-	-	-	45,033	45,033
Receivables	-	256,899	-	-	256,899
Loans and advances	-	169,813	-	-	169,813
Co-investments					
Hedge funds	607,398	-	-	-	607,398
Corporate investment	1,067,748	37,503	16,484	-	1,121,735
Real estate investment					
Debt	-	35,446	-	-	35,446
Equity	153,392	-	-	-	153,392
Total financial assets	1,956,538	719,533	16,484	45,033	2,737,588
Non-financial assets					
Prepayments					29,681
Premises, equipment and other assets					20,752
Total assets					2,788,021
Financial liabilities					
Deposits from clients*	-	353,921	-	-	353,921
Negative fair value of derivatives	-	-	-	22,804	22,804
Payables	-	186,410	-	-	186,410
Medium term debt	-	584,912	-	-	584,912
Long term debt*	-	574,640	-	-	574,640
Total financial liabilities	-	1,699,883	-	22,804	1,722,687
Non-financial liabilities					
Deferred income					4,997
Total liabilities					1,727,684

* Adjusted for related fair value hedges.

June 30, 2010 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	7,740	-	-	7,740
Placements with financial institutions and other liquid assets	253,000	620,116	-	-	873,116
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables	-	278,436	-	-	278,436
Loans and advances	-	236,148	-	-	236,148
Co-investments					
Hedge funds	537,274	-	-	-	537,274
Corporate investment	990,209	45,415	17,141	-	1,052,765
Real estate investment					
Debt	-	46,191	-	-	46,191
Equity	170,586	-	-	-	170,586
Total financial assets	1,951,069	1,234,046	17,141	74,766	3,277,022
Non-financial assets					
Prepayments					32,520
Premises, equipment and other assets					27,522
Total assets					3,337,064
Financial liabilities					
Deposits from clients*	-	286,725	-	-	286,725
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables	-	110,274	-	-	110,274
Medium term debt	-	1,321,348	-	-	1,321,348
Long term debt*	-	591,610	-	-	591,610
Total financial liabilities	-	2,309,957	-	27,199	2,337,156
Non-financial liabilities					
Deferred income					5,570
Total liabilities					2,342,726

* Adjusted for related fair value hedges.

4. 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:

	June 30, 2011				June 30, 2010			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate Investment								
Closed-end Committed Funds								
CI - NA & Europe	476	206	64	746	476	199	71	746
CI - Technology	424	61	15	500	419	67	14	500
CI - MENA	853	70	6	929	853	70	6	929
Sub total	1,753	337	85	2,175	1,748	336	91	2,175
Closed-end Invested Funds								
CI - Technology	214	36	10	260	209	23	10	242
Deal-by-deal investments								
CI - NA & Europe	1,988	831	323	3,142	2,598	852	368	3,818
Strategic and other investments	-	73	-	73	105	123	-	228
Total corporate investment	**3,955**	**1,277**	**418**	**5,650**	**4,660**	**1,334**	**469**	**6,463**
Hedge Funds								
Fund of hedge funds	2,648	138	4	2,790	2,125	77	3	2,205
Single managers	870	263	-	1,133	1,289	265	6	1,560
*Structured and levered products**	211	609	6	826	351	538	2	891
Total hedge funds	**3,729**	**1,010**	**10**	**4,749**	**3,765**	**880**	**11**	**4,656**
Real Estate Investment								
Closed-end Committed Funds	150	27	-	177	253	28	4	285
Closed-end Invested Funds	56	1	2	59	-	-	-	-
Deal-by-deal investments	756	166	29	951	859	181	32	1,072
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate investment	**962**	**202**	**31**	**1,195**	**1,112**	**217**	**36**	**1,365**
Corporate Support								
Client call accounts held in trust	241	-	-	241	170	-	-	170
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**
Summary by category:								
Closed-end Committed Funds	1,903	364	85	2,352	2,001	364	95	2,460
Closed-end Invested Funds	270	37	12	319	209	23	10	242
Hedge Funds	3,729	1,010	10	4,749	3,765	880	11	4,656
Deal-by-deal investments	2,985	1,078	352	4,415	3,732	1,164	400	5,296
Strategic and other investments	-		-		-		-	
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**
Summary by segments:								
Corporate investment								
CI - NA & Europe	2,464	1,037	387	3,888	3,074	1,051	439	4,564
CI - Technology	638	97	25	760	628	90	24	742
CI - MENA	853	70	6	929	853	70	6	929
Strategic and other investments	-	73	-	73	105	123	-	228
Hedge Funds	3,729	1,010	10	4,749	3,765	880	11	4,656
Real Estate Investment	962	202	31	1,195	1,112	217	36	1,365
Corporate Support	241	-	-	241	170	-	-	170
Total	**8,887**	**2,489**	**459**	**11,835**	**9,707**	**2,431**	**516**	**12,654**

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

4. ASSETS UNDER MANAGEMENT (continued)

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for corporate investment and real estate investment are stated at fair values while the other categories are stated at 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, or placed on deposit with 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.

5. OPERATING EXPENSES

$000s	***2011***	*2010*
Staff compensation	130,209	111,222
Other personnel costs	17,266	16,756
Professional fees	22,999	15,621
Travel and business development	9,691	9,758
Administration and research	13,476	12,664
Technology and communication	3,017	3,147
Premises	10,675	11,156
Depreciation	4,313	4,397
Other	1,037	913
Total	212,683	185,634

6. RECEIVABLES AND PREPAYMENTS

$000s	*June 30, 2011*	*June 30, 2010*
Subscriptions receivable	106,884	143,830
Receivables from investee companies	102,417	90,912
Investment disposal proceeds receivable	58,977	40,814
Hedge funds related receivables	10,599	22,881
Accrued interest receivable	4,617	6,396
Prepaid expenses	29,681	32,520
Other receivables	16,836	11,898
	330,011	349,251
Provisions for impairment (see Note 11)	(43,431)	(38,295)
Total	286,580	310,956

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 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.

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 HFP through internal parallel vehicles.

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

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.

7. LOANS AND ADVANCES

$000s	June 30, 2011	June 30, 2010
Advances to HFP Funds, Real Estate Funds and Technology Funds	-	11,224
Advances to investment holding companies	114,181	129,968
Advances to Employee Investment Programs	97,617	141,188
Other advances	7,585	6,375
	219,383	288,755
Provisions for impairment (see Note 11)	(49,570)	(52,607)
Total	169,813	236,148

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 and technology 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 from clients. These advances carry interest at market rates. In both cases the advances, in management's opinion, 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.

8. 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. The underlying hedge fund managers invest in a variety of liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in 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		***June 30, 2011***	*June 30, 2010*
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	79,873	76,918
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	36,562	-
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	262,849	264,777
Structured and leveraged products	Investments across structural themes funds and structured embedded leverage products	206,664	195,515
Other Hedge Funds investments	Mix of small investments across several theme funds	21,450	64
Total balance sheet co-investments		607,398	537,274

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.

Out of the total co-investment in hedge funds, $8.9 million (June 30, 2010: $19.0 million) comprise funds which are not immediately available for redemption due to gating clauses imposed by the underlying fund managers.

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2011	June 30, 2010
Corporate Investment - NA and Europe [See Note 9 (a)]	944,845	889,953
Corporate Investment - Technology [See Note 9 (b)]	80,006	72,111
Corporate Investment - MENA [See Note 9 (c)]	23,711	18,112
Strategic and other investments [See Note 9 (d)]	73,173	72,589
Total corporate co-investments	1,121,735	1,052,765

9 (a) CORPORATE INVESTMENT–NA & EUROPE

The Group's co-investment in CI–Na & Europe are classified as FVTPL investments.

The fair value of unquoted CI–NA and Europe co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve 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, in which event 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 recent measure of specific fair value for an individual investment is not available, the fair value is determined by the 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 referred to above.

9. CORPORATE CO-INVESTMENTS (continued)

9 (a) CORPORATE INVESTMENT– NA & EUROPE (continued)

The carrying values of the Group's co-investments in CI–NA & Europe are:

$000s **VINTAGE ***	***June 30, 2011***	*June 30, 2010*
Vintage 1997 (1997 - 2000)	182,040	180,205
Vintage 2001 (2001 - 2004)	43,901	137,996
Vintage 2005 (2005 - 2008)	508,105	402,353
Vintage 2009 (2009 - 2012)	210,799	169,399
Total	944,845	889,953

* 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:

	June 30, 2011			June 30, 2010		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	47,743	-	47,743	87,447	-	87,447
Industrial Products	-	381,465	381,465	15,043	300,540	315,583
Technology and Telecom	182,225	-	182,225	178,082	-	178,082
Industrial Services	138,593	44,638	183,231	167,529	54,565	222,094
Distribution	126,801	23,380	150,181	73,478	13,269	86,747
Total	495,362	449,483	944,845	521,579	368,374	889,953

9. CORPORATE CO-INVESTMENTS (continued)

9 (b) CORPORATE INVESTMENT–TECHNOLOGY

Similar to CI–NA & Europe, the Group's co-investments in CI–Technology are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–Technology is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers and 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. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for CI–NA & Europe co-investments as described in Note 9 (a).

The carrying values of Group's co-investments in CI–Technology deals at June 30, 2011 and June 30, 2010 are:

$000s	***Communication Infrastructure***	***Wireless Data***	***Digital Content***	***Enterprise Software***	***Other***	***June 30, 2011 Total***
Technology Fund I						
North America	921	1,015	54	1,475	194	3,659
Sub-Total	921	1,015	54	1,475	194	3,659
Technology Fund II						
North America	5,165	448	5,622	1,632	-	12,867
Europe	-	-	19,315	-	-	19,315
Sub-Total	5,165	448	24,937	1,632	-	32,182
Technology Fund III						
North America	-	16,624	-	4,209	-	20,833
Europe	-	-	-	13,145	-	13,145
Sub-Total	-	16,624	-	17,354	-	33,978
Direct Co-Investment						
Europe	-	-	10,187	-	-	10,187
Sub-Total	-	-	10,187	-	-	10,187
Total	6,086	18,087	35,178	20,461	194	80,006

$000s	***Communication Infrastructure***	***Wireless Data***	***Digital Content***	***Enterprise Software***	***Other***	***June 30, 2010 Total***
Technology Fund I						
North America	496	914	54	1,444	696	3,604
Sub-Total	496	914	54	1,444	696	3,604
Technology Fund II						
North America	5,003	356	3,946	1,520	-	10,825
Europe	-	-	8,860	-	-	8,860
Sub-Total	5,003	356	12,806	1,520	-	19,685
Technology Fund III						
North America	-	9,961	-	3,122	-	13,083
Europe	-	-	-	7,983	-	7,983
Sub-Total	-	9,961	-	11,105	-	21,066
Direct Co-Investment						
Europe	-	-	13,557	14,199	-	27,756
Sub-Total	-	-	13,557	14,199	-	27,756
Total	5,499	11,231	26,417	28,268	696	72,111

9. CORPORATE CO-INVESTMENTS (continued)

9 (c) CORPORATE INVESTMENT –MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2011 and June 30, 2010:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2011 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,196	**8,196**
UAE	-	6,975	-	**6,975**
Kuwait	4,720	-	-	**4,720**
Turkey	-	-	3,820	**3,820**
Total	**4,720**	**6,975**	**12,016**	**23,711**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2010 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Kuwait	4,416	-	-	**4,416**
Total	**4,416**	**4,889**	**8,807**	**18,112**

Similar to CI–NA & Europe, the co-investments in CI–MENA are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–MENA 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 an EBITDA multiples based valuation methodology.

9 (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 $35.9 million (June 30, 2010: $35.9 million) that are classified as FVTPL.

10. REAL ESTATE CO-INVESTMENTS

The Group's co-investment in real estate investment 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 amouting to $35.4 million (June 30, 2010 $46.2 million).

The carrying values of the Group's co-investments in real estate invesment portfolios in the United States at June 30, 2011 and at June 30, 2010 are:

$000s	*Number of*			*Region*			*June 30, 2011*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	9	31,388	-	-	-	12,707	44,095
Hotels	16	16,447	3,963	3,462	5,133	8,106	37,111
Retail	36	-	1,187	6,960	7,655	-	15,802
Industrial	4	5,162	-	-	-	2	5,164
Core Plus Total	65	52,997	5,150	10,422	12,788	20,815	102,172
Mezzanine debt		14,986	396	12,019	107	129	27,637
Opportunistic	7	19,281	-	9,643	-	21,763	50,687
Strategic and other		8,342	-	-	-	-	8,342
Total	72	95,606	5,546	32,084	12,895	42,707	188,838

$000s	*Number of*			*Region*			*June 30, 2010*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*Total*
Office	14	26,598	-	-	-	6,795	33,393
Hotels	15	18,160	6,842	1,783	6,126	-	32,911
Retail	34	-	1,347	1,393	5,704	213	8,657
Industrial	4	4,752	-	-	-	4	4,756
Core Plus Total	67	49,510	8,189	3,176	11,830	7,012	79,717
Mezzanine debt		27,849	730	48	107	530	29,264
Opportunistic	9	34,156	-	31,292	-	34,006	99,454
Strategic and other		8,342	-	-	-	-	8,342
Total	76	119,857	8,919	34,516	11,937	41,548	216,777

11. PROVISIONS FOR IMPAIRMENT

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

$000s ***12 months to June 30, 2011*** **Categories**	*At beginning*	*Charge/(write back)*	*At end*
Receivables	38,295	5,136	43,431
Loans and advances	52,607	(3,037)	49,570
Total	90,902	2,099	93,001
12 months to June 30, 2010	79,233	11,669	90,902

12. DEPOSITS FROM CLIENTS

$000s	***June 30, 2011***	*June 30, 2010*
SHORT-TERM:		
Call accounts	103,506	54,332
Short-term deposits	5,987	385
Transitory balances	149,119	141,315
Total deposits from clients - short-term	258,612	196,032
MEDIUM-TERM:		
Medium-term deposits	18,598	22,860
Investment holding companies' deposits	59,540	50,949
Discretionary and other deposits	17,171	16,884
Total deposits from clients - medium-term	95,309	90,693
Total	353,921	286,725

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 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.

12. DEPOSITS FROM CLIENTS (continued)

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.

13. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2011***	*June 30, 2010*
Accrued expenses - employee compensation	74,700	69,200
Vendor and other trade payables	24,630	6,961
Unfunded deal acquisitions	73,009	-
Investment related payables	3,658	18,654
Deferred income	4,997	5,570
Accrued interest payable	10,413	15,459
Total	191,407	115,844

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 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.

14. MEDIUM-TERM DEBT

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

$000s	Maturity	Tranche Type	June 30, 2011 Size	June 30, 2011 Average utilization	June 30, 2011 Current outstanding	June 30, 2010 Size	June 30, 2010 Average utilization	June 30, 2010 Current outstanding
5-year Eurodollar facility	December 2009	*Funded*	-	-	-	142,000	52,636	-
5-year Eurodollar facility	December 2009	*Funded*	-	-	-	350,000	160,137	-
5-year Eurodollar facility	July 2010	*Revolver*	150,000	11,507	-	150,000	150,000	150,000
5-year Eurodollar facility	July 2010	*Funded*	150,000	11,507	-	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	*Funded*	50,000	10,685	-	50,000	50,000	50,000
5-year Eurodollar facility	December 2011	*Revolver*	500,000	423,906	50,000	500,000	500,000	500,000
5.5-year Eurodollar facility	December 2011	*Revolver*	40,000	33,096	-	40,000	40,000	40,000
5-year Floating rate medium-term note	June 2012	*Funded*	19,000	19,000	19,000	19,000	19,000	19,000
3-year Multi-currency facility	March 2013	*Revolver*	46,250	-	-	-	-	-
3-year Multi-currency facility	March 2013	*Funded*	281,703	271,028	281,703	192,953	49,126	192,953
3-year Multi-currency facility	March 2013	*Revolver**	246,500	-	-	381,500	-	-
5-year Eurodollar facility	April 2013	*Revolver*	107,500	107,500	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	*Funded*	135,500	135,500	135,500	135,500	135,500	135,500
Total			1,726,453	1,023,729	593,703	2,218,453	1,413,899	1,344,953
Foreign exchange translation adjustments					3,328			(4,011)
Transaction costs of borrowings					(12,119)			(19,594)
					584,912			1,321,348

** This is a forward start facility that is not available until the 5-year Eurodollar facility due December 2011 is repaid in full.*

All medium-term facilities carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year Multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity, and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

$000s	Final Maturity	June 30, 2011 Average outstanding	June 30, 2011 Current outstanding	June 30, 2010 Average outstanding	June 30, 2010 Current outstanding
PRIVATE NOTES					
GBP 25 Million Private Placement	January 2010	-	-	1,438	-
$40 Million Private Placement	December 2010	13,933	-	30,000	30,000
$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	33,595	17,875	46,684	35,750
$75 Million Bi-lateral Placement	March 2013	21,151	20,000	41,877	35,000
$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
		517,257	486,453	568,577	549,328
Foreign exchange translation adjustments			128,501		85,657
Fair value adjustments			(37,128)		(39,904)
Transaction costs of borrowings			(3,186)		(3,471)
Total			574,640		591,610

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.

16. SHARE CAPITAL AND RESERVES

Ordinary share capital

The Company's subscribed ordinary share capital comprises 200,000 (June 30, 2010: 200,000) ordinary shares of $1,000 (June 30, 2010: $1,000) each.

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 at the Company'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 ordinary shareholders. The preference shares take priority over the Company's ordinary shares for payment of dividends and distribution of assets in the event of a liquidation or dissolution.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes net gains resulting from the sale of treasury shares held by the Group. During the current year the Company has proposed netting fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium. This proposed netting is subject to the approval by the shareholders.

General reserve

The general reserve, established in accordance with the articles of association of the Company, is only distributable following a resolution of shareholders at a general meeting. During the year, the Company has proposed to transfer $50 million of general reserve to retained earnings. This proposed transfer is subject to the approval by the shareholders.

Treasury shares

These represent the Bank's ordinary shares purchased by the Group and also those purchased by SIPCO Limited, which are funded by the Group. These shares are treated as treasury shares in the financial statements and are deducted from the Equity of the Group.

Of the 800,000 issued ordinary shares of the Bank, 203,607 (2010: 123,723) shares were held as treasury shares as at June 30, 2011. Out of these 141,238 shares (June 30 2010: 123,723 shares) are held by SIPCO Limited which are funded by the Group.

Treasury shares also include 24,000 shares (2010: 40,000) of the Bank allocated to the employees but not vested. These shares were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Group has taken an income statement charge of $1.0 million (2010: $1.0 million) based on the management's best estimate of the number of shares that are likely to vest.

16. SHARE CAPITAL AND RESERVES (continued)

Unrealized fair value changes on corporate and real estate co-investments

This consists of unrealized fair value changes on corporate and real estate co-investments classified as FVTPL assets which have been taken through the income statement.

17. UNREALIZED FAIR VALUE CHANGES RECOGNIZED DIRECTLY IN EQUITY AND REVALUATION RESERVE

This consists of unrealized fair value changes of AFS investments, cashflow hedges and revaluation reserve of premises and equipment recognized directly in equity.

Movements in fair value changes relating to AFS investments, cash flow hedges and revaluation reserve are set out below:

$000s	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2009	6,573	3,025	4,102	13,700
Net realized loss recycled to statement of income	-	5,838	-	5,838
Net unrealized gains for the year	-	2,816	-	2,816
Transfer of depreciation to retained earnings	-	-	(631)	(631)
Balance at June 30, 2010	6,573	11,679	3,471	21,723
Net realized loss recycled to statement of income	-	1,279	-	1,279
Net unrealized (losses) / gains for the year	(1,860)	6,950	-	5,090
Revaluation loss on premises and equipment	-	-	(3,034)	(3,034)
Transfer of depreciation to retained earnings	-	-	(437)	(437)
Balance at June 30, 2011	4,713	19,908	-	24,621

Refer to Note 18 for fair valuation of cash flow hedges.

18. 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 the 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.

18. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30 2011 and 2010:

Description $000s	June 30, 2011 Notional value	Positive fair value*	Negative fair value	June 30, 2010 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	440,377	4,081	(48)	431,158	16,926	(261)
ii) Cashflow hedges						
Coupon on long-term debt	92,570	863	-	81,481	3,199	-
Total forward foreign exchange contracts	532,947	4,944	(48)	512,639	20,125	(261)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	563,062	23,440	-	563,855	4,563	-
ii) Cashflow hedges - floating rate debt	500,000	-	(1,503)	-	-	-
Total interest rate hedging contracts	1,063,062	23,440	(1,503)	563,855	4,563	-
Total – Hedging Derivatives	1,596,009	28,384	(1,551)	1,076,494	24,688	(261)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	32,007	1,507	(1,526)	15,483	27	(165)
Total - Derivatives on behalf of clients	32,007	1,507	(1,526)	15,483	27	(165)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	11,645	(12,412)	350,000	16,738	(18,752)
Forward foreign exchange contracts	346,359	2,830	(3,787)	264,971	17,532	(7,322)
Currency options	2,251	15	(15)	2,251	71	(71)
Cross currency swaps	265,838	652	(3,513)	334,800	15,710	-
Interest rate options	-	-	-	100,000	-	(628)
Total – Other Derivatives	964,448	15,142	(19,727)	1,052,022	50,051	(26,773)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**2,592,464**	**45,033**	**(22,804)**	**2,143,999**	**74,766**	**(27,199)**

** Collateral amounting to $20.8 million (June 30, 2010 : $55.8 million) has been offset against the underlying derivatives positive fair value.*

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2011:

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
	Notional amounts by term to maturity				
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	436,549	-	3,828	-	440,377
Interest rate swaps	-	17,875	34,678	510,509	563,062
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	92,570	-	-	-	92,570
Interest rate swaps	-	-	500,000	-	500,000
Derivatives on behalf of clients:					
Forward foreign exchange contracts	30,399	1,608	-	-	32,007
Other Derivatives:					
Interest rate swaps	-	300,000	-	50,000	350,000
Forward foreign exchange contracts	305,151	940	40,268	-	346,359
Currency options	-	-	2,251	-	2,251
Cross currency swaps	-	92,524	142,370	30,944	265,838
	864,669	412,947	723,395	591,453	2,592,464

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2010:

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
	Notional amounts by term to maturity				
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	431,158	-	-	-	431,158
Interest rate swaps	-	28,875	69,611	465,369	563,855
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	81,481	-	-	-	81,481
Derivatives on behalf of clients:					
Forward foreign exchange contracts	13,050	2,433	-	-	15,483
Other Derivatives:					
Interest rate swaps	-	-	300,000	50,000	350,000
Forward foreign exchange contracts	100,352	120,523	44,096	-	264,971
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	206,148	128,652	-	334,800
Interest rate options	-	-	100,000	-	100,000
	626,041	357,979	644,610	515,369	2,143,999

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2011 were $25.5 million (June 30, 2010: gains of $47.7 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $22.8 million (June 30, 2010: losses of $48.3 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2011 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)
	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Fixed coupon on long-term debt *	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)
	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2011 was $0.7 million (June 30, 2010: $1.0 million).

19. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2011***	*June 30, 2010*
Investment commitments to closed-end committed funds	169,911	200,672
Other investment commitments	3,213	4,203
Total investment commitments	173,124	204,875
Non-cancelable operating leases	57,809	63,712
Guarantees and letters of credit issued to third parties	13,993	14,046

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. These mainly relate to real estate investment and amount to $132.7 million (June 30, 2010: $132.7 million).

20. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), which oversees the Group's risk management activities, and sets the Group's risk profile on an enterprise wide basis comprises members of senior management drawn from all key areas of the Group.

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital. The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently the aggregated economic capital is stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 18). With respect to the counterparty credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting arrangements with counterparties where possible.

The table below shows the relationship between internal rating and the category of the external rating grades:

Internal Rating	**External Rating by S & P and Moody's**
High	AAA to A
Standard	A- to B-

20. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

Short term funds, placements and derivatives are only with those counterparties that meet the High external rating and hence carry a minimal counterparty credit risk. The table below analyses the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2011 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	6,326	-	-	-	-	6,326	34,226
Placements with financial institutions and other liquid assets	341,395	-	-	-	-	341,395	349,507
Positive fair value of derivatives	45,033	-	-	-	-	45,033	84,352
Receivables and prepayments	-	157,251	99,582	43,497	(43,431)	256,899	298,086
Loans and advances	-	169,606	-	49,777	(49,570)	169,813	136,223
Co-investments - debt	-	72,949	-	-	-	72,949	76,781
Guarantees	-	146,714	-	-	-	146,714	146,741
Total	392,754	546,520	99,582	93,274	(93,001)	1,039,129	

June 30, 2010 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	7,640	-	-	-	-	7,640	38,207
Placements with financial institutions and other liquid assets	873,116	-	-	-	-	873,116	960,505
Positive fair value of derivatives	74,766	-	-	-	-	74,766	37,777
Receivables	-	159,769	118,552	38,410	(38,295)	278,436	261,674
Loans and advances	-	218,779	-	69,976	(52,607)	236,148	155,669
Co-investments - debt	-	91,606	-	-	-	91,606	63,288
Guarantees	-	146,767	-	-	-	146,767	169,349
Total	955,522	616,921	118,552	108,386	(90,902)	1,708,479	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2010: nil).

20. RISK MANAGEMENT (continued)

i) Counterparty credit risk (continued)

The aging analysis of the past due but not impaired financial assets is given in the table below.

$000s	June 30, 2011	June 30, 2010
Up to 1 month	37,802	26,564
> 1 up to 3 months	34,398	11,996
> 3 up to 6 months	912	2,010
> 6 months up to 1 year	4,873	443
Over 1 year	21,597	77,539
Total	**99,582**	**118,552**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2011 amounts to $1,034 million (June 30, 2010: $736 million).

20. RISK MANAGEMENT (continued)

ii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

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

June 30, 2011 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	6,477	-	6,477	-	-	-	-	6,477
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	-	-	-	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	122,468	95,230	217,698	68,882	-	-	-	286,580
Loans and advances	330	9,741	10,071	158,907	-	835	-	169,813
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	-	-	-	607,398
Corporate investment	-	32,743	32,743	1,088,992	-	-	-	1,121,735
Real estate investment	-	42,090	42,090	146,748	-	-	-	188,838
Premises, equipment and other assets	15	-	15	3,846	15,509	1,382	-	20,752
Total assets	838,319	318,330	1,156,649	1,581,092	15,974	28,141	6,165	2,788,021
Liabilities								
Deposits from clients - short term	258,612	-	258,612	-	-	-	-	258,612
Negative fair value of derivatives	2,421	5,933	8,354	5,473	-	955	8,022	22,804
Payables and accrued expenses	162,769	15,965	178,734	12,673	-	-	-	191,407
Deposits from clients - medium term	-	-	-	95,309	-	-	-	95,309
Medium-term debt*	-	68,183	68,183	516,729	-	-	-	584,912
Long-term debt	-	52,828	52,828	46,157	-	434,447	41,208	574,640
Total liabilities	423,802	142,909	566,711	676,341	-	435,402	49,230	1,727,684
Net gap	414,517	175,421	589,938	904,751	15,974	(407,261)	(43,065)	
Cumulative liquidity gap	414,517	589,938	589,938	1,494,689	1,510,663	1,103,402	1,060,337	

* Does not take in to account the $536.25 million undrawn revolvers of which $293.5 million net is to be repaid in December 2011 on maturity.

June 30, 2010 $000s	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	7,740	-	7,740	-	-	-	-	7,740
Placement with financial institutions and other liquid assets	870,116	-	870,116	3,000	-	-	-	873,116
Positive fair value of derivatives	11,688	21,882	33,570	13,340	344	20,425	7,087	74,766
Receivables and prepayments	61,833	216,790	278,623	32,333	-	-	-	310,956
Loans and advances	3,404	8,813	12,217	223,904	-	27	-	236,148
Co-investments								
Hedge funds	288,516	196,642	485,158	52,116	-	-	-	537,274
Corporate investment	-	216,685	216,685	836,080	-	-	-	1,052,765
Real estate investment	-	30,281	30,281	186,496	-	-	-	216,777
Premises, equipment and other assets	138	-	138	15,472	662	11,250	-	27,522
Total assets	1,243,435	691,093	1,934,528	1,362,741	1,006	31,702	7,087	3,337,064
Liabilities								
Deposits from financial institutions	-	-	-	-	-	-	-	-
Deposits from clients - short term	196,032	-	196,032	-	-	-	-	196,032
Negative fair value of derivatives	562	3,118	3,680	13,977	-	-	9,542	27,199
Payables and accrued expenses	87,838	20,045	107,883	7,961	-	-	-	115,844
Deposits from clients - medium term	-	-	-	90,693	-	-	-	90,693
Medium-term debt	349,954	-	349,954	971,394	-	-	-	1,321,348
Long-term debt	-	45,229	45,229	116,077	-	388,201	42,103	591,610
Total liabilities	634,386	68,392	702,778	1,200,102	-	388,201	51,645	2,342,726
Net gap	609,049	622,701	1,231,750	162,639	1,006	(356,499)	(44,558)	
Cumulative liquidity gap	609,049	1,231,750	1,231,750	1,394,389	1,395,395	1,038,896	994,338	

20. RISK MANAGEMENT (continued)

ii) Funding liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

June 30, 2011 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from clients	258,807	190	96,008	-	-	-	355,005
Payables and accrued expenses	162,769	15,965	12,673	-	-	-	191,407
Medium-term debt	4,376	84,962	543,050	-	-	-	632,388
Long-term debt	10,429	72,213	130,426	100,845	646,391	56,060	1,016,364
	436,381	173,330	782,157	100,845	646,391	56,060	2,195,164
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	658,426	166,827	247,470	6,935	43,484	-	1,123,142
Contractual amounts receivable	(663,665)	(163,206)	(239,563)	(2,294)	(37,366)	-	(1,106,094)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,118)	(6,948)	(37,898)	(13,388)	19,993	142	(41,217)
Commitments	1,916	40,373	169,155	19,490	-	-	230,934
Guarantees	32,323	-	85,420	28,971	-	-	146,714
Total undiscounted financial liabilities	462,263	210,376	1,006,741	140,559	672,502	56,202	2,548,643

June 30, 2010 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Over* *20 years*	*Total*
Financial liabilities							
Deposits from clients	198,300	278	91,563	-	-	-	290,141
Payables and accrued expenses	87,839	20,045	7,960	-	-	-	115,844
Medium-term debt	356,658	21,760	1,026,916	-	-	-	1,405,334
Long-term debt	9,734	64,673	202,991	93,347	604,679	60,100	1,035,524
	652,531	106,756	1,329,430	93,347	604,679	60,100	2,846,843
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	618,478	290,838	144,832	-	-	-	1,054,148
Contractual amounts receivable	(637,551)	(322,931)	(150,930)	-	-	-	(1,111,412)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(2,740)	(7,155)	(33,253)	(13,521)	15,175	(86)	(41,580)
Commitments	1,745	46,210	193,893	26,739	-	-	268,587
Guarantees	26,463	-	91,333	28,971	-	-	146,767
Total undiscounted financial liabilities	658,926	113,718	1,575,305	135,536	619,854	60,014	3,163,353

20. RISK MANAGEMENT (continued)

iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2011			June 30, 2010		
$000s	***Assets exposed to credit risk***	***Off-balance sheet items exposed to credit risk***	***Total credit risk exposure***	***Assets exposed to credit risk***	***Off-balance sheet items exposed to credit risk***	*Total credit risk exposure*
Geographical Region						
North America	809,797	146,714	956,511	1,291,462	146,767	1,438,229
Europe	58,956	-	58,956	252,815	-	252,815
Middle East	23,662	-	23,662	16,740	-	16,740
Other	-	-	-	795	-	795
Total	892,415	146,714	1,039,129	1,561,812	146,767	1,708,579

	June 30, 2011			June 30, 2010		
$000s	***Assets exposed to credit risk***	***Off-balance sheet exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	498,950	50,116	549,066	1,035,220	44,240	1,079,460
Consumer products	73,196	377	73,573	50,121	430	50,551
Consumer services	56,450	-	56,450	77,792	-	77,792
Distribution	27,490	-	27,490	63,472	-	63,472
Industrial products	70,226	-	70,226	157,479	-	157,479
Real estate	114,399	86,221	200,620	137,300	86,221	223,521
Technology and Telecom	47,682	-	47,682	30,337	-	30,337
Others	4,022	10,000	14,022	10,091	15,876	25,967
Total	892,415	146,714	1,039,129	1,561,812	146,767	1,708,579

20. RISK MANAGEMENT (continued)

iv) Market price risk

The principal market related risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, corporate investment and real estate investment, as well as on its debt financings. For purposes of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

In addition, the Group uses a variety of internal models to analyze the market price risks that may arise from adverse market movements.

Market price risk has been further detailed below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and VaR risk limits.

The Group's significant net hedged and un-hedged foreign currency positions are set out below.

$000s	**June 30, 2011**		*June 30, 2010*	
Long (Short)	**Net hedged exposure**	**Net unhedged exposure**	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	-	39,667	-	40,249
Euro	412,247	68	374,141	150
Pounds Sterling	16,593	(56)	36,368	245
Japanese Yen	(411,276)	213	(399,310)	594
	17,564	39,892	11,199	41,238

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. Value at Risk estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (a) Foreign currency risk (continued)

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	***2011***	*2010*
Average FX VaR	13	27
Year end FX VaR	5	14
Maximum FX VaR	91	133
Minimum FX VaR	1	2

iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with strict exposure limits that are approved by the Board of Directors. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $27.2 million (June 30, 2010: $16.8 million), which earn interest at an effective rate approximating 10.4% (June 30, 2010: 9.3%) per annum.
- Deposits from clients amounting to $7.2 million (June 30, 2010: $3.0 million) on which interest is paid at an effective rate of 0.9% (June 30, 2010: 5.1%) per annum reflecting the underlying maturity structure.
- Long term debt amounting to $125 million (June 30, 2010: $25 million) on which interest is paid at an effective rate of 2.9% (June 30, 2010: 8.1%) per annum reflecting the underlying maturity structure.

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (b) Interest rate risk (continued)

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2011	
Euro	(9,673)	6,819
Pounds Sterling	(715)	234
Japanese Yen	1,246	(13)
US Dollar	(1,849)	928
Others	145	(10)
Total	(10,846)	7,958

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2010	
Euro	(6,654)	2,148
Pounds Sterling	(1,226)	352
Japanese Yen	942	(201)
US Dollar	(14,555)	3,866
Others	115	(4)
Total	(21,378)	6,161

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%

For the current year the change in US Dollar sensitivity is due to the $400 million pay fixed, receive floating interest rate swap entered in to by the Group to hedge its exposure to 1-year Libor rates for the next fiscal year. The change in Euro sensitivity is mainly due to the yield curve uplift and change in the tenor profile of the underlying deals.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end.

20. RISK MANAGEMENT (continued)

iv) Market price risk (continued)

iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, corporate investment and real estate investment.

Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level, where an independent risk analysis is conducted at the pre-acquisition stage.

The table below summarizes the sensitivity of the Group's co-investments in CI–NA & Europe and real estate investment to changes in multiples / discount rates.

June 30, 2011 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	944,845	1,037,589	852,607	92,744	(92,238)
Real Estate Investment	Capitalization Rate	+/- 1%	188,838	223,822	158,782	34,984	(30,056)

June 30, 2010 $000s	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
CI - NA & Europe	EBITDA Multiples	+/- 0.5x	889,953	941,696	842,050	51,743	(47,903)
Real Estate Investment	Capitalization Rate	+/- 1%	216,777	247,666	192,620	30,889	(24,157)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of CI–Technology, CI–MENA and strategic co-investments.

Co-investments in hedge funds

The Group manages the market price risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	**2011**	2010
Average VaR	40,583	43,714
Year end VaR	37,920	40,410
Maximum VaR	43,799	49,072
Minimum VaR	37,920	40,271

20. RISK MANAGEMENT (continued)

v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

21. 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.

The fair values of the Group's financial assets and liabilities on the 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 $1,016.3 million (June 30, 2010: $1,878.5 million) as compared to carrying value of $1,159.6 million (June 30, 2010: $1,912.9 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:

June 30, 2011 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	128,000	-	128,000
Positive fair value of derivatives	-	45,033	-	45,033
Co-investments				
Hedge funds	-	607,398	-	607,398
Corporate investment	3,571	-	1,080,661	1,084,232
Real estate investment	-	-	153,392	153,392
Total financial assets	3,571	780,431	1,234,053	2,018,055
Financial liabilities				
Negative fair value of derivatives	-	22,804	-	22,804
Total financial liabilities	-	22,804	-	22,804

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

June 30, 2010 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	253,000	-	253,000
Positive fair value of derivatives	-	74,766	-	74,766
Co-investments				
Hedge funds	-	537,274	-	537,274
Corporate investment	914	-	1,006,436	1,007,350
Real estate investment	-	-	170,586	170,586
Total financial assets	914	865,040	1,177,022	2,042,976
Financial liabilities				
Negative fair value of derivatives	-	27,199	-	27,199
Total financial liabilities	-	27,199	-	27,199

During the year ended June 30, 2011, there has been no transfer between Level 1 and Level 2 fair value measurements, but there has been a transfer of $ 2.6 million (2010: nil) from Level 3 to Level 1. This transfer represents the listing of an investment, previously categorized under level 3, on the stock exchange.

21. 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:

June 30, 2011 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations/ placements*	*Other movements***	*At end*
CI - US & Europe						
Level 3	889,953	92,543	97,014	(253,177)	112,012	938,345
Others	-	6,500	-	-	-	6,500
Sub-total	**889,953**	**99,043**	**97,014**	**(253,177)**	**112,012**	**944,845**
CI - Technology						-
Level 3	45,288	3,016	13,745	-	4,199	66,248
Others	26,823	-	(765)	(15,722)	3,422	13,758
Sub-total	**72,111**	**3,016**	**12,980**	**(15,722)**	**7,621**	**80,006**
CI - MENA						
Level 3	18,112	3,820	589	-	1,190	23,711
Others	-	-	-	-	-	-
Sub-total	**18,112**	**3,820**	**589**	**-**	**1,190**	**23,711**
Strategic investments and other						
Level 3	53,083	1,000	292	(2,969)	951	52,357
Others	19,506	-	-	-	1,310	20,816
Sub-total	**72,589**	**1,000**	**292**	**(2,969)**	**2,261**	**73,173**
Real Estate Investment						
Level 3	170,586	72,511	(7,287)	(83,353)	935	153,392
Others	46,191	-	-	(15,745)	5,000	35,446
Sub-total	**216,777**	**72,511**	**(7,287)**	**(99,098)**	**5,935**	**188,838**
Total	**1,269,542**	**179,390**	**103,588**	**(370,966)**	**129,019**	**1,310,573**

* Includes $1.9 million fair value movement in available for sale investments.
**Other movements include add-on funding and foreign currency translation adjustments

June 30, 2010 *$000s*	*At beginning*	*New acquisitions*	*Fair value movements*	*Movements relating to realizations*	*Other movements**	*At end*
CI - US & Europe						
Level 3	769,392	156,256	97,690	(112,144)	(21,241)	889,953
Others	-	-	-	-	-	-
Sub-total	**769,392**	**156,256**	**97,690**	**(112,144)**	**(21,241)**	**889,953**
CI - Technology						
Level 3	45,483	29,003	1,286	(29,641)	(843)	45,288
Others	711	25,909	203	-	-	26,823
Sub-total	**46,194**	**54,912**	**1,489**	**(29,641)**	**(843)**	**72,111**
CI - MENA						
Level 3	13,696	4,416	-	-	-	18,112
Others	-	-	-	-	-	-
Sub-total	**13,696**	**4,416**	**-**	**-**	**-**	**18,112**
Strategic investments and other						
Level 3	54,603	623	(2,143)	-	-	53,083
Others	19,506	-	-	-	-	19,506
Sub-total	**74,109**	**623**	**(2,143)**	**-**	**-**	**72,589**
Real Estate Investment						
Level 3	239,077	36,986	(101,387)	(4,666)	576	170,586
Others	44,130	28,969	-	(26,908)	-	46,191
Sub-total	**283,207**	**65,955**	**(101,387)**	**(31,574)**	**576**	**216,777**
Total	**1,186,598**	**282,162**	**(4,351)**	**(173,359)**	**(21,508)**	**1,269,542**

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.8 million loss (2010: $0.2 million gain) for movements relating to Level 1 assets of Technology Small Cap Investments.

22. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide employees with a secure compensation platform upon which they are encouraged to pursue outstanding returns and to reward them based on their results in line with the interests of clients and shareholders. This is achieved through a combination of cash salaries, variable bonuses dependent upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $1.0 million (2010: $0.4 million).

22. EMPLOYEE COMPENSATION (continued)

Programs for Investment Profit Participation

The Group's investment professionals in its corporate investment and real estate investment lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with the investment professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Similarly, certain of the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling four year period that will terminate in October 2012. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for Investment Participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including corporate investment, real estate investment and the Hedge Funds Program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group.

In some instances, the Group, together with third party lenders, also provides financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to or on behalf of employees as of June 30, 2011 is $97.6 million (June 30, 2010: $141.2 million).

Share Ownership Program

SIPCO Holdings Limited ("SHL") sponsors various share incentive plans under which eligible employees have previously received a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank via shares of SIPCO Limited and a beneficial interest in the preference shares of Investcorp Bank via shares in SIPCO Preferred Limited. These are restricted shares that have different vesting periods. These shares were awarded at their then current fair value.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these shares as they vest, since these awards occurred at the fair value of the shares. Both plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the shares.

23. 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 HFP and SIPCO Limited, the entity 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 Company, 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.

In addition to the compensation and benefits to employees and senior management disclosed in Notes 22 and directors' remuneration, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2011***	*June 30, 2010*
Management fees	Investee companies	19,126	23,457
	Client companies	56,992	48,736
	Client companies associated with the HFP	28,347	28,574
Activity fees	Investee companies	28,691	41,376
Performance fees	Client companies associated with the HFP	6,084	18,841
	Client companies	31,134	584
Asset based income	Investee companies	20,427	2,749
	Client companies	5,447	4,942
Interest expense	Client companies	(220)	(415)
Provisions for impairment	Employee investment programs	1,025	(4,181)

23. RELATED PARTY TRANSACTIONS (continued)

In addition to the compensation and benefits to employees and senior management disclosed in Notes 22 and directors' remuneration, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2011			June 30, 2010		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	4,806	12,518	-	13,663	64,329	-
Investee companies	73,201	-	-	66,255	-	-
Investment holding companies	88,290	5,424	169,911	92,785	4,387	200,672
Client fund companies associated with the HFP	8,162	-	-	9,405	-	-
Directors and senior management	1,061	630	-	3,838	5,984	-
	175,520	18,572	169,911	185,946	74,700	200,672

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $422 million as at June 30, 2011 (June 30, 2010: $465 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the table on the previous page, to the extent they result from transactions with related parties.

INVESTCORP S.A.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

INVESTCORP S.A.

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A.

We have audited the accompanying consolidated financial statements of Investcorp S.A. (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 30 June 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A. (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2010 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

3 August 2010
Manama, Kingdom of Bahrain

INVESTCORP S.A.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2010

$000s	*June 30, 2010*	*June 30, 2009*	*Note*	*Page*
ASSETS				
Cash and short-term funds	7,740	404,951	6	30
Placements with financial institutions and other liquid assets	873,116	699,884	6	30
Positive fair value of derivatives	74,766	56,150	19	45
Receivables and prepayments	310,956	329,063	7	31
Loans and advances	236,148	223,137	8	32
Co-investments				
Hedge funds	537,274	614,481	9	33
Private equity	1,052,765	903,391	10	34
Real estate	216,777	283,207	11	38
Total co-investments	1,806,816	1,801,079		
Premises, equipment and other assets	27,522	31,117		
TOTAL ASSETS	3,337,064	3,545,381		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from clients - short-term	196,032	257,266	13	39
Negative fair value of derivatives	27,199	33,287	19	45
Payables and accrued expenses	115,844	62,985	14	40
Deposits from clients - medium-term	90,693	83,212	13	39
Medium-term debt	1,321,348	1,635,515	15	40
Long-term debt	591,610	578,370	16	42
TOTAL LIABILITIES	2,342,726	2,650,635		
EQUITY				
Preference share capital	506,678	500,000	17	43
Ordinary shares at par value	200,000	200,000	17	43
Reserves	596,243	604,995		
Treasury shares	(161,669)	(150,507)		
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	71,908	23,589		
Ordinary shareholders' equity other than unrealized fair value changes, proposed dividend and revaluation reserve	706,482	678,077		
Proposed dividends	57,374	-		
Unrealized fair value changes and revaluation reserve	(276,196)	(283,331)	18	45
TOTAL EQUITY	994,338	894,746		
TOTAL LIABILITIES AND EQUITY	3,337,064	3,545,381		

Rishi Kapoor
Director

Jonathan C. Minor
Director

The attached notes 1 to 24 are an integral part of these consolidated financial statements

INVESTCORP S.A.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

CONSOLIDATED STATEMENT OF INCOME

$000s	*2010*	*2009*	*Note*	*Page*
FEE INCOME				
Management fees	104,320	107,359		
Activity fees	68,652	21,715		
Performance fees	45,957	301		
Fee income ***(a)***	218,929	129,375	2	19
ASSET BASED INCOME				
Investment income				
Private equity	25,259	12,389		
Hedge funds	91,284	(323,797)		
Real estate	11,475	20,153		
Treasury and other asset based income	13,055	78,022		
Asset based income (loss) ***(b)***	141,073	(213,233)		
Gross operating income (loss) (a) + (b)	360,002	(83,858)		
Provision for impairment	(11,669)	(22,246)	12	39
Interest expense	(56,174)	(113,292)		
Operating expenses	(185,634)	(206,322)	5	29
Net operating income (loss) before fair value changes of private equity and real estate co-investments	106,525	(425,718)		
Fair value changes of private equity and real estate co-investments **(c)**	(4,351)	(348,086)	18	44
NET INCOME (LOSS)	102,174	(773,804)		
TOTAL REVENUE (a)+(b)+(c)	355,651	(431,944)		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***2010***	*2009*	*Note*	*Page*
NET INCOME (LOSS) (AS ABOVE)	102,174	(773,804)		
Other comprehensive income				
Fair value movements - net unrealized gains on cashflow hedges	8,654	12,122	18	44
Revaluation surplus on premises and equipment	-	4,417	18	44
Other comprehensive income	8,654	16,539		
TOTAL COMPREHENSIVE INCOME (LOSS)	110,828	(757,265)		

The attached notes 1 to 24 are an integral part of these consolidated financial statements.

INVESTCORP S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2010

$000s	Preference share capital	Ordinary share capital	Reserves: Share premium	Reserves: Statutory reserve	Reserves: General reserve	Reserves: Total reserves	Treasury shares	Retained * earnings	Proposed dividend	Fair value changes and revaluation reserve: Fair value changes: Private equity and real estate	Fair value changes and revaluation reserve: Fair value changes: Available for sale investments	Fair value changes and revaluation reserve: Fair value changes: Cash flow hedges	Fair value changes and revaluation reserve: Revaluation reserve on premises and equipment	Fair value changes and revaluation reserve: Total fair value changes and revaluation reserve
Balance at June 30, 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)
Total comprehensive loss	-	-	-	-	-	-	-	(773,804)	-	-	-	12,122	4,417	16,539
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(93,571)	-	93,571	-	-	-	93,571
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	348,086		(348,086)	-	-	-	(348,086)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	315	-	-	-	-	(315)	(315)
Treasury shares purchased during the year	-	-	-	-	-	-	(51,278)	-	-	-	-	-	-	-
Treasury shares sold during the year	-	-	-	-	-	-	30,344	-	-	-	-	-	-	-
Loss on sale of treasury shares	-	-	(48,029)	-	-	(48,029)	48,029	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(63,278)	-	-	-	-	-
Preference share issuance proceeds	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Share issue expenses	-	-	(947)	-	-	(947)	-	-	-	-	-	-	-	-
Balance at June 30, 2009	**500,000**	**200,000**	**454,995**	**100,000**	**50,000**	**604,995**	**(150,507)**	**23,589**	**-**	**(297,031)**	**6,573**	**3,025**	**4,102**	**(283,331)**
Total comprehensive income	-	-	-	-	-	-	-	102,174	-	-	-	8,654	-	8,654
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(1,463)	-	1,463	-	-	-	1,463
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	4,351	-	(4,351)	-	-	-	(4,351)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	631	-	-	-	-	(631)	(631)
Treasury shares purchased during the year	-	-	-	-	-	-	(62,203)	-	-	-	-	-	-	-
Treasury shares sold / financed during the year	-	-	-	-	-	-	43,068	-	-	-	-	-	-	-
Loss on sale of treasury shares	-	-	(7,973)	-	-	(7,973)	7,973	-	-	-	-	-	-	-
Proposed appropriation	-	-	-	-	-	-	-	(57,374)	57,374	-	-	-	-	-
Preference share issuance proceeds	15,146	-	-	-	-	-	-	-	-	-	-	-	-	-
Share issue expenses	-	-	(779)	-	-	(779)	-	-	-	-	-	-	-	-
Non-vested preference shares issued to employees	(11,309)	-	-	-	-	-	-	-	-	-	-	-	-	-
Vesting during the year	5,680	-	-	-	-	-	-	-	-	-	-	-	-	-
Forfeitures during the year	(839)	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**	**(161,669)**	**71,908**	**57,374**	**(299,919)**	**6,573**	**11,679**	**3,471**	**(278,196)**

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

The attached notes 1 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

$000s	2010	2009	Note	Page
OPERATING ACTIVITIES				
Net income (loss)	102,174	(773,804)		
Adjustments for non-cash items in net income (loss)				
Fair value changes	4,351	348,086		
Depreciation	4,397	7,245	5	29
Provisions for impairment	11,669	22,246	12	39
Amortization of transaction costs of borrowings	7,834	4,533		
Preference shares vesting -net of forfeitures	4,855	-		
Net income (loss) adjusted for non-cash items	135,280	(391,694)		
Changes in:				
Operating capital				
Receivables and prepayments	11,719	120,044	7	31
Loans and advances	(18,292)	93,032	8	32
Deposits from clients - short-term	(61,234)	(423,970)	13	39
Unfunded deal acquisitions	-	(234,321)		
Payables and accrued expenses	52,859	(138,241)	14	40
Co-investments				
Hedge funds	77,207	1,406,327	9	33
Private equity	(52,338)	(116,059)	10	34
Real estate	(34,957)	(52,445)	11	38
Fair value of derivatives	28,279	18,342	20	46
Other assets	5	32		
NET CASH FROM OPERATING ACTIVITIES	138,528	281,047		
FINANCING ACTIVITIES				
Deposits from financial institutions	-	(108,636)		
Deposits from clients - medium-term	7,481	(36,395)	13	39
Medium-term revolvers drawn	-	557,500		
Medium-term debt issued (net of transaction costs)	174,409	-	15	40
Medium-term debt repaid	(492,000)	(42,000)	15	40
Long-term debt repaid	(35,499)	(407,263)	16	42
Treasury shares purchased (ordinary) - net	(19,135)	(20,934)		
Preference share issuance proceeds - net	3,044	499,053		
Dividends paid	-	(63,278)		
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(361,700)	378,047		
INVESTING ACTIVITIES				
Placements with financial institutions and other liquid assets (non cash equivalent)	(63,000)	-	6	30
Investment in premises and equipment	(807)	(4,916)		
NET CASH USED IN INVESTING ACTIVITIES	(63,807)	(4,916)		
Net (decrease) increase in cash and cash equivalents	(286,979)	654,178		
Cash and cash equivalents at beginning	1,104,835	450,657		
Cash and cash equivalents at end	817,856	1,104,835		
Cash and cash equivalents comprise:			6	30
Cash balances with banks	7,740	23,963		
Cash in transit	-	380,988		
Placements with financial institutions and other liquid assets	810,116	699,884		
	817,856	1,104,835		

Cash and cash equivalents comprise cash and short-term funds, cash in transit, together with placements with financial institutions and other liquid assets that have original contractual maturities of three months or less.

Additional cash flow information

$000s	2010	2009
Interest paid	(51,816)	(121,670)
Interest received	16,126	21,498

The attached notes 1 to 24 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

Investcorp S.A. (the "Company") was originally incorporated as a limited liability company in the Grand Duchy of Luxembourg and qualified as a financial holding company. During the current year on May 18, 2010 the Company shifted its domicile to the Cayman Islands as a limited liability company incorporated as an exempted company. The address of the registered office of the Company is at the offices of Paget Brown Trust Company Limited, Boundary Hall, Cricket Square, P.O. Box 1111, Grand Cayman, KY1-1102, Cayman Islands.

The Company is a holding company owning various subsidiaries (together the "Group" or "Investcorp"). The activities of the Company are substantially transacted through its subsidiaries. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

Taxation on income from foreign entities is provided in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

The consolidated financial statements for the year ended June 30, 2010 were authorized for issue in accordance with a resolution of the Board of Directors dated August 3, 2010.

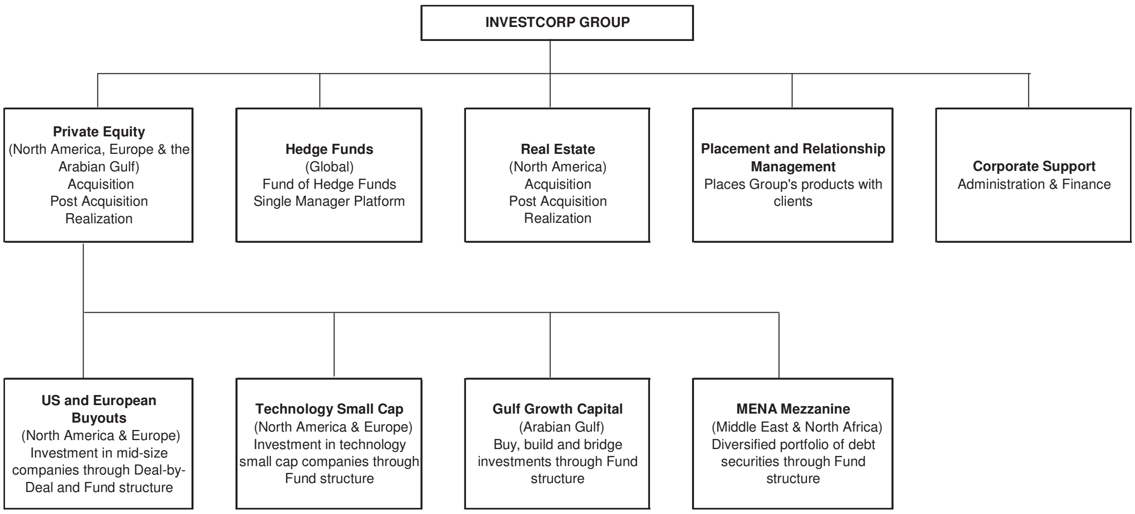
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 four products namely, (a) US and European Buyouts, (b) Technology Small Cap investments, (c) Gulf Growth Capital, and (d) MENA Mezzanine Fund.

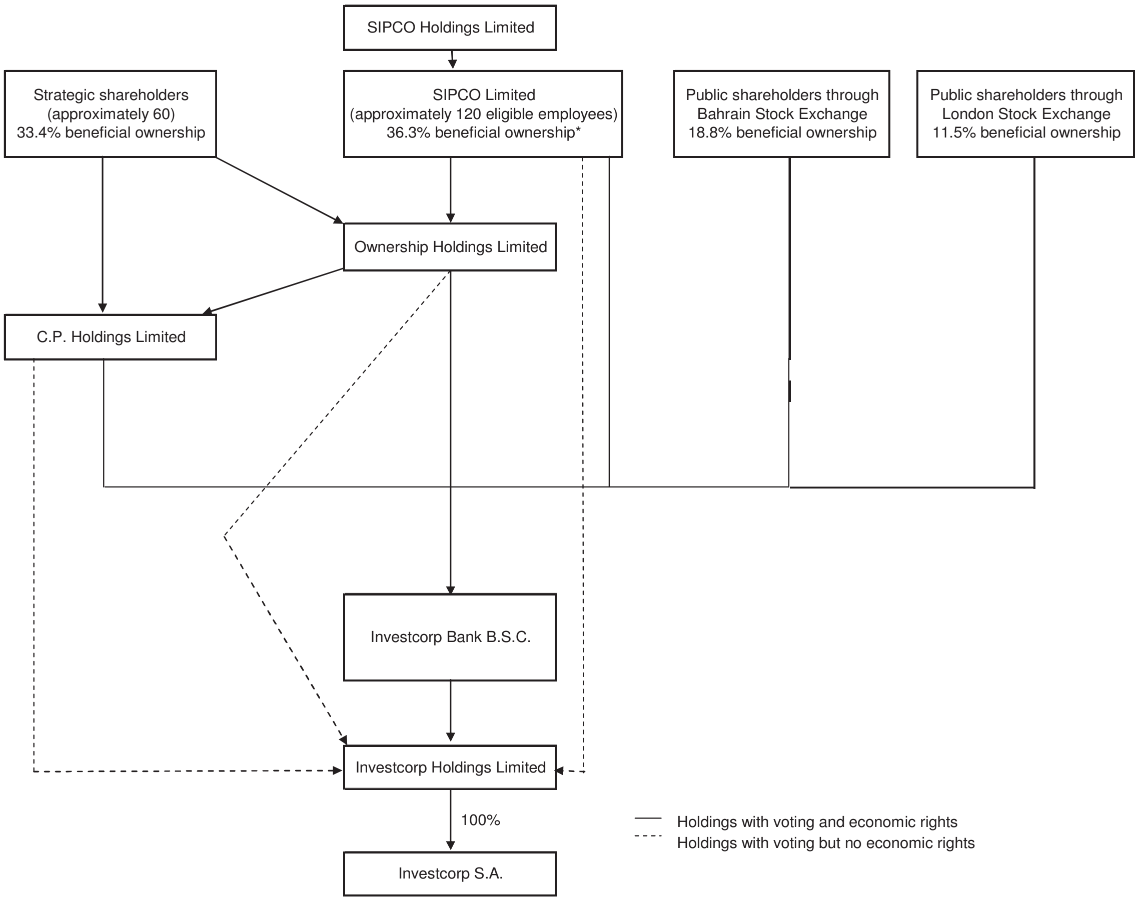
In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing with its clients in each of its investment products.



1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



*Includes 15.5% in shares and GDRs that are held for future sale to management under the SIP Plan and third parties. These are classified as treasury shares on the Company's balance sheet.

The Company is wholly owned by Investcorp Holdings Limited ("IHL"), incorporated in the Cayman Islands. Investcorp Bank B.S.C. (the "Bank", or the "Parent Company"), incorporated in the Kingdom of Bahrain, is the parent company of IHL.

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"), a 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 consolidated financial statements incorporate the financial statements of the Company 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 Company is the principal asset holding operating entity within the Group and consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of the Bank are held by the Company or subsidiaries that are owned directly or indirectly by the Company.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure along with its significant subsidiaries 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. (Cayman Islands)	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
	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 consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years except as noted below.

Of all the applicable changes in IFRS (including IAS 27R – *Consolidated and Separate Financial Statements* and IFRS 3R – *Business Combinations*) during the year, management has adopted IFRS 7 Amendment – *Improving Disclosures about Financial Instruments* as in its view, this was the only significant change that impacts the Group's consolidated financial statements. 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 22, and the liquidity risk disclosures in Note 21 (ii) are not significantly impacted by the amendments.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have already been issued, to be applied to financial statements for financial years commencing on or after the following dates:

- Amendments to IFRS 2 — Group Cash-settled Share-based Payment Transactions, 1 January 2010.
- Amendments to IFRS 1 — Additional Exemptions for First-time Adopters, 1 January 2010.
- Amendments to IFRS 1 — Limited Exemption from Comparative IFRS 7 Disclosures, 1 July 2010
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, 1 January 2010.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective (continued)

- IFRS 8 Operating Segments, 1 January 2010.
- IAS 1 Presentation of Financial Statements, 1 January 2010.
- IAS 7 Statement of Cash Flows, 1 January 2010.
- IAS 17 Leases, 1 January 2010.
- IAS 36 Impairment of Assets, 1 January 2010.
- IAS 39 Financial Instruments: Recognition and Measurement, 1 January 2010.
- IAS 32 Amendment - Classification of Rights Issues, 1 February 2010
- IAS 24 Amendment - Related Party Disclosures, 1 January 2011
- IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement, 1 January 2011
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments 1 July 2010
- 2009 Improvements to IFRSs, 1 January 2010
- IFRS 9 - Financial Instruments: Classification and Measurement, 1 January 2013

The Group is considering the implications of the standards, the impact on the Group's financial position and results and the timing of their adoption by the Group.

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 and revaluation of premises and equipment.

ii) Going concern

The Group’s management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") private equity and real estate investments (see notes 10 and 11) and impairment provisions for financial assets other than FVTPL investments (see Note 12).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of financial assets

a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity.

Investments acquired with the intention of a long-term holding period, such as in private equity, real estate or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ("AFS")

b) Other liquid assets

Other liquid assets, which form part of placements with financial institutions and other liquid assets, are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL. The management has designated such assets as FVTPL.

iv) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVPTL investments are taken to consolidated statement of income and on AFS investments are taken to consolidated comprehensive income.

vi) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. Provisions are made against receivables as soon as they are considered doubtful.

vii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

viii) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 9.

ix) Co- investments in private equity and real estate

The Group's co-investments in private equity and real estate are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value changes in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Co- investments in private equity and real estate (continued)

Certain debt investments out of the Group's co-investments in private equity and real estate are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

x) Derecognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

xii) Impairment and un-collectibility of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cashflows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

In case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Group carries building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the assets.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Leasehold and building improvements	10 - 15 years
Operating assets	3 - 10 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate at least at each financial year end.

xiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 23).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

xv) Unfunded deal acquisitions

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvi) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

xvii) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent resale of treasury shares at a price greater than cost is treated as non-distributable and included in share premium. Any deficit arising from the subsequent resale of treasury shares at a price lower than cost is charged first against the cumulative excess from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to retained earnings.

xviii) Dividends

Proposed dividends are disclosed as appropriations from equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

xix) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to off set the recognized amounts and the Group intends to settle on a net basis.

xx) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 19.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxi) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

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 (continued)

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)
		4) MENA Mezzanine	- Closed-end fund(s)
2) Hedge Funds	2) Hedge Funds	5) Hedge Funds	- Fund of Hedge Funds - Single Managers
3) Real Estate	3) Real Estate	6) Real Estate	- Equity investments - Mezzanine debt investments
4) Corporate Support			- Liquidity / Working Capital / Funding

Each of the six 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)

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) ***MENA Mezzanine ("MENA")***

The MENA team, based in Bahrain targets to invest directly and indirectly in a diversified portfolio of mezzanine instruments, preferred equity securities, bridge loans, high yield debt securities, convertible and other similar income producing securities and obligations to generate current income and capital appreciation.

v) ***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.

vi) ***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 Arabian Gulf States, 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.

vii) ***Corporate Support***

Corporate Support comprises the Group's Administration, Finance and Management functions, which are collectively responsible for supporting the six 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 re-financings, 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, 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) BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2010 and 2009 by reporting segment are as follows:

June 30, 2010 *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	7,740	7,740
Placements with financial institutions and other liquid assets	-	-	-	873,116	873,116
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables and prepayments	-	-	-	310,956	310,956
Loans and advances	-	-	-	236,148	236,148
Co-investments	1,052,765	537,274	216,777	-	1,806,816
Premises, equipment and other assets	-	-	-	27,522	27,522
Total assets	1,052,765	537,274	216,777	1,530,248	3,337,064
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	49,054	-	146,978	196,032
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables and accrued expenses	11,736	3,062	3,497	97,549	115,844
Deposits from clients - medium term	-	4,539	-	86,154	90,693
Medium-term debt	88,951	269,385	42,146	920,866	1,321,348
Long-term debt	340,713	35,036	61,514	154,347	591,610
Total liabilities	441,400	361,076	107,157	1,433,093	2,342,726
Total equity	611,365	176,198	109,620	97,155	994,338
Total liabilities and equity	1,052,765	537,274	216,777	1,530,248	3,337,064

June 30, 2009 *$000s*	*Private Equity*	*Hedge Funds*	*Real Estate*	*Corporate Support*	*Total*
Assets					
Cash and short-term funds	-	-	-	404,951	404,951
Placements with financial institutions and other liquid assets	-	-	-	699,884	699,884
Positive fair value of derivatives	-	-	-	56,150	56,150
Receivables and prepayments	-	-	-	329,063	329,063
Loans and advances	-	-	-	223,137	223,137
Co-investments	903,391	614,481	283,207	-	1,801,079
Premises, equipment and other assets	-	-	-	31,117	31,117
Total assets	903,391	614,481	283,207	1,744,302	3,545,381
Liabilities and Equity					
Liabilities					
Deposits from clients - short-term	-	217,983	-	39,283	257,266
Negative fair value of derivatives	-	-	-	33,287	33,287
Payables and accrued expenses	11,376	1,355	20,153	30,101	62,985
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	1,716,561	2,650,635
Total equity	581,187	176,198	109,620	27,741	894,746
Total liabilities and equity	903,391	614,481	283,207	1,744,302	3,545,381

2. SEGMENT REPORTING (continued)

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

The consolidated statements of income for the years ended June 30, 2010 and 2009 by reporting segments are as follows:

July 2009 - June 2010 $000s	Private Equity	Hedge Funds	Real Estate	Corporate Support	Total
Fee income					
Management fees	67,212	24,654	12,454	-	104,320
Activity fees	62,350	-	6,302	-	68,652
Performance fees	26,532	18,841	584	-	45,957
Gross fee income (a)	156,094	43,495	19,340	-	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	-	(149,443)
Net fee income	61,718	4,518	3,250	-	69,486
Asset based income					
Interest income	4,618	-	1,044	11,851	17,513
Treasury and other asset based income	20,641	91,284	10,431	1,204	123,560
Fair value changes	97,036	-	(101,387)	-	(4,351)
Gross asset based income (loss) (b)	122,295	91,284	(89,912)	13,055	136,722
Provision for impairment	-	-	-	(11,669)	(11,669)
Interest expense	(10,838)	(11,134)	(3,956)	(30,246)	(56,174)
Expenses attributable to asset based income	(19,667)	(7,538)	(3,430)	(5,556)	(36,191)
Net asset based income (loss)	91,790	72,612	(97,298)	(34,416)	32,688
Net income (loss)	153,508	77,130	(94,048)	(34,416)	102,174
Total revenue (a) + (b)	278,389	134,779	(70,572)	13,055	355,651

July 2008 - June 2009 $000s	Private Equity	Hedge Funds	Real Estate	Corporate Support	Total
Fee income					
Management fees	55,799	38,714	12,846	-	107,359
Activity fees	23,322	-	(1,607)	-	21,715
Performance fees	-	(579)	880	-	301
Gross fee income (a)	79,121	38,135	12,119	-	129,375
Expenses attributable to fee income	(102,091)	(50,459)	(16,820)	-	(169,370)
Net fee income (loss)	(22,970)	(12,324)	(4,701)	-	(39,995)
Asset based income					
Interest income	229	-	2,030	17,373	19,632
Treasury and other asset based income (loss)	12,160	(323,797)	18,123	60,649	(232,865)
Fair value changes	(241,810)	-	(106,276)	-	(348,086)
Gross asset based (loss) income (b)	(229,421)	(323,797)	(86,123)	78,022	(561,319)
Provision for impairment	-	-	-	(22,246)	(22,246)
Interest expense	(22,841)	(44,666)	(12,751)	(33,034)	(113,292)
Expenses attributable to asset based income	(12,950)	(12,355)	(4,742)	(6,905)	(36,952)
Net asset based (loss) income	(265,212)	(380,818)	(103,616)	15,837	(733,809)
Net (loss) income	(288,182)	(393,142)	(108,317)	15,837	(773,804)
Total revenue (a) + (b)	(150,300)	(285,662)	(74,004)	78,022	(431,944)

2. SEGMENT REPORTING (continued)

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

Total revenue of $278.4 million (2009: $(150.3) million) from private equity asset class includes $41.4 million, $19.9 million and $0.9 million (2009: $17.0 million, $22.1 million and nil) relating to Technology Small Cap Investments, Gulf Growth Capital and MENA Mezzanine Fund 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 year (2009: nil). All of the Group's fee income arises from intermediary activities while the asset based income includes $17.5 million (June 30, 2009: $19.5 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Note 21 (iii) presents the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

June 30, 2010 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	7,740	-	-	7,740
Placements with financial institutions and other liquid assets	253,000	620,116	-	-	873,116
Positive fair value of derivatives	-	-	-	74,766	74,766
Receivables	-	278,436	-	-	278,436
Loans and advances	-	236,148	-	-	236,148
Co-investments					
Hedge funds	537,274	-	-	-	537,274
Private equity	968,018	48,254	36,493	-	1,052,765
Real estate					
Debt	-	34,191	-	-	34,191
Equity	182,586	-	-	-	182,586
Total financial assets	1,940,878	1,224,885	36,493	74,766	3,277,022
Non-financial assets					
Prepayments					32,520
Premises, equipment and other assets					27,522
Total assets					3,337,064
Financial liabilities					
Deposits from clients*	-	286,725	-	-	286,725
Negative fair value of derivatives	-	-	-	27,199	27,199
Payables	-	110,274	-	-	110,274
Medium term debt	-	1,321,348	-	-	1,321,348
Long term debt*	-	591,610	-	-	591,610
Total financial liabilities	-	2,309,957	-	27,199	2,337,156
Non-financial liabilities					
Deferred income					5,570
Total liabilities					2,342,726

* Adjusted for related fair value hedges.

June 30, 2009 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	404,951	-	-	404,951
Placements with financial institutions and other liquid assets	-	699,884	-	-	699,884
Positive fair value of derivatives	-	-	-	56,150	56,150
Receivables	-	301,563	-	-	301,563
Loans and advances	-	223,137	-	-	223,137
Co-investments					
Hedge funds	614,481	-	-	-	614,481
Private equity	867,521	-	35,870	-	903,391
Real estate					
Debt	-	44,130	-	-	44,130
Equity	239,077	-	-	-	239,077
Total financial assets	1,721,079	1,673,665	35,870	56,150	3,486,764
Non-financial assets					
Prepayments					27,500
Premises, equipment and other assets					31,117
Total assets					3,545,381
Financial liabilities					
Deposits from clients*	-	340,478	-	-	340,478
Negative fair value of derivatives	-	-	-	33,287	33,287
Payables	-	55,726	-	-	55,726
Medium term debt	-	1,635,515	-	-	1,635,515
Long term debt*	-	578,370	-	-	578,370
Total financial liabilities	-	2,610,089	-	33,287	2,643,376
Non-financial liabilities					
Deferred income					7,259
Total liabilities					2,650,635

* Adjusted for related fair value hedges.

4. 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	June 30, 2010 Clients	June 30, 2010 Investcorp	June 30, 2010 Affiliates and co-investors	June 30, 2010 Total	June 30, 2009 Clients	June 30, 2009 Investcorp	June 30, 2009 Affiliates and co-investors	June 30, 2009 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	853	70	6	929	875	70	6	951
- MENA mezzanine investments	105	50	-	155	-	-	-	-
Sub total	1,853	386	91	2,330	1,770	336	91	2,197
Closed-end Invested Funds								
- Technology small cap investments	209	23	10	242	223	30	10	263
Deal-by-deal investments								
- US and European buyouts	2,598	852	368	3,818	2,540	714	443	3,697
Strategic and other investments	-	73	-	73	-	74	-	74
Total private equity	**4,660**	**1,334**	**469**	**6,463**	**4,533**	**1,154**	**544**	**6,231**
Hedge Funds								
Fund of hedge funds	2,125	77	3	2,205	1,566	132	3	1,701
Single managers	1,289	265	6	1,560	980	380	10	1,370
Structured and levered products	351	538	2	891	548	333	-	881
Total hedge funds	**3,765**	**880**	**11**	**4,656**	**3,094**	**845**	**13**	**3,952**
Real Estate								
Closed-end Committed Funds	253	28	4	285	253	27	4	284
Deal-by-deal investments	859	181	32	1,072	903	247	42	1,192
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate	**1,112**	**217**	**36**	**1,365**	**1,156**	**282**	**46**	**1,484**
Summary by category:								
Closed-end Committed Funds	2,106	414	95	2,615	2,023	363	95	2,481
Closed-end Invested Funds	209	23	10	242	223	30	10	263
Hedge Funds	3,765	880	11	4,656	3,094	845	13	3,952
Deal-by-deal investments	3,627	1,114	400	5,141	3,510	1,043	485	5,038
Total	**9,707**	**2,431**	**516**	**12,654**	**8,850**	**2,281**	**603**	**11,734**
Summary by segments:								
Private Equity								
- US and European buyouts	3,074	1,051	439	4,564	3,016	913	514	4,443
- Technology small cap investments	628	90	24	742	642	97	24	763
- Gulf Growth Capital	853	70	6	929	875	70	6	951
- MENA mezzanine investments	105	50	-	155	-	-	-	-
- Strategic and other investments	-	73	-	73	-	74	-	74
Hedge Funds	3,765	880	11	4,656	3,094	845	13	3,952
Real Estate	1,112	217	36	1,365	1,156	282	46	1,484
Corporate Support	170	-	-	170	67	-	-	67
Total	**9,707**	**2,431**	**516**	**12,654**	**8,850**	**2,281**	**603**	**11,734**

4. 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.

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.

5. OPERATING EXPENSES

$000s	***2010***	*2009*
Staff compensation	47,379	67,574
Incentive compensation expense	63,843	52,403
Other personnel costs	16,756	16,921
Professional fees	15,621	18,280
Travel and business development	9,758	12,015
Administration and research	12,664	14,415
Technology and communication	3,147	4,572
Premises	11,156	11,463
Depreciation	4,397	7,245
Other	913	1,434
Total	185,634	206,322

6. LIQUIDITY

$000s	June 30, 2010	June 30, 2009
Cash balances with banks	7,740	23,963
Cash in transit	-	380,988
Placements with financial institutions and other liquid assets	810,116	699,884
Cash and cash equivalents	817,856	1,104,835
Placements with financial institutions and other liquid assets (non cash equivalent)	63,000	-
Total accessible liquidity	880,856	1,104,835
Less: medium and long-term debt maturing within three months *	(215,000)	(142,000)
Net cash liquidity	665,856	962,835
Add: undrawn medium-term revolvers (see Note 15)	-	-
Net accessible liquidity	665,856	962,835
Co-investments in hedge funds (excluding gated funds)	518,286	571,481
Net liquidity	1,184,142	1,534,316

* Net of forward start facility available to be drawn within three months

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, undrawn committed medium-term revolvers and a forward start facility 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 $19.0 million (2009: $43.0 million) which is not immediately available due to gating clauses imposed by the underlying fund managers.

Cash and short-term funds comprise the Group's cash, balances in nostro accounts and short-term government securities. Cash in transit as of previous year end mainly related to proceeds for issuance of preference shares and redemptions from hedge funds for which notices had been issued, the proceeds of which were received during the year.

Other liquid assets represent financial assets including credit linked notes and funded credit default swaps. The referenced risk for these assets is highly rated sovereigns. Since the embedded derivative in these instruments is not separated, these are carried as FVTPL assets in accordance with IAS 39.

7. RECEIVABLES AND PREPAYMENTS

$000s	***June 30, 2010***	*June 30, 2009*
Subscriptions receivable	143,830	111,116
Capital issuance proceeds receivable	-	110,495
Receivables from investee companies	90,912	76,487
Investment disposal proceeds receivable	11,536	3,188
Hedge funds related receivables	52,159	14,046
Accrued interest receivable	6,396	5,009
Prepaid expenses	32,520	27,500
Other receivables	11,898	13,129
	349,251	360,970
Provision for impairment (see Note 12)	(38,295)	(31,907)
Total	310,956	329,063

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.

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 due from financial institutions and other financial assets, from investee companies on investment debt and from investment holding companies on working capital advances.

8. LOANS AND ADVANCES

$000s	June 30, 2010	June 30, 2009
Advances to HFP Funds, Real Estate Funds and Technology Funds	11,224	11,985
Advances to investment holding companies	129,968	129,045
Advances to Employee Investment Programs	141,188	121,604
Other advances	6,375	7,829
	288,755	270,463
Provision for impairment (see Note 12)	(52,607)	(47,326)
Total	236,148	223,137

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

9. CO-INVESTMENTS IN HEDGE FUNDS

Co-investments in hedge funds comprise a portion of the Group's liquidity deployed together with 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		***June 30, 2010***	*June 30, 2009*
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	76,918	128,919
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	-	-
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	264,777	379,970
Structured and leveraged products	Investments across structural themes funds and structured embedded leverage products	195,515	102,775
Other Hedge Funds investments	Mix of small investments across several theme funds	64	2,817
Total balance sheet co-investments		537,274	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.

10. CO-INVESTMENTS IN PRIVATE EQUITY

$000s	*June 30, 2010*	*June 30, 2009*
US and European buyouts [See Note 10 (a)]	889,953	769,392
Technology small cap investments [See Note 10 (b)]	72,111	46,194
Gulf growth capital [See Note 10 (c)]	18,112	13,696
Strategic and other investments [See Note 10 (d)]	72,589	74,109
Total co-investments in private equity	1,052,765	903,391

10 (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.

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

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

$000s VINTAGE *	June 30, 2010	June 30, 2009
Vintage 1997 (1997 - 2000)	180,205	181,343
Vintage 2001 (2001 - 2004)	137,996	85,014
Vintage 2005 (2005 - 2008)	402,353	381,006
Vintage 2009 (2009 - 2012)	169,399	122,029
Total	889,953	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.

Summary by sector and location:

	June 30, 2010			June 30, 2009		
$000s	**North America**	**Europe**	**Total**	**North America**	**Europe**	**Total**
Consumer Products	87,447	-	87,447	22,355	-	22,355
Industrial Products	15,043	300,540	315,583	38,920	313,392	352,312
Technology and Telecom	178,082	-	178,082	164,248	-	164,248
Industrial Services	167,529	54,565	222,094	80,807	52,284	133,091
Distribution	73,478	13,269	86,747	77,830	19,556	97,386
Total	521,579	368,374	889,953	384,160	385,232	769,392

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

10 (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 10 (a).

The carrying values of the Group's co-investments in technology small cap deals at June 30, 2010 and June 30, 2009 are:

$000s	***Communication Infrastructure***	***Wireless Data***	***Digital Content***	***Enterprise Software***	***Other***	***June 30, 2010 Total***
Technology Fund I						
North America	496	914	54	1,444	696	3,604
Sub-Total	496	914	54	1,444	696	3,604
Technology Fund II						
North America	5,003	356	3,946	1,520	-	10,825
Europe	-	-	8,860	-	-	8,860
Sub-Total	5,003	356	12,806	1,520	-	19,685
Technology Fund III						
North America	-	9,961	-	3,122	-	13,083
Europe	-	-	-	7,983	-	7,983
Sub-Total	-	9,961	-	11,105	-	21,066
Direct Co-Investment						
Europe	-	-	13,557	14,199	-	27,756
Sub-Total	-	-	13,557	14,199	-	27,756
Total	5,499	11,231	26,417	28,268	696	72,111

$000s	***Communication Infrastructure***	***Wireless Data***	***Digital Content***	***Enterprise Software***	***Other***	***June 30, 2009 Total***
Technology Fund I						
North America	528	1,922	201	1,136	521	4,308
Sub-Total	528	1,922	201	1,136	521	4,308
Technology Fund II						
North America	5,563	450	3,714	2,005	-	11,732
Europe	-	-	14,343	-	-	14,343
Sub-Total	5,563	450	18,057	2,005	-	26,075
Technology Fund III						
North America	-	5,121	-	-	-	5,121
Europe	-	-	-	10,690	-	10,690
Sub-Total	-	5,121	-	10,690	-	15,811
Total	6,091	7,493	18,258	13,831	521	46,194

10. CO-INVESTMENTS IN PRIVATE EQUITY (continued)

10 (c) GULF GROWTH CAPITAL

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2010 and June 30, 2009:

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2010 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Kuwait	4,416	-	-	**4,416**
Total	**4,416**	**4,889**	**8,807**	**18,112**

$000s	Industry			
	Distribution	*Industrial Products*	*Consumer Products*	*June 30, 2009 Total*
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	-	-	8,807	**8,807**
UAE	-	4,889	-	**4,889**
Total	**-**	**4,889**	**8,807**	**13,696**

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 EBITDA multiples based valuation methodology.

10 (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 $36.1 million (June 30, 2009: $38.2 million) that are classified as FVTPL.

11. 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 at June 30, 2010 and at June 30, 2009 are:

$000s	*Number of*	*Region*					*June 30,*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*2010*
Office	14	26,598	-	-	-	6,795	33,393
Hotels	15	18,160	6,842	1,783	6,126	-	32,911
Retail	34	-	1,347	1,393	5,704	213	8,657
Industrial	4	4,752	-	-	-	4	4,756
Core Plus Total	67	49,510	8,189	3,176	11,830	7,012	79,717
Mezzanine debt		27,849	730	48	107	530	29,264
Opportunistic	9	34,156	-	31,292	-	34,006	99,454
Strategic and other		8,342	-	-	-	-	8,342
Total	76	119,857	8,919	34,516	11,937	41,548	216,777

$000s	*Number of*	*Region*					*June 30,*
PORTFOLIO TYPE	*properties*	*East*	*Midwest*	*Southeast*	*Southwest*	*West*	*2009*
Office	15	76,835	-	-	-	11,089	87,924
Hotels	15	17,685	8,828	1,718	7,168	-	35,399
Retail	34	5,231	1,407	1,125	4,687	213	12,663
Industrial	4	5,594	-	-	-	4	5,598
Core Plus Total	68	105,345	10,235	2,843	11,855	11,306	141,584
Mezzanine debt		38,630	49	48	107	522	39,356
Opportunistic	12	27,575	-	30,761	-	35,590	93,926
Strategic and other		8,341	-	-	-	-	8,341
Total	80	179,891	10,284	33,652	11,962	47,418	283,207

12. PROVISIONS FOR IMPAIRMENT

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

$000s Categories	*At beginning*	*Charge for the year*	*At end*
Receivables	31,907	6,388	38,295
Loans and advances	47,326	5,281	52,607
Total	79,233	11,669	90,902
As at June 30, 2009	56,987	22,246	79,233

13. DEPOSITS FROM CLIENTS

$000s	*June 30, 2010*	*June 30, 2009*
SHORT-TERM:		
Call accounts	54,332	39,957
Short-term deposits	385	21,049
Transitory balances	141,315	196,260
Total deposits from clients - short-term	196,032	257,266
MEDIUM-TERM:		
Medium-term deposits	22,860	23,956
Investment holding companies' deposits	50,949	26,682
Discretionary and other deposits	16,884	32,574
Total deposits from clients - medium-term	90,693	83,212
Total	286,725	340,478

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 greater than one year are grouped under medium-term deposits.

Call accounts comprise amounts left on deposit by clients 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.

13. DEPOSITS FROM CLIENTS (continued)

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.

14. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2010***	*June 30, 2009*
Accrued expenses - employee compensation	69,200	28,638
Vendor and other trade payables	6,961	7,097
Investment related payables	18,654	8,890
Deferred income	5,570	7,259
Accrued interest payable	15,459	11,101
Total	115,844	62,985

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

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.

15. MEDIUM-TERM DEBT

The table below shows the total medium-term facilities, net of the transaction costs of borrowings, outstanding at year end.

$000s	***June 30, 2010***	*June 30, 2009*
Medium-term revolvers [See Note 15 (a)]	797,500	797,500
Medium-term debt [See Note 15 (b)]	543,442	846,500
Transaction costs of borrowings	(19,594)	(8,485)
	1,321,348	1,635,515

15 MEDIUM-TERM DEBT (continued)

15 (a) MEDIUM-TERM REVOLVERS

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

		June 30, 2010			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	March 2013	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 rates of commitment fees when undrawn.

15 (b) MEDIUM-TERM DEBT

		June 30, 2010			June 30, 2009		
$000s	**Maturity**	**Size**	**Average outstanding**	**Current outstanding**	Size	Average outstanding	Current outstanding
5-year Eurodollar facility	June 2009	42,000	-	-	42,000	26,219	-
5-year Eurodollar facility	December 2009	142,000	52,636	-	142,000	142,000	142,000
5-year Eurodollar facility	December 2009	350,000	160,137	-	350,000	350,000	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	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	19,000	19,000
3-year Multi-currency facility	March 2013	192,953	49,126	192,953	-	-	-
5-year Eurodollar facility	April 2013	135,500	135,500	135,500	135,500	135,500	135,500
Total		1,081,453	616,399	547,453	888,500	872,719	846,500
Foreign exchange translation adjustments				(4,011)			-
Total				543,442			846,500

These facilities carry LIBOR-based floating rates of interest.

15 (c) FORWARD START FACILITY

During the current year, the Group entered into a $575m, 3-year multi-currency refinancing facility. The facility is split into various tranches available at various dates with the first draw down made in March 2010 and last to be made in December 2011.

$000s	***Forward Start date***	***Maturity***	***Category***	***Size***
Forward start 3-year Multi-currency facility maturing in March 2013				
Tranche B1	July 2010	March 2013	Funded	61,250
Tranche B2	July 2010	March 2013	Revolver	46,250
Tranche C	September 2010	March 2013	Funded	27,500
Tranche D	December 2011	March 2013	Revolver	246,500
Total				381,500

16. LONG-TERM DEBT

		June 30, 2010		June 30, 2009	
$000s	*Final Maturity*	*Average outstanding*	*Current outstanding*	*Average outstanding*	*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	1,438	-	12,683	2,624
$40 Million Private Placement	December 2010	30,000	30,000	37,813	30,000
$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	March 2013	41,877	35,000	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	46,684	35,750	61,073	53,625
$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
		568,577	549,328	735,356	584,827
Foreign exchange translation adjustments			85,657		53,187
Fair value adjustments			(39,904)		(55,774)
Transaction costs of borrowings			(3,471)		(3,870)
Total			591,610		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.

17. SHARE CAPITAL AND RESERVES

The Company's subscribed share capital comprises 200,000 ordinary shares of $1,000 each.

Preference shares

During the year, the Group obtained shareholder approval 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.

Preference Share Series	*Call Date*	*No. of shares*	*Par Value $000s*
Series B1	June 30, 2014	104,823	104,823
Series B2	July 3, 2014	126,177	126,177
Series B3	July 15, 2014	130,280	130,280
Series B4	July 31, 2014	38,720	38,720
Series B5	September 9, 2014	100,000	100,000
Series B6	February 17, 2010	15,146	15,146
Total		515,146	515,146

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 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 ordinary shareholders. The preference shares take priority over the Company's ordinary shares for payment of dividends and distribution of assets in the event of a liquidation or dissolution.

Of the total preference shares issued, 11,309 preference shares were issued to employees during the year. As per the terms of the issue, the vesting will take place over a period of 24 months commencing from July 1, 2009 and the Group recognizes the related expense over the vesting period. Total vesting for the year is 5,680 shares and accordingly the Group has recognized related expense of $4.8 million in the current year.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes net gains resulting from the sale of treasury shares held by the Group.

17. SHARE CAPITAL AND RESERVES (continued)

General reserve

The general reserve, established in accordance with the articles of association of the Company, is only distributable following a resolution of shareholders at a general meeting.

Treasury shares

Ordinary shares held as treasury include 123,723 shares (June 30 2009:15,298 shares) that are held by SIPCO Limited which are funded by the Group.

During the year the Group arranged $40 million third party financing transaction for SIPCO Limited that is secured by a portion of the Bank's shares owned by SIPCO Limited. The financing is non-recourse to the Group. Proceeds from the financing were used to repay loans due to the Group in respect of Group funded shares. This reduced the amount of the treasury shares deducted from gross equity and increased net equity by an equivalent amount.

Unrealized fair value changes and reserves

This consists of (i) unrealized fair value of FVTPL private equity and real estate co-investments transferred from retained earnings, (ii) fair value changes for AFS investments recognized directly in equity (iii) fair value changes of cash flow hedges recognized directly in equity and (iv) revaluation reserve of premises and equipment recognized directly in equity.

As of June 30, 2010 the Group had an accumulated deficit, including unrealized fair value changes of private equity and real estate co-investments, of $234.5 million (June 30, 2009: accumulated deficit of $280.1 million).

18. UNREALIZED FAIR VALUE CHANGES AND REVALUATION RESERVES

Movements in fair value changes relating to FVTPL co-investments, AFS co-investments, cash flow hedges and revaluation reserve are set out below:

	Fair value changes and revaluation reserve						
	FVTPL Investments			Available			
$000s	Private equity	Real estate	Sub-Total	for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2008	(41,103)	(1,413)	(42,516)	6,573	(9,097)	-	(45,040)
Net realized loss recycled to statement of income	-	-	-	-	6,563	-	6,563
Net unrealized (losses) gains for the year	(241,810)	(106,276)	(348,086)		5,559	4,417	(338,110)
Transfer of realized losses and depreciation to retained earnings	89,844	3,727	93,571	-	-	(315)	93,256
Balance at June 30, 2009	(193,069)	(103,962)	(297,031)	6,573	3,025	4,102	(283,331)
Net realized loss recycled to statement of income	-	-	-	-	5,838	-	5,838
Net unrealized gains / (losses) for the year	97,036	(101,387)	(4,351)	-	2,816		(1,535)
Transfer of realized losses / (gains) and depreciation to retained earnings	(17,891)	19,354	1,463	-	-	(631)	832
Balance at June 30, 2010	(113,924)	(185,995)	(299,919)	6,573	11,679	3,471	(278,196)

Refer to Note 19 for fair valuation of cash flow hedges.

19. 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.

19. 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 (e.g. hedging of foreign currency risk on FVTPL investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30 year ends:

Hedged item	June 30, 2010			June 30, 2009		
$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						
Long - term debts	431,158	16,926	(261)	436,444	6,383	(145)
ii) Cashflow hedges						
Coupon on long-term debt	81,481	3,199	-	78,934	1,336	-
Total forward foreign exchange contracts	512,639	20,125	(261)	515,378	7,719	(145)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	563,855	4,563	-	553,732	13,753	(431)
ii) Cashflow hedges - floating rate debt	-	-	-	250,000	-	(1,405)
Total interest rate hedging contracts	563,855	4,563	-	803,732	13,753	(1,836)
Total – Hedging Derivatives	1,076,494	24,688	(261)	1,319,110	21,472	(1,981)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	15,483	27	(165)	216,788	3,683	(3,854)
Total - Derivatives on behalf of clients	15,483	27	(165)	216,788	3,683	(3,854)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	16,738	(18,752)	384,750	15,877	(17,367)
Interest rate caps	-	-	-	601,000	-	-
Forward foreign exchange contracts	264,971	17,532	(7,322)	695,992	10,502	(10,052)
Currency option	2,251	71	(71)	2,251	33	(33)
Cross Currency swaps	334,800	15,710	-	-	-	-
Interest rate options	100,000	-	(628)	-	-	-
Equity options	-	-	-	100,000	4,583	-
Total – Other Derivatives	1,052,022	50,051	(26,773)	1,783,993	30,995	(27,452)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**2,143,999**	**74,766**	**(27,199)**	**3,319,891**	**56,150**	**(33,287)**

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2010:

June 30, 2010 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	431,158	-	-	-	431,158
Interest rate swaps	-	28,875	69,611	465,369	563,855
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	81,481	-	-	-	81,481
Derivates on behalf of clients					
Forward foreign exchange contracts	13,050	2,433	-	-	15,483
Other Derivatives:					
Interest rate swaps	-	-	300,000	50,000	350,000
Forward foreign exchange contracts	100,352	120,523	44,096	-	264,971
Currency option	-	-	2,251	-	2,251
Cross Currency swaps	-	206,148	128,652	-	334,800
Interest rate options	-	-	100,000	-	100,000
	626,041	357,979	644,610	515,369	2,143,999

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2009:

June 30, 2009 *$000s*	*Notional amounts by term to maturity* Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	226,617	209,827	-	-	436,444
Interest rate swaps	-	5,572	110,195	437,965	553,732
Cross currency swaps					-
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	78,934	-	-	-	78,934
Interest rate swaps	250,000	-	-	-	250,000
Derivates on behalf of clients					
Forward foreign exchange contracts	164,764	865	51,159	-	216,788
Other Derivatives:					
Interest rate swaps	-	-	334,750	50,000	384,750
Interest rate caps	601,000	-	-	-	601,000
Forward foreign exchange contracts	572,077	3,392	120,523	-	695,992
Currency option	-	-	2,251	-	2,251
Equity options	-	100,000	-	-	100,000
	1,893,392	319,656	618,878	487,965	3,319,891

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2010 were $47.7 million (June 30, 2009: $8.4 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $48.3 million (June 30, 2009: $9.7 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Coupon on long-term debt	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)
	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)

June 30, 2009 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk					
Coupon on long-term debt	(6,744)	(6,744)	(53,953)	(215,811)	(283,252)
Interest rate risk					
Interest on medium term debt	(1,125)	-	-	-	(1,125)
	(7,869)	(6,744)	(53,953)	(215,811)	(284,377)

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2010 was $1.0 million (June 30, 2009: $6.6 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2010***	*June 30, 2009*
Investment commitments to closed-end committed funds	200,672	173,782
Other investment commitments	4,203	6,750
Total investment commitments	204,875	180,532
Non-cancelable operating leases	63,712	72,854
Guarantees and letters of credit issued to third parties	146,767	175,530

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 $33.7 million (June 30, 2009: $85.3 million) relate to supporting performance obligations of operating partners and investee companies.

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 year, this financing was settled and exposure was taken on the Group's balance sheet.

The Group is engaged in litigations in various jurisdictions. The litigations involves 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.

21. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), the Group's primary risk management decision-making body, comprising members of senior management drawn from all key areas of the Group, guides and assists with overall management of the Group's risk profile on an enterprise wide basis.

The Group's primary risk management objective is to support its business objectives with sufficient risk capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital. The economic capital requirement for each reporting segment is determined using a dynamic VaR approach. For this purpose dynamic VaR is calculated by using a five-year planning horizon, 99% one tailed confidence level and by recognizing diversification benefits across asset classes. In addition to the dynamic VaR approach, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

(i) Credit risk

The Group is exposed to credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 19). With respect to the credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate credit risks through documented netting arrangements with counterparties where possible.

The table below shows the relationship between internal rating and the category of the external rating grades:

Internal Rating	External Rating by S & P and Moody's
High	AAA to A
Standard	A- to B-

21. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Internal rating categories are summarized as follows:

High - there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

Short term funds, placements and derivatives are only with those counterparties that meet the minimum standard external rating and hence carry a minimal credit risk. The table below analyses the Group's maximum credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2010 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	7,740	-	-	-	-	7,740	38,207
Placements with financial institutions and other liquid assets	873,116	-	-	-	-	873,116	960,505
Positive fair value of derivatives	-	74,766	-	-	-	74,766	37,777
Receivables and prepayments	-	159,769	118,552	38,410	(38,295)	278,436	261,674
Loans and advances	-	218,779	-	69,976	(52,607)	236,148	155,669
Co-investments - debt	-	82,445	-	-	-	82,445	34,787
Guarantees	-	146,767	-	-	-	146,767	169,349
Total	880,856	682,526	118,552	108,386	(90,902)	1,699,418	

June 30, 2009 $000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	Credit risk rating						
	High	Standard					
Short-term funds	404,951	-	-	-	-	404,951	164,711
Placements with financial institutions and other liquid assets	699,884	-	-	-	-	699,884	332,529
Positive fair value of derivatives	-	56,150	-	-	-	56,150	21,711
Receivables	-	189,605	111,116	32,749	(31,907)	301,563	271,228
Loans and advances	-	196,779	-	73,684	(47,326)	223,137	113,664
Co-investments - debt	-	44,130	-	-	-	44,130	31,350
Guarantees	-	191,930	-	-	-	191,930	202,325
Total	1,104,835	678,594	111,116	106,433	(79,233)	1,921,745	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2009: nil).

21. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

The aging analysis of the past due but not impaired is given in the table below.

$000s	***June 30, 2010***	*June 30, 2009*
Upto 1 month	26,564	4,808
> 1 upto 3 months	11,996	2,611
> 3 upto 6 months	2,010	553
> 6 months upto 1 year	443	3,783
Over 1 year	77,539	99,361
Total	**118,552**	**111,116**

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2010 amounts to $736 million (June 30, 2009: $763 million).

21. RISK MANAGEMENT (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources and maintained long-dated maturities of liabilities. The Group manages assets with liquidity in mind, and monitors liquidity on a daily basis (see Note 6).

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

June 30, 2010 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total Upto 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	7,740	-	7,740	-	-	-	-	7,740
Placement with financial institutions and other liquid assets	870,116	-	870,116	3,000	-	-	-	873,116
Positive fair value of derivatives	11,688	21,882	33,570	13,340	344	20,425	7,087	74,766
Receivables and prepayments	61,833	216,790	278,623	32,333	-	-	-	310,956
Loans and advances	3,404	8,813	12,217	223,904	-	27	-	236,148
Co-investments in hedge funds	288,516	196,642	485,158	52,116	-	-	-	537,274
Private equity co-investments	-	216,685	216,685	836,080	-	-	-	1,052,765
Real estate co-investments	-	30,281	30,281	186,496	-	-	-	216,777
Premises, equipment and other assets	138	-	138	15,472	662	11,250	-	27,522
Total assets	1,243,435	691,093	1,934,528	1,362,741	1,006	31,702	7,087	3,337,064
Liabilities								
Deposits from clients - short term	196,032	-	196,032	-	-	-	-	196,032
Negative fair value of derivatives	562	3,118	3,680	13,977	-	-	9,542	27,199
Payables and accrued expenses	87,839	20,045	107,884	7,960	-	-	-	115,844
Deposits from clients - medium term	-	-	-	90,693	-	-	-	90,693
Medium-term debt	349,954	-	349,954	971,394	-	-	-	1,321,348
Long-term debt	-	45,229	45,229	116,077	-	388,201	42,103	591,610
Total liabilities	634,387	68,392	702,779	1,200,101	-	388,201	51,645	2,342,726
Net gap	609,048	622,701	1,231,749	162,640	1,006	(356,499)	(44,558)	
Cumulative liquidity gap	609,048	1,231,749	1,231,749	1,394,389	1,395,395	1,038,896	994,338	

June 30, 2009 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total Upto 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Over 20 years*	*Total*
Assets								
Cash and short-term funds	404,951	-	404,951	-	-	-	-	404,951
Placement with financial institutions and other liquid assets	699,884	-	699,884	-	-	-	-	699,884
Positive fair value of derivatives	4,436	8,301	12,737	8,797	1,233	868	32,515	56,150
Receivables and prepayments	112,221	47,594	159,815	169,248	-	-	-	329,063
Loans and advances	12,340	23,073	35,413	187,724	-	-	-	223,137
Co-investments in hedge funds	69,685	391,412	461,097	141,513	11,871	-	-	614,481
Private equity co-investments	-	18,424	18,424	860,808	24,159	-	-	903,391
Real estate co-investments	-	38,414	38,414	244,793	-	-	-	283,207
Premises, equipment and other assets	142	-	142	22,304	8,671	-	-	31,117
Total assets	1,303,659	527,218	1,830,877	1,635,187	45,934	868	32,515	3,545,381
Liabilities								
Deposits from clients	257,266	-	257,266	-	-	-	-	257,266
Negative fair value of derivatives	11,771	170	11,941	13,389	-	-	7,957	33,287
Payables and accrued expenses	11,794	51,191	62,985	-	-	-	-	62,985
Deposits from clients - medium term	-	-	-	83,212	-	-	-	83,212
Medium-term debt	22,000	470,000	492,000	1,143,515	-	-	-	1,635,515
Long-term debt	-	40,392	40,392	161,017	-	-	376,961	578,370
Total liabilities	302,831	561,753	864,584	1,401,133	-	-	384,918	2,650,635
Net gap	1,000,828	(34,535)	966,293	234,054	45,934	868	(352,403)	
Cumulative liquidity gap	1,000,828	966,293	966,293	1,200,347	1,246,281	1,247,149	894,746	

21. RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal values) determined by using the forward yield curve for the relevant periods. The Group however manages the inherent liquidity risk based on future cash flows discounted to present values.

June 30, 2010 $000s	*Up to 3 months*	*>3 months upto 1 year*	*>1 year upto 5 years*	*>5 years upto 10 years*	*>10 years upto 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from clients	198,300	278	91,563	-	-	-	290,141
Payables and accrued expenses	87,839	20,045	7,960	-	-	-	115,844
Medium-term debt	356,658	21,760	1,026,916	-	-	-	1,405,334
Long-term debt	9,734	64,673	202,991	93,347	604,679	60,100	1,035,524
	652,531	106,756	1,329,430	93,347	604,679	60,100	2,846,843
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	618,478	290,838	144,832	-	-	-	1,054,148
Contractual amounts receivable	(637,551)	(322,931)	(150,930)	-	-	-	(1,111,412)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(2,740)	(7,155)	(33,253)	(13,521)	15,175	(86)	(41,580)
Commitments	1,745	46,210	193,893	26,739	-	-	268,587
Guarantees	101,920	-	15,876	28,971	-	-	146,767
Total undiscounted financial liabilities	734,383	113,718	1,499,848	135,536	619,854	60,014	3,163,353

June 30, 2009 $000s	*Up to 3 months*	*>3 months upto 1 year*	*>1 year upto 5 years*	*>5 years upto 10 years*	*>10 years upto 20 years*	*Over 20 years*	*Total*
Financial liabilities							
Deposits from clients	239,868	79,320	22,243	-	-	-	341,431
Payables and accrued expenses	11,794	51,191	-	-	-	-	62,985
Medium-term debt	25,360	481,188	1,172,015	-	-	-	1,678,563
Long-term debt	2,532	65,930	247,631	87,641	175,282	463,005	1,042,021
	279,554	677,629	1,441,889	87,641	175,282	463,005	3,125,000
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	1,026,484	214,177	164,208	-	-	-	1,404,869
Contractual amounts receivable	(1,020,109)	(217,524)	(174,443)	-	-	-	(1,412,076)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(208)	5,537	18,737	9,885	(9,764)	(512)	23,675
Commitments	1,717	44,376	173,450	33,843	-	-	253,386
Guarantees	162,886	19,048	10,000	-	-	-	191,934
Total undiscounted financial liabilities	450,324	743,243	1,633,841	131,369	165,518	462,493	3,586,788

21. RISK MANAGEMENT (continued)

(iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2010			June 30, 2009		
$000s	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	1,147,125	146,767	1,293,892	1,026,097	191,930	1,218,027
Europe	136,793	-	136,793	127,953	-	127,953
Middle East	247,969	-	247,969	561,460	-	561,460
Others	936	-	936	14,305	-	14,305
Total	1,532,823	146,767	1,679,590	1,729,815	191,930	1,921,745

	June 30, 2010			June 30, 2009		
$000s	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	1,019,986	44,240	1,064,226	1,319,932	89,012	1,408,944
Consumer products	15,286	430	15,716	19,760	-	19,760
Consumer services	12,785	-	12,785	12,083	-	12,083
Distribution	42,425	-	42,425	8,616	-	8,616
Industrial products	81,289	-	81,289	45,916	-	45,916
Real estate	97,084	86,221	183,305	94,136	61,250	155,386
Technology and Telecom	23,873	-	23,873	28,678	19,048	47,726
Others	240,095	15,876	255,971	200,694	22,620	223,314
Total	1,532,823	146,767	1,679,590	1,729,815	191,930	1,921,745

21. RISK MANAGEMENT (continued)

(iv) Market risk

The principal market risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, private equity and real estate, as well as on its debt financings. For purposes of managing market risk, the Group has established appropriate procedures and limits approved by the Board of Directors.

The Group uses an internal model to calculate VaR for measuring unexpected future losses that may arise from adverse market movements. The Group's risk management team conducts back testing in accordance with the Market Risk Capital Adequacy Regulations. Back testing is carried out for foreign exchange risk by comparing VaR based on a ten day holding period with the daily profit and loss and for equity price risk related to co-investments in hedge funds by comparing VaR based on a one month holding period with the actual performance for the month. The objective is to ensure that the assumptions used for computing VaR are reasonable and result in a VaR number that does not understate economic and regulatory risk capital requirements.

Market risk has been further analyzed and presented below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

21. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated monetary assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established risk limits.

The Group's significant net hedged and unhedged foreign currency positions are set out below.

$000s	June 30, 2010		June 30, 2009	
Long (Short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	-	40,249	-	39,140
Euro	47,265	150	221,919	(1,182)
Pounds Sterling	36,368	245	(22,087)	(768)
Japanese Yen	(399,310)	594	(409,332)	(86)
	(315,677)	41,238	(209,500)	37,104

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk.

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	2010	2009
Average FX VaR	27	27
Year end FX VaR	14	50
Maximum FX VaR	133	114
Minimum FX VaR	2	3

21. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $4.8 million (June 30, 2009: $4.7 million), which earn interest at an effective rate approximating 10% (June 30, 2009: 10%) per annum.
- Deposits from clients amounting to $3.0 million (June 30, 2009: $26.9 million) on which interest is paid at an effective rate of 5.1% (June 30, 2009: 2.0%) per annum reflecting the underlying maturity structure.
- Long term debt amounting to $25 million (June 30, 2009: $50 million) on which interest is paid at an effective rate of 8.1% (June 30, 2009: 8.1%) per annum reflecting the underlying maturity structure.

The following table depicts the sensitivity of the Group's net income to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	*Sensitivity to net income for +200 basis points*	
Currency	*June 30, 2010*	*June 30, 2009*
Euro	(6,836)	(8,702)
Pounds Sterling	(1,271)	(1,317)
Japanese Yen	934	1,737
US Dollar	(14,020)	(21,026)
Others	182	391
Total	(21,011)	(28,917)

a) Figures in parenthesis above represent loss.
b) The impact of a negative 200 basis points change would be opposite and approximate the above values.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end. The Group actively manages its interest rate gap exposure, with a bias towards floating rates.

21. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, private equity and real estate.

Co-investments in private equity and real estate

The Group manages the equity price risk of its co-investments in private equity and real estate on a portfolio basis as well as at the individual investment level.

The sensitivity of the Group's co-investments in private equity and real estate to changes in multiples / discount rates is discussed.

Co-investments in hedge funds

The Group manages the market risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	**2010**	2009	**2010**	2009
Average VaR	28,665	59,109	43,714	62,063
Year end VaR	22,653	34,526	40,410	48,817
Maximum VaR	37,516	86,365	49,072	88,519
Minimum VaR	22,653	34,526	40,271	44,660
Maximum hedge funds exposure	671,244	2,069,564	983,756	2,090,421
Minimum hedge funds exposure	524,647	614,481	843,043	868,828

21. RISK MANAGEMENT (continued)

(v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

As part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- The Bank applies the Basic Indicator Approach (‘BIA’) to measure operational risk
- It uses best in class qualitative standards expected under the Basel II Standardized Approach.
- Financial Controls and Risk Management with involvement from Internal Audit have jointly conducted Control Risk Self Assessment (CRSA) workshops with each line of business head, identifying and highlighting various operational risk aspects.
- An operational risk framework is in place with a dedicated unit within Risk Management.
- The team works with all departments to identify key operational risks and has set up appropriate controls infrastructure.
- Identification of key risk indicators, key risk controls, observations of loss data, definitions and structures related to operational risk at each business level have been completed.
- Where necessary, a mitigation plan is in place to improve the control environment and its ownership allocated to the ‘Operational Risk Specialist’ of the relevant line of business.

22. 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 except for fixed rate liabilities effectively carried at amortized cost. The fair value of such liabilities amount to $1,878.5 million (June 30, 2009: $1,993.6 million) as compared to carrying value of $1,912.9 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:

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:

June 30, 2010 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements with financial institutions and other liquid assets	-	253,000	-	253,000
Positive fair value of derivatives	-	74,766	-	74,766
Co-investments				
Hedge funds	-	537,274	-	537,274
Private equity	914	-	1,003,597	1,004,511
Real estate	-	-	182,586	182,586
Total financial assets	914	865,040	1,186,183	2,052,137
Financial liabilities				
Negative fair value of derivatives	-	27,199	-	27,199
Total financial liabilities	-	27,199	-	27,199

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.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A reconciliation of the opening and closing amounts of financial assets (including those measured using level 1 input and assets at amortized cost) is given below:

June 30, 2010 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements*	*Movements relating to realizations/ placements**	*Other movements**	*At end*
US and European Buyouts						
Level 3	769,392	153,417	97,690	(112,144)	(21,241)	887,114
Others	-	2,839	-	-	-	2,839
Sub-total	**769,392**	**156,256**	**97,690**	**(112,144)**	**(21,241)**	**889,953**
Technology Small Cap Investments						-
Level 3	45,483	29,003	1,286	(29,641)	(843)	45,288
Others	711	25,909	203	-	-	26,823
Sub-total	**46,194**	**54,912**	**1,489**	**(29,641)**	**(843)**	**72,111**
Gulf Growth Capital						
Level 3	13,696	4,416	-	-	-	18,112
Others	-	-	-	-	-	-
Sub-total	**13,696**	**4,416**	**-**	**-**	**-**	**18,112**
Strategic investments and other						
Level 3	54,603	623	(2,143)	-	-	53,083
Others	19,506	-	-	-	-	19,506
Sub-total	**74,109**	**623**	**(2,143)**	**-**	**-**	**72,589**
Real Estate						
Level 3	239,077	48,986	(101,387)	(4,666)	576	182,586
Others	44,130	16,969	-	(26,908)	-	34,191
Sub-total	**283,207**	**65,955**	**(101,387)**	**(31,574)**	**576**	**216,777**
Total	**1,186,598**	**282,162**	**(4,351)**	**(173,359)**	**(21,508)**	**1,269,542**

June 30, 2009 *$000s*	*At beginning*	*New acquisitions*	*Fair value movements*	*Movements relating to realizations*	*Other movements**	*At end*
US and European Buyouts						
Level 3	921,821	146,256	(243,646)	(62,007)	6,968	769,392
Sub-total	**921,821**	**146,256**	**(243,646)**	**(62,007)**	**6,968**	**769,392**
Technology Small Cap Investments						
Level 3	32,634	11,623	2,699	-	(1,473)	45,483
Others	1,574	-	(863)	-	-	711
Sub-total	**34,208**	**11,623**	**1,836**	**-**	**(1,473)**	**46,194**
Gulf Growth Capital						
Level 3	-	13,696	-	-	-	13,696
Sub-total	**-**	**13,696**	**-**	**-**	**-**	**13,696**
Strategic investments and other						
Level 3	53,607	-	(3,307)	-	4,303	54,603
Others	19,506	-	-	-	-	19,506
Sub-total	**73,113**	**-**	**(3,307)**	**-**	**4,303**	**74,109**
Real Estate						
Level 3	318,639	-	(106,276)	(10,775)	37,489	239,077
Others	18,399	16,225	-	(2,876)	12,382	44,130
Sub-total	**337,038**	**16,225**	**(106,276)**	**(13,651)**	**49,871**	**283,207**
Total	**1,366,180**	**187,800**	**(351,393)**	**(75,658)**	**59,669**	**1,186,598**

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.2 million gain (June 2009: $0.9 million loss) for movements relating to Level 1 assets of Technology Small Cap Investments.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table below summarizes the sensitivity of the Group's co-investments in US and European Buyouts and real estate to changes in multiples / discount rates.

June 30, 2010 *$000s*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
US and European Buyouts	EBITDA Multiples	+/- 0.5x	889,953	941,696	842,050	51,743	(47,903)
Real Estate	Capitalization Rate	+/- 1%	216,777	247,666	192,620	30,889	(24,157)

June 30, 2009 *$000s*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance Sheet Exposure*		*Impact on Income*	
				Increase	Decrease	Increase	Decrease
US and European Buyouts	EBITDA Multiples	+/- 0.5x	769,392	864,962	685,067	95,570	(84,325)
Real Estate	Capitalization Rate	+/- 1%	283,207	346,912	180,711	63,705	(102,496)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of TSI, GGC and strategic co-investments.

23. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide a competitive total compensation package for employees versus comparable financial services firms operating in similar geographic locations. This is achieved through a combination of cash salaries, variable bonuses dependant upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $0.4 million (2009: $0.6 million).

Programs for Investment Profit Participation

The Group's investment professionals in its private equity and real estate investment lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with the investment professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Similarly, the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling period. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

23. EMPLOYEE COMPENSATION (continued)

Programs for Investment Participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including private equity investments, real estate investments and the Hedge Funds Program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group.

In some instances, the Group, together with third party lenders, also provides financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to or on behalf of employees as of June 30, 2009 is $141.2 million (June 30, 2009: $146.4 million), of which nil (June 30, 2009: $16.4 million) was from third parties. Third party financing was fully repaid during the year and exposure was taken on the Group's balance sheet (see Note 20).

Share Ownership Program

SIPCO sponsors a share incentive plan ("SIP Plan") under which eligible employees receive a portion of their annual performance incentive compensation in the form of a beneficial interest in the ownership of the Bank via shares of SIPCO. These shares have different vesting periods. The restricted shares are awarded at fair value, determined with reference to the market price of the GDRs of the Bank. Accordingly, the Group does not incur any additional costs or expenses in relation to the SIP Plan, since these awards occur at the fair value of the shares. It is important to note that the SIP Plan is therefore a fully paid up employee share ownership program, whereby employees effectively pay fair value for purchasing the shares.

24. 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 HFP 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 these companies 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.

In addition to the compensation and benefits to employees and senior management, disclosed in Notes 23, and directors' remuneration, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 30, 2010***	*June 30, 2009*
Management fees	Investee companies	23,457	19,724
	Client companies	48,736	41,974
	Client companies associated with the HFP	28,574	42,619
Activity fees	Investee companies	41,376	19,775
Performance fees	Client companies associated with the HFP	18,841	(579)
	Client companies	584	881
Asset based income	Investee companies	2,749	21,367
	Client companies	4,942	7,328
Interest expense	Client companies	(415)	(2,113)
Provisions	Employee investment programs	(4,181)	(16,210)

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

	June 30, 2010			*June 30, 2009*		
$000s	***Assets***	***Liabilities***	***Off-balance sheet***	*Assets*	*Liabilities*	*Off-balance sheet*
Outstanding balances						
Strategic shareholders	13,663	64,329	-	3,052	55,870	-
Investee companies	66,255	-	-	60,382	-	-
Investment holding companies	92,785	4,387	200,672	84,110	199,491	173,782
Client fund companies associated with the HFP	9,405	-	-	18,513	-	-
Directors and senior management	3,838	5,984	-	466	6,136	-
	185,946	74,700	200,672	166,523	261,497	173,782

24. RELATED PARTY TRANSACTIONS (continued)

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $465 million as at June 30, 2010 (June 30, 2009: $459 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the above table to the extent they result from transactions with related parties.

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