

**Rating Action: Moody's changes outlook on Investcorp's Ba2 rating to negative**

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Global Credit Research - 21 Mar 2016

London, 21 March 2016 -- Moody's Investors Service has changed to negative from stable the outlook for Investcorp S.A.'s and Investcorp Capital Limited's Ba2 backed senior unsecured debt ratings. Moody's has also affirmed Investcorp S.A.'s and Investcorp Capital Limited's Ba2 backed senior unsecured debt ratings in addition to Investcorp Capital Limited's (P)Ba2 backed senior unsecured MTN rating. All debts are guaranteed by Investcorp Bank B.S.C.

**RATINGS RATIONALE**

The rating action reflects Moody's concern that Investcorp might face increasing difficulties in raising new capital or reinvesting clients' capital in the coming year(s) due to risk that prolonged low oil prices will result in substantially lower government spending, declining corporate investment and softening consumption in the GCC region. Moody's expects Investcorp's capital raising to be impacted by the prolonged drop in oil prices due client concentration in the GCC region. A slow down or reversal in asset under management (AUM) growth will put pressure on the company's key financial metrics, including profitability and financial leverage. Moody's also noted that due to the volatile market environment Investcorp may find it more challenging to stabilize its hedge fund business which has suffered from net outflows over the last several years.

The Ba2 rating reflects Investcorp's strong franchise in the GCC region as a leading alternative investment provider to Gulf investors as well as to investors in the US and Europe. Investcorp has a strong reputation and recognizable brand name in the GCC region due to its thirty-year plus track record. The ratings also benefit from the company's good liquidity profile and from the continued improvement in earning quality driven by the increasing share of earnings from management fees. The ratings are constrained by Investcorp's high, albeit improving, financial leverage and balance sheet risk related to its co-investment activities.

**WHAT COULD MOVE THE RATINGS UP/DOWN**

Upwards rating pressure on Investcorp may result from: (i) reduced debt levels; (ii) further reduction in the company's investment portfolio; (iii) growth of Investcorp's clients' AUM, particularly in the hedge fund segment; and (iv) further expansion and diversification of revenue streams, in particular from fund of hedge fund management fees.

Downwards rating pressure could result from a weaker financial position driven by: (i) a deterioration in the company's ability to raise new client capital or reinvest client capital that would substantially affect revenue generation capacity; (ii) lower private equity origination and placement activities that would constrain the company's profitability; (iii) material on-balance sheet investment losses; (iv) a reversal in the trend of declining debt and on-balance sheet investment levels and (v) an erosion in the company's improving capital position.

**PRINCIPAL METHODOLOGIES**

The principal methodology used in these ratings was Asset Managers: Traditional and Alternative published in December 2015. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Headquartered in Manama, Bahrain, Investcorp Bank B.S. C. (Investcorp) is the principal parent of the Investcorp Group and operates under a wholesale banking license issued by the Central Bank of Bahrain. Investcorp's asset under management were \$10.7billion as of December 2015.

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