INVESTCORP

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2010

Message to Shareholders

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 27th fiscal period ended June 30, 2010. Against continued headwinds from the still volatile global financial environment, Investcorp has rebounded well and generated a strong profit for the year.

Investcorp's Fiscal 2010 net income was $102.2 million. This result reflects an increase in flow of deal acquisitions and exits and a returning Gulf investor appetite for attractive private equity and real estate investments, combined with substantial inflows into our hedge fund platform from institutional clients. Client assets under management increased by 9.7% to $9.7 billion. Hedge fund client assets under management incresed by 22% to $3.8 billion.

Given the unprecedented stress in global economies and financial markets over the past two years, this marks an impressive and rapid recovery from the challenges of our last fiscal year. It validates the robustness of our business model and the enduring power of our Gulf franchise and relationships. It also demonstrates the effectiveness of the bold and decisive action management has taken to reshape the Firm to meet changing conditions and to exploit opportunities that are arising as the world economy resets itself.

Fee income for the fiscal year increased by 69% to $218.9 million, reflecting a stable source of recurring management fee income and an increased level of activity and performance fees from investment acquisitions, placements and realizations. Asset based income, excluding unrealized fair value changes, was $146.1 million, driven by the solid 15% return on our hedge funds co-investment portfolio over the fiscal year, despite recent periods of extreme market volatility due to European contagion issues. There was a turnaround in private equity valuations, with a mark-to-market gain of $97.0 million, reflecting the inherent strength of Investcorp's portfolio and our careful stewardship of investments in difficult economic conditions. This was offset by continued caution with respect to US commercial real estate valuations, resulting in a small overall fair value reduction of $4.4 million on private equity and real estate co-investments in aggregate.

We continued to focus on prudent balance sheet management and maintaining comfortable levels of liquidity. Total liquidity remains strong at $1.4 billion with a planned medium-term refinancing completed on schedule. Total assets were $3.4 billion, including $1.8 billion of balance sheet co-investments. Our Tier 1 capital adequacy ratio stood at 22.9%, well above the BIS capital adequacy guideline of 8% and the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the best capitalized banks globally and provides the platform for us to take advantage of the recovery in the global economy. Operating and interest expense dropped to $247 million, reflecting a rigorous approach to expense management and reduced interest expense due to continued deleveraging of the balance sheet.

Overall, during Fiscal 2010, we have been active, but disciplined, in making investments during volatile market conditions. In private equity, Investcorp deployed $346 million of equity in new and add-on investments. We acquired Veritext and made additional investments in Berlin Packaging, for an add-on acquisition, and in Moneybookers – all three for direct placement with our clients. We made investments through the Technology Fund III in CSIdentity and OpSec Security, and also made investments through the Gulf Opportunity Fund I in Gulf Cryo and in a MENA company operating in the agro-industry sector, to be announced in Fiscal 2011. We deployed $69 million in three new real estate investments. Two were in retail shopping centers, which were placed with clients as a single portfolio, US Retail V, and the third was a debt investment in the W Hotel at South Beach, Florida.

During Fiscal 2010 Investcorp's co-investment hedge funds portfolio significantly outperformed the hedge funds industry's HFRI Composite Index, returning approximately 10% on a gross basis even though the second half of the fiscal year was a period of extreme market volatility.

Total placement and fund-raising activities in the fiscal year raised $1.4 billion, including $1.1 billion of new hedge funds assets.

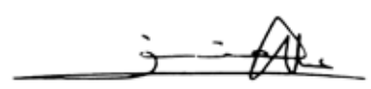
Throughout the global financial crisis, Investcorp's priority has been to preserve value in existing investments and, in particular, to ensure that our private equity portfolio companies survived the financial crisis and, where possible, emerged from it stronger. We focused on operational improvements and debt management and, over the year, supported a number of accretive add-on acquisitions to assist them in growing value, together with several transactions to preserve value and limit risk in portfolio companies by appropriate deleveraging.

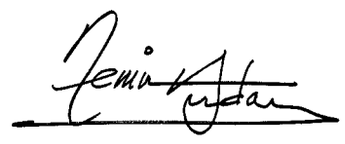
In spite of the difficult economy, we were able to deliver value through realizations. We made two exits during the year from our US and European private equity portfolio, with total realization proceeds of $448 million. We completed the exit of Avecia's Biologics business and made a highly successful sale of American Tire Distributors, which valued the company at $1.3 billion and doubled the original investment for Investcorp clients. We made two real estate realizations with total proceeds, together with distributions from other income producing properties, of $97 million. We closed on the sale of the final properties in the Empire Mountain Village portfolio, and sold a first mortgage loan from the Investcorp Real Estate Credit Fund. Unfortunately, despite our active management, one portfolio company, EnviroSolutions, filed for Chapter 11 bankruptcy protection.

Out of the net income of $102.2 million for the current fiscal year, Investcorp is proposing to pay $57.4 million in preference share dividends. Investcorp's Board of Directors is proposing appropriations, subject to regulatory and shareholders' approval, of $1,410,000 as Directors' remuneration, of which $585,000 is payable in the form of ordinary shares and $825,000 is payable in the form of cash.

We recognize that this year's rebound, in the face of continuing challenges, could not have been achieved without the diligence and professionalism of Investcorp's staff and the support of our Strategic Partnership Group, of our shareholders and of our clients. As a result of your efforts, Investcorp is strong, healthy and fully equipped to continue on an upward path, and the Board is most grateful to you all. We also mark, as always, our appreciation of the longstanding support of the Government of the Kingdom of Bahrain.

Signed on behalf of the Board of Directors





Abdul Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

August 3, 2010

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30, 2010

$000s	2010	2009
FEE INCOME		
Management fees	104,320	107,359
Activity fees	68,652	21,715
Performance fees	45,957	301
Fee income **(a)**	218,929	129,375
ASSET BASED INCOME		
Investment income		
Private equity	25,259	12,389
Hedge funds	91,284	(323,797)
Real estate	11,475	20,153
Treasury and other asset based income	18,108	72,883
Asset based income (loss) **(b)**	146,126	(218,372)
Gross operating income (loss) (a) + (b)	365,055	(88,997)
Provision for impairment	(11,669)	(22,246)
Interest expense	(58,030)	(114,976)
Operating expenses	(188,831)	(206,322)
Net operating income (loss) before fair value changes of private equity and real estate co-investments	106,525	(432,541)
Fair value changes of private equity and real estate co-investments **(c)**	(4,351)	(348,086)
NET INCOME (LOSS)	102,174	(780,627)
Basic and fully diluted earnings (loss) per ordinary share ($)	64	(1,120)
TOTAL REVENUE (a) + (b) + (c)	360,704	(437,083)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2010

$000s	2010	2009
NET INCOME (LOSS)	102,174	(780,627)
Other comprehensive income		
Fair value movements - net unrealized gains on cashflow hedges	8,654	12,122
Revaluation surplus on premises and equipment	-	11,240
Other comprehensive income	8.654	23,362
TOTAL COMPREHENSIVE INCOME (LOSS)	110,828	(757,265)

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The above have been extracted from the consolidated financial statements of Investcorp Bank B.S.C. audited by Ernst & Young

INVESTCORP

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2010

			Reserves							Fair value changes and revaluation reserve					
										Fair value changes					
$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	Revaluation reserve on premises and equipment	Total fair value changes and revaluation reserve	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

CONSOLIDATED BALANCE SHEET

JUNE 30, 2010

$000s	June 30, 2010	June 30, 2009
ASSETS		
Cash and short-term funds	21,342	416,088
Placements with financial institutions and other liquid assets	881,469	713,217
Positive fair value of derivatives	74,766	56,150
Receivables and prepayments	315,975	335,741
Loans and advances	247,593	224,103
Co-investments		
Hedge funds	537,274	614,481
Private equity	1,052,765	903,391
Real estate	216,777	283,207
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
Negative fair value of derivatives	27,199	33,287
Payables and accrued expenses	144,342	90,361
Deposits from clients - medium-term	90,693	83,212
Medium-term debt	1,321,348	1,635,515
Long-term debt	591,610	578,370
TOTAL LIABILITIES	2,422,618	2,725,618
EQUITY		
Preference share capital	508,678	500,000
Ordinary shares at par value	200,000	200,000
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	-
Unrealized fair value changes and revaluation reserve	(271,718)	(276,668)
TOTAL EQUITY	994,338	894,746
TOTAL LIABILITIES AND EQUITY	3,416,956	3,620,364

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

$000s **OPERATING ACTIVITIES**	2010	2009
Net income (loss)	102,174	(780,627)
Adjustments for non-cash items in net income (loss)		
Fair value changes	4,351	348,086
Depreciation	7,594	7,245
Provisions for impairment	11,669	22,246
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
Loans and advances	(28,771)	97,265
Deposits from clients - short-term	(42,447)	(148,539)
Unfunded deal acquisitions	-	(234,321)
Payables and accrued expenses	53,981	(126,764)
Co-investments		
Hedge funds	77,207	1,406,327
Private equity	(52,338)	(116,059)
Real estate	(34,957)	(52,445)
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)
Medium-term revolvers drawn	-	557,500
Medium-term debt issued (net of transaction costs)	174,409	-
Medium-term debt repaid	(492,000)	(42,000)
Long-term debt repaid	(35,499)	(407,263)
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)	-
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:		
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
ADDITIONAL CASH FLOW INFORMATION		
Interest paid	(53,672)	(123,354)
Interest received	16,126	21,498

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