Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2010

TABLE OF CONTENTS PAGE

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	RISHI KAPOOR	STEPHANIE R. BESS
Executive Chairman & CEO	Chief Financial Officer	General Counsel

August 3, 2010

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 June 30, 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 June 30, 2010 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 June 30, 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

August 3, 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	112
Placements with financial institutions and other liquid assets	**881,469**	713,217	6	112
Positive fair value of derivatives	**74,766**	56,150	20	126
Receivables and prepayments	**315,975**	335,741	7	113
Loans and advances	**247,593**	224,103	8	114
Co-investments				
Hedge funds	**537,274**	614,481	9	114
Private equity	**1,052,765**	903,391	10	115
Real estate	**216,777**	283,207	11	119
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	120
Negative fair value of derivatives	**27,199**	33,287	20	126
Payables and accrued expenses	**144,342**	90,361	14	120
Deposits from clients—medium-term	**90,693**	83,212	13	120
Medium-term debt	**1,321,348**	1,635,515	15	121
Long-term debt	**591,610**	578,370	16	122
Total liabilities	**2,422,618**	2,725,618		
EQUITY				
Preference share capital	**508,678**	500,000	17	123
Ordinary shares at par value	**200,000**	200,000	17	123
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	125
Unrealized fair value changes and revaluation reserve	**(271,718)**	(276,668)	18	125
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 STATEMENT OF INCOME
For the year ended June 30, 2010

$000s	2010	2009	Note	Page
FEE INCOME				
Management fees	104,320	107,359		
Activity fees	68,652	21,715		
Performance fees	45,957	301		
Fee income (a)	218,929	129,375	2	103
ASSET-BASED INCOME				
Investment income				
Private equity	25,259	12,389		
Hedge funds	91,284	(323,797)		
Real estate	11,475	20,153		
Treasury and other asset-based income	18,108	72,883		
Asset-based income (loss) (b)	146,126	(218,372)		
Gross operating income (loss) (a) + (b)	365,055	(88,997)		
Provision for impairment	(11,669)	(22,246)	12	119
Interest expense	(58,030)	(114,976)		
Operating expenses	(188,831)	(206,322)	5	112
Net operating income (loss) before fair value changes of private equity and real estate co-investments	106,525	(432,541)		
Fair value changes of private equity and real estate co-investments (c)	(4,351)	(348,086)	18	125
NET INCOME (LOSS)	102,174	(780,627)		
Basic and fully diluted earnings (loss) per ordinary share ($)	64	(1,120)	19	125
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	125
Revaluation surplus on premises and equipment	–	11,240	18	125
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			
$000s	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total reserves
Balance at June 30, 2008	–	200,000	503,971	100,000	50,000	653,971
Total comprehensive loss	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares purchased during the year	–	–	–	–	–	–
Treasury shares sold during the year	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(48,029)	–	–	(48,029)
Dividends paid	–	–	–	–	–	–
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
Total comprehensive income	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares purchased during the year	–	–	–	–	–	–
Treasury shares sold / financed during the year	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(7,973)	–	–	(7,973)
Proposed appropriation	–	–	–	–	–	–
Preference share issuance proceeds	15,132	–	–	–	–	–
Share issue expenses	–	–	(779)	–	–	(779)
Non-vested preference shares issued to employees	(11,309)	–	–	–	–	–
Vesting during the year	5,680	–	–	–	–	–
Forfeitures during the year	(825)	–	–	–	–	–
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**

*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.

			Fair value changes and revaluation reserve					
			Fair value changes					
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
(177,602)	542,563	63,278	(42,516)	6,573	(9,097)	–	(45,040)	1,237,170
–	(780,627)	–	–	–	12,122	11,240	23,362	(757,265)
–	(93,571)	–	93,571	–	–	–	93,571	–
–	348,086	–	(348,086)	–	–	–	(348,086)	–
–	475	–	–	–	–	(475)	(475)	–
(51,278)	–	–	–	–	–	–	–	(51,278)
30,344	–	–	–	–	–	–	–	30,344
48,029	–	–	–	–	–	–	–	–
–	–	(63,278)	–	–	–	–	–	(63,278)
–	–	–	–	–	–	–	–	500,000
–	–	–	–	–	–	–	–	(947)
(150,507)	16,926	–	(297,031)	6,573	3,025	10,765	(276,668)	894,746
–	102,174	–	–	–	8,654	–	8,654	110,828
–	(1,463)	–	1,463	–	–	–	1,463	–
–	4,351	–	(4,351)	–	–	–	(4,351)	–
–	816	–	–	–	–	(816)	(816)	–
(62,203)	–	–	–	–	–	–	–	(62,203)
43,068	–	–	–	–	–	–	–	43,068
7,973	–	–	–	–	–	–	–	–
–	(57,374)	57,374	–	–	–	–	–	–
–	–	–	–	–	–	–	–	15,132
–	–	–	–	–	–	–	–	(779)
–	–	–	–	–	–	–	–	(11,309)
–	–	–	–	–	–	–	–	5,680
–	–	–	–	–	–	–	–	(825)
(161,669)	65,430	57,374	(299,919)	6,573	11,679	9,949	(271,718)	994,338

INVESTCORP BANK B.S.C.
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	125
Depreciation	7,594	7,245	5	112
Provisions for impairment	11,669	22,246	12	119
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	113
Loans and advances	(28,771)	97,265	8	114
Deposits from clients—short-term	(42,447)	(148,539)	13	120
Unfunded deal acquisitions	–	(234,321)		
Payables and accrued expenses	53,981	(126,764)	14	120
Co-investments				
Hedge funds	77,207	1,406,327	9	114
Private equity	(52,338)	(116,059)	10	115
Real estate	(34,957)	(52,445)	11	119
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	120
Medium-term revolvers drawn	–	557,500		
Medium-term debt issued (net of transaction costs)	174,409	–	15	121
Medium-term debt repaid	(492,000)	(42,000)	15	121
Long-term debt repaid	(35,499)	(407,263)	16	122
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	112
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	112
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.

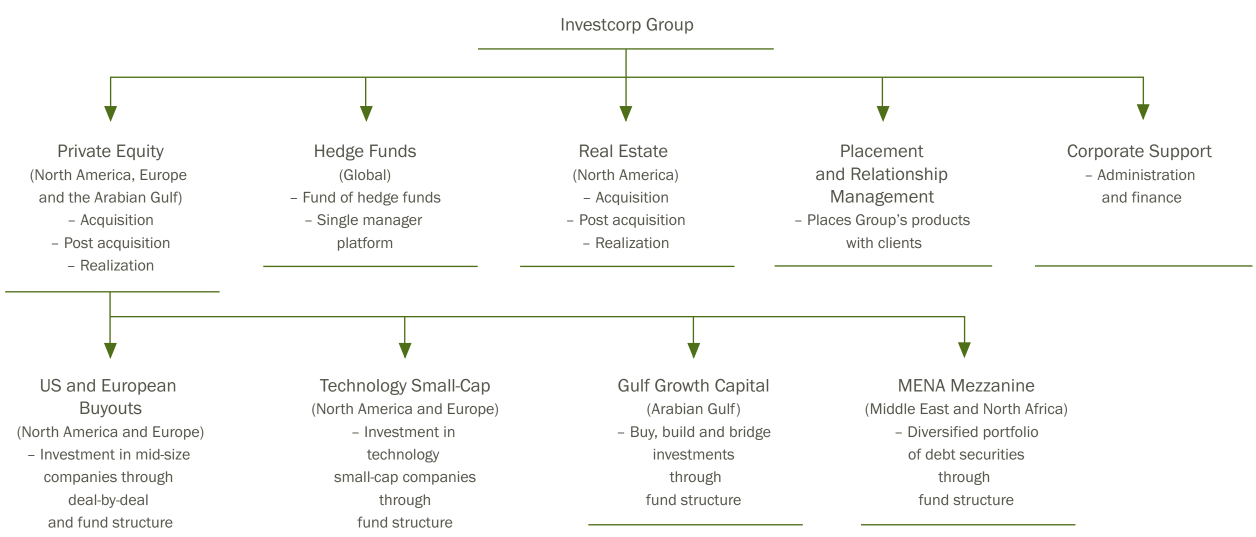
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

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.

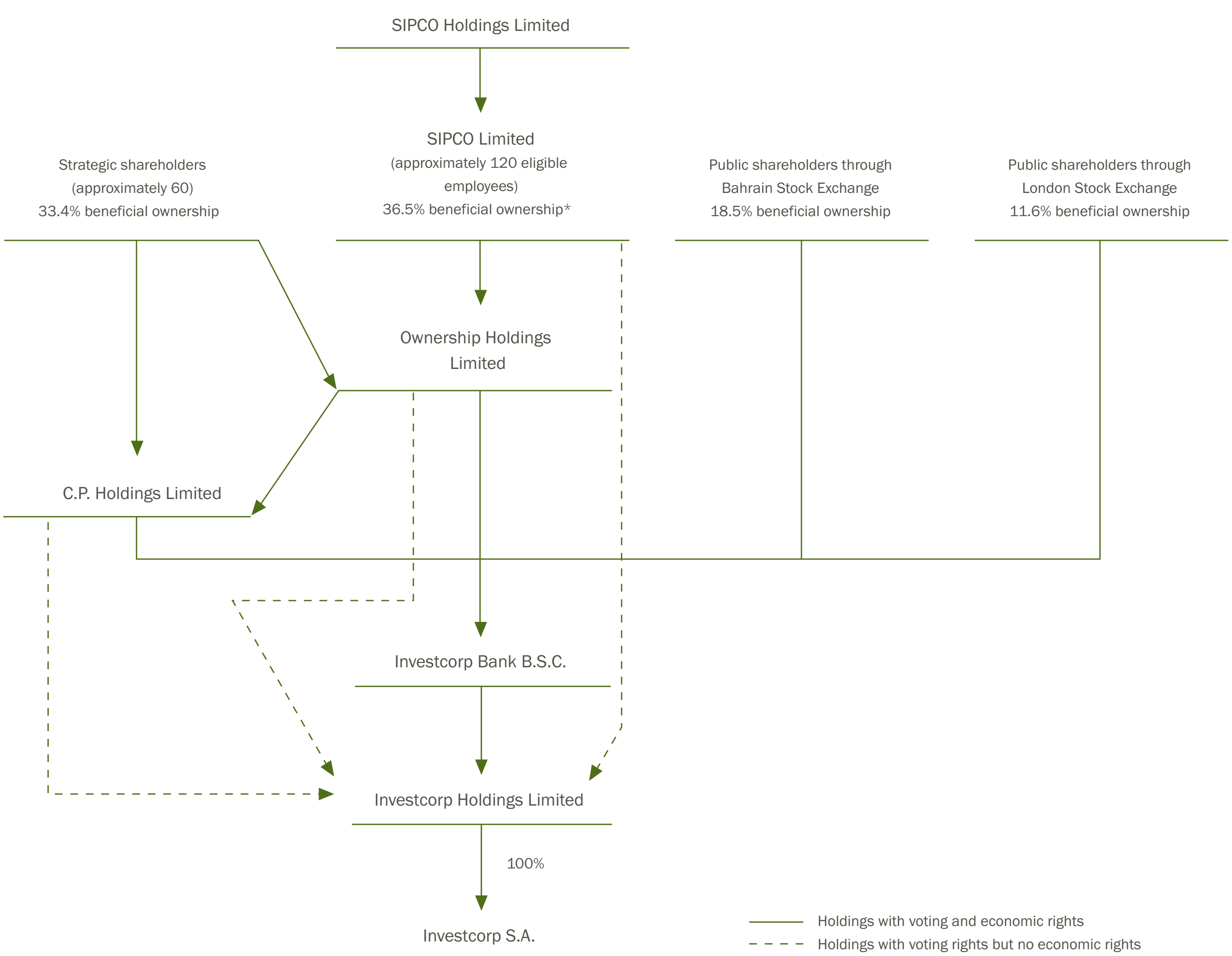
(ii) Activities

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.



(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.

(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 the 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.

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 & 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

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 thousand ($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
- 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.

(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.

(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.

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.

(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.

(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 offset 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.

(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.

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 are 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.

(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.

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 business' 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.

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 business, 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.

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

The 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

$000s	June 30, 2009 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

The consolidated statements of income for the years ended June 30, 2010 and 2009 by reporting segment are as follows:

$000s	July 2009 – June 2010 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)

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:

	June 30, 2010				June 30, 2009			
$ millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Private equity								
Closed-end committed funds								
— US and European buyouts	476	199	71	746	476	199	71	746
— Technology small-cap investments	419	67	14	500	419	67	14	500
— Gulf growth capital	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

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 placements with financial institutions, from other liquid 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.

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(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(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:

	Industry			
$000s	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

	Industry			
$000s	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 classified 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 Portfolio type	Number of properties	Region East	Midwest	Southeast	Southwest	West	June 30, 2010 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 Portfolio type	Number of properties	Region East	Midwest	Southeast	Southwest	West	June 30, 2009 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	n/a	38,630	49	48	107	522	39,356
Opportunistic	12	27,575	–	30,761	–	35,590	93,926
Strategic and other	n/a	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.

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(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 utilization	Current outstanding	Size	Average utilization	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 $575 million, 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 share, 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, 2010			June 30, 2009		
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%	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.

	June 30, 2010			June 30, 2009		
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%	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.

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 up to 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.

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 a $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						
$000s	Private equity	Real estate	Sub-total	Available 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:

$000s	2010	2009
Net income (loss)	**102,174**	(780,627)
Less: Proposed preference shares dividend	**(57,374)**	–
Net income (loss) attributable to ordinary shareholders	**44,800**	(780,627)
Weighted average ordinary shares	**699,851**	696,987
Basic and fully diluted earnings (loss) per ordinary share — on weighted average shares ($)	**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.

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.

The table below summarizes the Group's derivative financial instruments outstanding at June 30 year ends:

$000s	June 30, 2010			June 30, 2009		
Hedged item 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)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2010:

	June 30, 2010				
	Notional amounts by term to maturity				
$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	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				
	Notional amounts by term to maturity				
$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	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

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)

*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, 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' ongoing 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 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.

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	June 30, 2010		June 30, 2009	
	Principal/ notional amounts	**Risk weighted equivalents**	Principal/ notional amounts	Risk weighted equivalents
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–

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, therefore representing a 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 analyzes the Group's maximum credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

	June 30, 2010						
	Neither past due nor impaired (a)		Past due but not impaired	Impaired*	Provisions	Maximum credit risk	Average balance
	Credit risk rating						
$000s	High	Standard	(b)	(c)	(d)	(a+b+c+d)	
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	

*Fair value of collaterals relating to impaired exposures is nil.

$000s	Neither past due nor impaired (a) Credit risk rating High	Standard	Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
	June 30, 2009						
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.

The aging analysis of the past due but not impaired is given in the table below.

$000s	June 30, 2010	June 30, 2009
Up to 1 month	**26,564**	4,808
> 1 up to 3 months	**11,996**	2,611
> 3 up to 6 months	**2,010**	553
> 6 months up to 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).

(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 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 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	

$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
	June 30, 2009							
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	

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 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	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

$000s	June 30, 2009 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	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

(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 geographic 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 geographic region and industry sector is as follows:

$000s	**June 30, 2010** **Assets exposed to credit risk**	**Off-balance sheet items exposed to credit risk**	**Total credit risk exposure**	June 30, 2009 Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure
GEOGRAPHIC 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

$000s	June 30, 2010 Assets exposed to credit risk	June 30, 2010 Off-balance sheet exposed to credit risk	June 30, 2010 Total credit risk exposure	June 30, 2009 Assets exposed to credit risk	June 30, 2009 Off-balance sheet exposed to credit risk	June 30, 2009 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

(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 10-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.

(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

(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.

(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.

$000s	Based on balance sheet exposure		Based on gross exposure	
	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

(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.

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

$000s	At beginning	New acquisitions	Fair value movements	Movements relating to realizations	Other movements*	At end
	June 30, 2009					
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.

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: Increase	Projected balance sheet exposure: Decrease	Impact on income: Increase	Impact on income: 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: Increase	Projected balance sheet exposure: Decrease	Impact on income: Increase	Impact on income: 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).

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, 2010 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
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

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.