Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2012

Table of contents

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's management, under authorization from the Board of Directors, is responsible for establishing and maintaining adequate internal controls over financial reporting. The Group's control processes over financial reporting are designed and implemented under the supervision of the Group's Board of Directors, Executive Chairman & Chief Executive Officer, Chief Financial Officer and General Counsel to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards.

The Group's internal controls over financial reporting include policies and procedures that (a) relate to the maintenance of records in a reasonable level of detail that fairly and accurately reflect transactions pertaining to the Group's assets; (b) provide reasonable assurance that these transactions have been properly authorized; and (c) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, utilization or disposal of the Group's assets that could have a material impact on the consolidated financial statements.

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2012. Based on this assessment, management believes that, as of June 30, 2012 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

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

July 31, 2012

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP BANK B.S.C.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ('the Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated balance sheet as at June 30, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

(a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

(b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended June 30, 2012 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

July 31, 2012
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET

June 30, 2012

$000s	June 30, 2012	June 30, 2011	Notes	Page
ASSETS				
Cash and short-term funds	**156,252**	24,649		
Placements with financial institutions and other liquid assets	**194,567**	341,395		
Positive fair value of derivatives	**81,250**	45,033	19	116
Receivables and prepayments	**284,337**	300,436	6	104
Loans and advances	**188,853**	169,832	7	105
Co-investments				
Hedge funds	**414,098**	607,398	8	105
Corporate investment	**1,221,790**	1,121,735	9	106
Real estate investment	**154,460**	188,838	10	110
Total co-investments	**1,790,348**	1,917,971		
Premises, equipment and other assets	**54,072**	59,235		
Total assets	**2,749,679**	2,858,551		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	**10,111**	-		
Deposits from clients – short-term	**195,245**	318,028	12	110
Negative fair value of derivatives	**39,160**	22,804	19	116
Payables and accrued expenses	**214,432**	202,521	13	111
Deposits from clients – medium-term	**119,241**	95,309	12	110
Medium-term debt	**567,256**	584,912	14	112
Long-term debt	**560,491**	574,640	15	113
Total liabilities	**1,705,936**	1,798,214		
EQUITY				
Preference share capital	**511,465**	511,465	16	113
Ordinary shares at par value	**200,000**	200,000	16	113
Reserves	**233,046**	242,880		
Treasury shares	**(163,575)**	(181,287)		
Retained earnings	**183,538**	181,922		
Ordinary shareholders' equity excluding proposed appropriations, unrealized fair value changes recognized directly in equity and revaluation reserve	**453,009**	443,515		
Proposed appropriations	**66,096**	74,682		
Unrealized fair value changes recognized directly in equity and revaluation reserve	**13,173**	30,675	17	115
Total equity	**1,043,743**	1,060,337		
Total liabilities and equity	**2,749,679**	2,858,551		

ABDUL-RAHMAN SALIM AL-ATEEQI
Chairman

NEMIR A. KIRDAR
Executive Chairman & CEO

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the year ended June 30, 2012

CONSOLIDATED STATEMENT OF INCOME

$000s	2012	2011	Notes	Page
FEE INCOME				
Management fees	**88,103**	93,189		
Activity fees	**84,172**	65,743		
Performance fees	**63,750**	38,508		
Fee income (a)	**236,025**	197,440	2	95
ASSET-BASED INCOME				
Hedge funds	**(50,218)**	39,489		
Corporate investment	**59,840**	121,664		
Real estate investment	**17,270**	40,555		
Treasury and other asset-based income	**4,156**	14,470		
Asset-based income (b)	**31,048**	216,178	2	95
Gross operating income (a) + (b)	**267,073**	413,618	2	95
Provisions for impairment	**(1,088)**	(2,099)	11	110
Interest expense	**(47,824)**	(56,033)	2	95
Operating expenses	**(150,749)**	(215,173)	5	104
NET INCOME	**67,412**	140,313		
Basic and fully diluted earnings per ordinary share ($)	**10**	128	18	115

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2012	2011	Notes	Page
NET INCOME (AS ABOVE)	**67,412**	140,313		
Other comprehensive income				
Fair value movements – available for sale investments	**(1,986)**	(1,860)	17	115
Fair value movements – cashflow hedges	**(15,286)**	8,229	17	115
Revaluation loss on premises and equipment	**–**	(3,034)	17	115
Other comprehensive (loss) income	**(17,272)**	3,335		
TOTAL COMPREHENSIVE INCOME	**50,140**	143,648		

ABDUL-RAHMAN SALIM AL-ATEEQI
Chairman

NEMIR A. KIRDAR
Executive Chairman & CEO

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2012

			Reserves			
$000s	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total
Balance at July 1, 2010	508,678	200,000	446,243	100,000	50,000	596,243
Total comprehensive income	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares purchased during the year – net	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(3,444)	–	–	(3,444)
Preference share dividends paid	–	–	–	–	–	–
Proposed appropriations/transfers:						
Preference share dividend	–	–	–	–	–	–
Ordinary share dividend	–	–	–	–	–	–
Transfer of general reserve to retained earnings	–	–	–	–	(50,000)	(50,000)
Transfer of fair value losses to share premium	–	–	(299,919)	–	–	(299,919)
Charitable contributions by shareholders	–	–	–	–	–	–
Vesting of preference shares during the year – net	2,787	–	–	–	–	–
Balance at June 30, 2011	511,465	200,000	142,880	100,000	–	242,880
Total comprehensive income/(loss)	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares sold/vested during the period – net	–	–	–	–	–	–
Loss on sale and vesting of treasury shares	–	–	(9,834)	–	–	(9,834)
Approved appropriations for fiscal 2011 paid:						
Preference share dividend	–	–	–	–	–	–
Ordinary share dividend	–	–	–	–	–	–
Charitable contributions by shareholders	–	–	–	–	–	–
Preference share dividend forfeited	–	–	–	–	–	–
Proposed preference share dividend	–	–	–	–	–	–
Proposed ordinary share dividend	–	–	–	–	–	–
Balance at June 30, 2012	**511,465**	**200,000**	**133,046**	**100,000**	**–**	**233,046**

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

			Unrealized fair value changes and revaluation reserve recognized directly in equity				
Treasury shares	Retained earnings	Proposed appropriations	Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	Total equity
(161,669)	(234,489)	57,374	6,573	11,679	9,949	28,201	994,338
–	140,313	–	(1,860)	8,229	(3,034)	3,335	143,648
–	861	–	–	–	(861)	(861)	–
(23,062)	–	–	–	–	–	–	(23,062)
3,444	–	–	–	–	–	–	–
–	–	(57,374)	–	–	–	–	(57,374)
–	(61,376)	61,376	–	–	–	–	–
–	(9,306)	9,306	–	–	–	–	–
–	50,000	–	–	–	–	–	–
–	299,919	–	–	–	–	–	–
–	(4,000)	4,000	–	–	–	–	–
–	–	–	–	–	–	–	2,787
(181,287)	181,922	74,682	4,713	19,908	6,054	30,675	1,060,337
–	**67,412**	**–**	**(1,986)**	**(15,286)**	**–**	**(17,272)**	**50,140**
–	**230**	**–**	**–**	**–**	**(230)**	**(230)**	**–**
7,878	**–**	**–**	**–**	**–**	**–**	**–**	**7,878**
9,834	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**(61,376)**	**–**	**–**	**–**	**–**	**(61,376)**
–	**–**	**(9,306)**	**–**	**–**	**–**	**–**	**(9,306)**
–	**–**	**(4,000)**	**–**	**–**	**–**	**–**	**(4,000)**
–	**70**	**–**	**–**	**–**	**–**	**–**	**70**
–	**(61,376)**	**61,376**	**–**	**–**	**–**	**–**	**–**
–	**(4,720)**	**4,720**	**–**	**–**	**–**	**–**	**–**
(163,575)	**183,538**	**66,096**	**2,727**	**4,622**	**5,824**	**13,173**	**1,043,743**

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2012

$000s	2012	2011	Notes	Page
OPERATING ACTIVITIES				
Net income	67,412	140,313		
Adjustments for non-cash items in net income				
Depreciation	6,037	6,803	5	104
Provisions for impairment	1,088	2,099	11	110
Amortization of transaction costs of borrowings	7,437	7,760		
Vesting of share awards – net of forfeitures	3,265	2,787		
Net income adjusted for non-cash items	85,239	159,762		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	10,000	50,000		
Receivables and prepayments	15,415	10,403	6	104
Loans and advances	(19,425)	80,798	7	105
Deposits from clients – short-term	(122,783)	70,602	12	110
Payables and accrued expenses	11,911	58,179	13	111
Co-investments				
Hedge funds	193,300	(70,124)	8	105
Corporate investment	(102,041)	(70,830)	9	106
Real estate investment	34,378	27,939	10	110
Fair value of derivatives	2,140	86,526		
Other assets	(55)	(28)		
NET CASH FROM OPERATING ACTIVITIES	108,079	403,227		
FINANCING ACTIVITIES				
Deposits from financial institutions	10,111	–		
Deposits from clients – medium-term	23,932	4,616	12	110
Medium-term revolvers drawn	50,346	–		
Medium-term revolvers repaid on maturity	(50,000)	(150,000)	14	112
Medium-term revolvers repaid and available for drawdown	–	(490,000)	14	112
Medium-term debt issued (net of transaction costs)	–	88,750	14	112
Medium-term debt repaid	(19,000)	(200,000)	14	112
Long-term debt repaid	(57,875)	(62,875)	15	113
Treasury shares sold (purchased) – net	4,613	(23,062)		
Dividends and charitable contributions paid	(74,612)	(57,374)		
NET CASH USED IN FINANCING ACTIVITIES	(112,485)	(889,945)		
INVESTING ACTIVITY				
Investment in premises and equipment	(819)	(49)		
NET CASH USED IN INVESTING ACTIVITY	(819)	(49)		
Net decrease in cash and cash equivalents	(5,225)	(486,767)		
Cash and cash equivalents at beginning of the year	353,044	839,811		
Cash and cash equivalents at end of the year	347,819	353,044		
Cash and cash equivalents comprise:				
Cash and short-term funds	28,583	24,649		
Cash in transit	127,669	–		
Placements with financial institutions and other liquid assets	191,567	328,395		
	347,819	353,044		
Total accessible liquidity comprises:				
Cash and cash equivalents	347,819	353,044		
Placements with financial institutions and other liquid assets (non-cash equivalent)	3,000	13,000		
Undrawn revolvers	297,404	536,250		
Total accessible liquidity*	648,223	902,294		

*In addition to the above, the group has $414.1 million (June 30, 2011: $607.4 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information $000s	2012	2011
Interest paid	(55,111)	(61,079)
Interest received	17,180	20,443

The attached notes 1 to 25 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

Investcorp Bank B.S.C. (the 'Bank') operates under a Wholesale Banking License issued by the Central Bank of Bahrain ('CBB').

The Bank is a holding company owning various subsidiaries (together the 'Group' or 'Investcorp'). The activities of the Bank are substantially transacted through its subsidiaries.

The Bank is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability. The Bank is listed on the Bahrain Bourse. The ultimate parent of the Group is SIPCO Holdings Limited incorporated in the Cayman Islands.

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

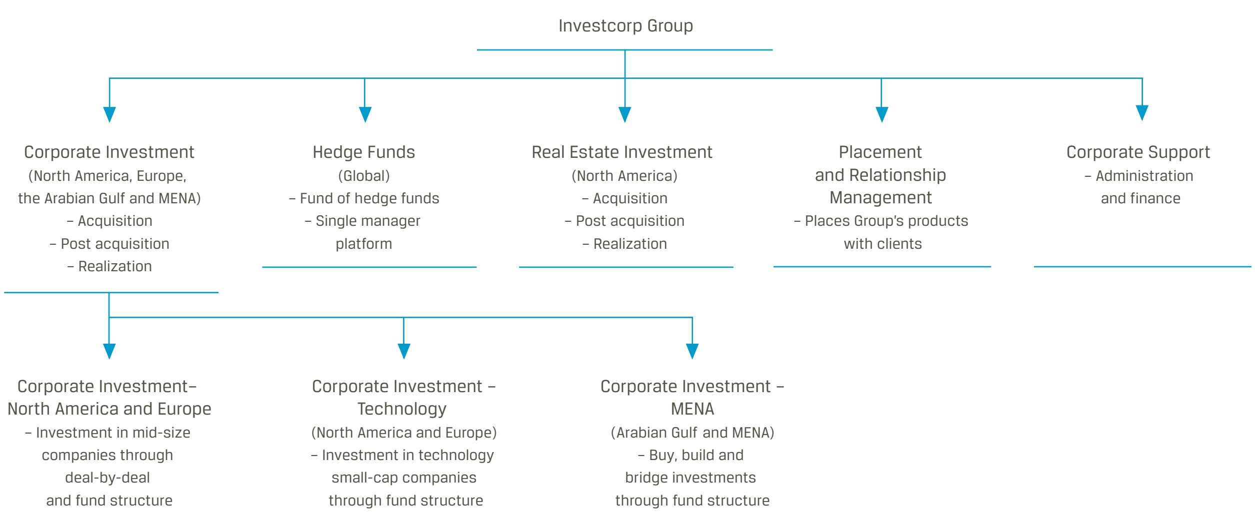
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated July 31, 2012.

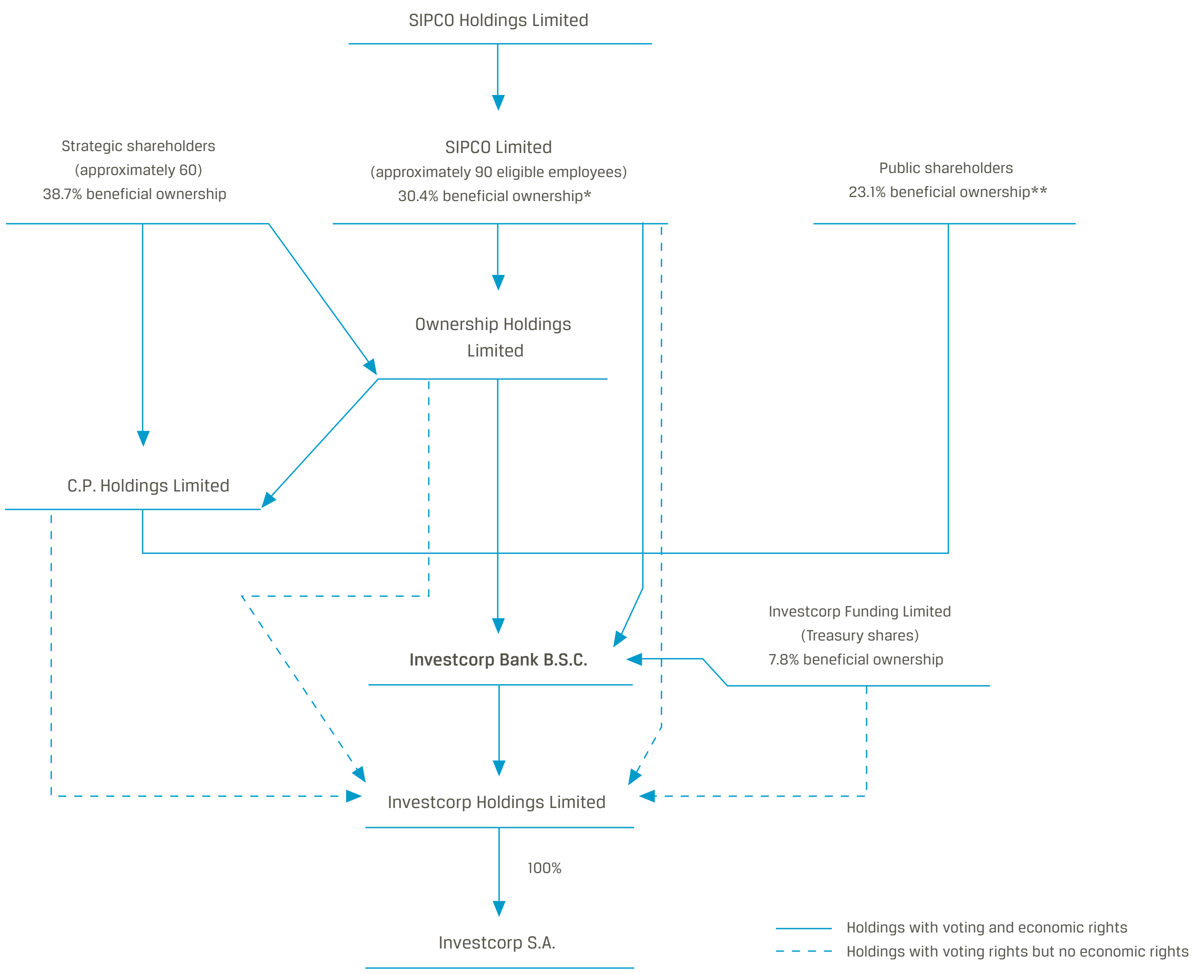
(ii) Activities

The Group's principal activity is providing products in three broad alternative investment asset classes to its client base and co-investing in these together with its clients. The alternative investment asset classes in which the Group specializes are corporate investment, hedge funds and real estate investment. Within the corporate investment asset class the Group offers three products namely, (a) Corporate investment-North America & Europe, (b) Corporate investment-Technology and (c) Corporate investment-MENA.

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



(iii) Ownership



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

** Includes 0.3% beneficial ownership held in the form of unlisted Global Depository Receipts.

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

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

(iv) Subsidiary companies

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

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

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

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 non-United States client investment holding companies for corporate and real estate investments
	Investcorp Investment Advisers Limited (Cayman Islands)	Company that provides investment management and advisory services to investment funds including hedge funds and is an SEC registered investment advisor
	Investcorp Funding Limited (Cayman Islands)	Company that provides short-term funding to investee and client investment holding companies
	Investcorp Trading Limited (Cayman Islands)	Company that executes the Group's money market, foreign exchange and derivative financial contracts and invests in single manager funds
	Investcorp Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity
	Investcorp AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	Investcorp Financial and Investment Services S.A. (Switzerland)	Company that provides M&A advisory services for deal execution in Western Europe
	Investcorp International Limited (UK)	The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) arranges M&A transactions in the UK
	Investcorp International Holdings Inc. (USA)	The Group's holding company in the United States of America
	Investcorp International Inc. (USA)	Employs the Group's United States-based employees
	N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and real estate funds and is an SEC registered broker dealer
	Investcorp Investment Advisers LLC (USA)	Company that provides investment management and advisory services in the United States for investment funds, including hedge funds, and is an SEC registered investment advisor
	Investcorp Saudi Arabia Financial Investments Co. (Saudi Arabia)	Company that acts as principal agent of the Bank in Saudi Arabia for placements of the products offered by the Group

B. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS'), in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB rule book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and the rules and procedures of the Bahrain Bourse. The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousand ($000s) unless otherwise stated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and the IFRS Interpretations Committee (the 'IFRIC') interpretations that are applicable for the current fiscal year:

- Amendments to IAS 24 – Related party disclosures
- Amendments to IAS 32 – Presentation
- Amendments to IFRS 7 – Financial instruments disclosures
- Amendments to IFRS 3 – Business combinations
- Amendments to IAS 1 – Presentation of financial statements

The adoption of the above amendments did not have any material impact on the consolidated financial position or performance of the Bank.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any material impact on the accounting policies, consolidated financial position or performance of the Group:

- IFRS 3 – Business combinations (contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);
- IFRS 3 – Business combinations (un-replaced and voluntarily replaced share-based payment award);
- IAS 27 – Consolidated and separate financial statements;
- IAS 34 – Interim financial reporting; and
- IFRIC 19 – Extinguishing financial liabilities with equity instruments

New standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective are listed below together with their effective date. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date.

- IAS 1 – amendment – Financial statement presentation, 1 July 2012
- IAS 19 – amendment – Employee benefits, 1 January 2013
- IFRS 9 – Financial instruments; classification and measurement, 1 January 2015
- IFRS 10 – Consolidated financial statements, 1 January 2013
- IFRS 11 – Joint arrangements, 1 January 2013
- IFRS 12 – Disclosure of interests in other entities, 1 January 2013

- IFRS 13 – Fair Value Measurement, 1 January 2013
- IAS 27 – Separate Financial Statements, 1 January 2013
- IAS 28 – Investments in Associates and Joint Ventures Separate Financial Statements,1 January 2013

Management is considering the implications of these standards and amendments, their impact on the Group's consolidated financial position and results and the timing of their adoption by the Group.

(i) Accounting convention in the consolidated financial statements preparation

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

(ii) Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

(iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ('FVTPL') co-investments in corporate investment and real estate investment (see notes 9 and 10), the determination of performance fee on assets under management and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of financial assets, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

(iv) Classification of financial assets

(a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these investments to maturity.

Investments acquired with the intention of a long-term holding period, such as in corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values; and
2. the performance of such investments is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management and board of directors.

All other investments are classified as Available-For-Sale ('AFS').

(b) Other liquid assets

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

(v) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

(vi) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of income under treasury and other asset-based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

(vii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

(viii) Loans and advances

Loans and advances are stated at amortized cost, net of any impairment provisions.

(ix) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income. The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

(x) Co-investments in corporate investment and real estate investment

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

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

Certain debt investments made in connection with the Group's co-investments in corporate investment and real estate investment are classified as held-to-maturity investments and are carried at amortized cost, less provision for impairment, if any.

(xi) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

(xii) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the 'trade date' accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

(xiii) Impairment and un-collectability of financial assets

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

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

Impairment is determined as follows:

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

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

(xiv) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the assets revaluation reserve included in the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

Premises and equipment are depreciated on a straight line basis over their estimated useful lives which are as follows:

Buildings on freehold land	25 years
Leasehold and building improvements	10–15 years
Operating assets	3–23 years

The above useful lives of the assets and methods of depreciation are reviewed and adjusted, if appropriate, at least at each financial year end.

(xv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 24).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(xvi) Unfunded deal acquisitions

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions, the agreements for which are signed as of the balance sheet date that have not been funded.

(xvii) Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, cash in transit, other liquid funds and placements with financial institutions that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

(xviii) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

(xix) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against any previously established reserve from past transactions in treasury shares, and where such reserve is insufficient, then any difference is charged to retained earnings.

(xx) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

(xxi) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis.

(xxii) Derivative financial instruments

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

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 19.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of income.

(xxiii) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset-based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value during the year.

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

Realized capital gains or losses on investments other than FVTPL investments are taken to income at the time of derecognition.

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

2. SEGMENT REPORTING

A. ACTIVITIES

(i) As an intermediary

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

(ii) As a principal

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

B. ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

The Group classifies its reporting segments on the basis of its three product asset classes and the individual lines of business within these product asset classes that are responsible for each distinct product category.

The following table shows the relationship between the Group's reporting segments, asset classes, lines of business and products.

Reporting segments	Asset classes	Lines of business (product categories)	Products
(1) Corporate investment	(1) Corporate investment	(1) Corporate investment – North America & Europe	Deal-by-deal offerings Closed-end fund(s)
		(2) Corporate investment – Technology	Closed-end fund(s)
		(3) Corporate investment – MENA	Closed-end fund(s)
(2) Hedge funds	(2) Hedge funds	(4) Hedge funds	Fund of hedge funds Single managers Structured and levered products
(3) Real estate investment	(3) Real estate investment	(5) Real estate investment	Equity investments Mezzanine debt investments
(4) Corporate support			Liquidity/working capital/ funding

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

(i) Corporate investment – North America & Europe ('CI–NA & Europe')

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

(ii) Corporate investment – Technology ('CI–Technology')

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

(iii) Corporate investment – MENA ('CI–MENA')

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

(iv) Hedge funds ('HF')

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

(v) Real estate investment ('RE')

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

(vi) Corporate support

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

C. REVENUE GENERATION

(i) Fee income

There are several components of fees that are earned from providing intermediary services to clients and investee companies.

Management fees are earned from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments.

Activity fees comprise acquisition fees earned by the Group from investee companies on new corporate investment or real estate investment acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from Gulf clients at the time of placing new corporate investments or real estate investments with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing advisory services for ancillary transactional activity, including refinancing, recapitalizations, restructuring and disposal.

Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle performance/rate.

(ii) Asset-based income

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

All other income that is common to the Group (such as income arising from the deployment of the Group's excess liquidity) is treated as treasury and other asset-based income and recorded under corporate support.

D. ALLOCATION OF OPERATING EXPENSES

Operating expenses for each reporting segment comprise the respective lines of businesses' employee compensation and benefits and costs of its technology and communications infrastructure and resources, including professional fees for external advisors, travel and business development costs and premises. These are allocated between intermediary and principal co-investing activities.

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

(a) a fee calculated at 1.2% of average proprietary co-invested assets of each reporting segment from the Group's balance sheet, placements with banks and other financial institutions; plus

(b) a 20% carry on excess asset-based income, which is calculated as gross asset-based income after provisions less interest expense less the 1.2% fee in (a) above.

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

E. SEGREGATION OF ASSETS

Assets directly attributable to the corporate investment and real estate investment reporting segments are primarily in the form of proprietary co-investments by the Group in investments arranged by the respective lines of 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 variety of risk based methodologies including Value-at-Risk (VaR) to determine the required amount of total economic capital that is needed to support growth objectives under normal and extreme stress conditions for each business line. Economic capital is allocated to each business line based on the current amount of capital required to cover potential losses over a one year horizon. This capital allocation is then stressed by developing a five year projection plan which takes into account the current size of the business, expected growth and the associated capital required to support the risks within each reporting segment over the five year term.

Having determined the assets directly attributable to each reporting segment, and the economic capital requirements, the Group allocates liabilities (debt funding) to each segment based on the relative maturity profile of the segment's assets. Longer-dated liabilities are generally allocated to the corporate investment and real estate investment reporting segments, considering their medium-long term investment horizon.

The allocation of liabilities determined above, in turn, drives the allocation of interest expense for each reporting segment.

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2012 and 2011 by reporting segment are as follows:

	June 30, 2012				
$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
ASSETS					
Cash and short-term funds	–	–	–	156,252	156,252
Placements with financial institutions and other liquid assets	–	–	–	194,567	194,567
Positive fair value of derivatives	–	–	–	81,250	81,250
Receivables and prepayments	–	–	–	284,337	284,337
Loans and advances	–	–	–	188,853	188,853
Co-investments	1,221,790	414,098	154,460	–	1,790,348
Premises, equipment and other assets	–	–	–	54,072	54,072
Total assets	1,221,790	414,098	154,460	959,331	2,749,679
LIABILITIES AND EQUITY					
Liabilities					
Deposits from financial institutions	–	3,033	–	7,078	10,111
Deposits from clients – short-term	–	58,574	–	136,671	195,245
Negative fair value of derivatives	–	–	–	39,160	39,160
Payables and accrued expenses	165,987	276	35	48,134	214,432
Deposits from clients – medium term	11,438	12,734	21,982	73,087	119,241
Medium-term debt	218,268	60,080	15,605	273,303	567,256
Long-term debt	229,430	64,287	42,858	223,916	560,491
Total liabilities	625,123	198,984	80,480	801,349	1,705,936
Total equity	596,667	215,114	73,980	157,982	1,043,743
Total liabilities and equity	1,221,790	414,098	154,460	959,331	2,749,679

$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
			June 30, 2011		
ASSETS					
Cash and short-term funds	–	–	–	24,649	24,649
Placements with financial institutions and other liquid assets	–	–	–	341,395	341,395
Positive fair value of derivatives	–	–	–	45,033	45,033
Receivables and prepayments	–	–	–	300,436	300,436
Loans and advances	–	–	–	169,832	169,832
Co-investments	1,121,735	607,398	188,838	–	1,917,971
Premises, equipment and other assets	–	–	–	59,235	59,235
Total assets	1,121,735	607,398	188,838	940,580	2,858,551
LIABILITIES AND EQUITY					
Liabilities					
Deposits from clients – short-term	–	94,211	–	223,817	318,028
Negative fair value of derivatives	–	–	–	22,804	22,804
Payables and accrued expenses	18,784	5,214	4,613	173,910	202,521
Deposits from clients – medium term	22,567	2,057	4,141	66,544	95,309
Medium-term debt	177,367	248,186	39,231	120,128	584,912
Long-term debt	323,991	39,735	51,840	159,074	574,640
Total liabilities	542,709	389,403	99,825	766,277	1,798,214
Total equity	579,026	217,995	89,013	174,303	1,060,337
Total liabilities and equity	1,121,735	607,398	188,838	940,580	2,858,551

The consolidated statements of income for the years ended June 30, 2012 and June 30, 2011 by reporting segments are as follows:

$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
			July 2011 – June 2012		
FEE INCOME					
Management fees	56,581	22,472	9,050	–	88,103
Activity fees	72,133	(491)	12,530	–	84,172
Performance fees	54,854	8,548	348	–	63,750
Gross fee income (a)	183,568	30,529	21,928	–	236,025
Expenses attributable to fee income	(81,173)	(30,460)	(13,651)	–	(125,284)
Net fee income	102,395	69	8,277	–	110,741
ASSET-BASED INCOME					
Interest income	5,219	–	8,436	3,820	17,475
Treasury and other asset-based income (loss)	54,621	(50,218)	8,834	336	13,573
Gross asset-based income (loss) (b)	59,840	(50,218)	17,270	4,156	31,048
Provisions for impairment	–	–	–	(1,088)	(1,088)
Interest expense	(18,336)	(14,105)	(5,064)	(10,319)	(47,824)
Expenses attributable to asset-based income	(15,897)	(4,485)	(2,261)	(2,822)	(25,465)
Net asset-based income (loss)	25,607	(68,808)	9,945	(10,073)	(43,329)
Net income (loss)	128,002	(68,739)	18,222	(10,073)	67,412
Gross operating income (loss) (a) + (b)	243,408	(19,689)	39,198	4,156	267,073

$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
	July 2010 – June 2011				
FEE INCOME					
Management fees	58,245	25,041	9,903	–	93,189
Activity fees	45,211	13,833	6,699	–	65,743
Performance fees	30,388	6,084	2,036	–	38,508
Gross fee income (a)	133,844	44,958	18,638	–	197,440
Expenses attributable to fee income	(100,196)	(46,704)	(12,915)	–	(159,815)
Net fee income (loss)	33,648	(1,746)	5,723	–	37,625
ASSET-BASED INCOME					
Interest income	3,376	–	3,651	11,637	18,664
Treasury and other asset-based income	118,288	39,489	36,904	2,833	197,514
Gross asset-based income (b)	121,664	39,489	40,555	14,470	216,178
Provisions for impairment	–	–	–	(2,099)	(2,099)
Interest expense	(17,138)	(13,685)	(3,785)	(21,425)	(56,033)
Expenses attributable to asset-based income	(31,435)	(8,298)	(9,004)	(6,621)	(55,358)
Net asset-based income (loss)	73,091	17,506	27,766	(15,675)	102,688
Net income (loss)	106,739	15,760	33,489	(15,675)	140,313
Gross operating income (a) + (b)	255,508	84,447	59,193	14,470	413,618

Gross operating income of $243.4 million (2011: $255.5 million) from the corporate investment asset class includes $38.1 million and $27 million (2011: $43.4 million and $19.3 million) relating to CI-Technology and CI-MENA respectively. The balance relates to CI-NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2011: nil). All of the Group's fee income arises from intermediary activities while the asset-based income includes $17.5 million (2011: $18.7 million) interest income from items at amortized cost.

None of the Group's customers has generated ten percent or more of the Group's total revenues reported above.

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9 and 22 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

	June 30, 2012				
$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	–	156,252	–	–	156,252
Placements with financial institutions and other liquid assets	3,000	191,567	–	–	194,567
Positive fair value of derivatives	–	–	–	81,250	81,250
Receivables	–	241,766	–	–	241,766
Loans and advances	–	188,853	–	–	188,853
Co-investments					
Hedge funds	414,098	–	–	–	414,098
Corporate investment	1,149,345	56,851	15,594	–	1,221,790
Real estate investment					
Debt	–	43,444	–	–	43,444
Equity	111,016	–	–	–	111,016
Total financial assets	1,677,459	878,733	15,594	81,250	2,653,036
Non-financial assets					
Prepayments					42,571
Premises, equipment and other assets					54,072
Total assets					2,749,679
Financial liabilities					
Deposits from financial institutions	–	10,111	–	–	10,111
Deposits from clients*	–	314,486	–	–	314,486
Negative fair value of derivatives	–	–	–	39,160	39,160
Payables and accrued expenses	–	208,015	–	–	208,015
Medium term debt	–	567,256	–	–	567,256
Long term debt*	–	560,491	–	–	560,491
Total financial liabilities	–	1,660,359	–	39,160	1,699,519
Non-financial liabilities					
Deferred income					6,417
Total liabilities					1,705,936

* Adjusted for related fair value hedges.

	June 30, 2011				
$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	–	24,649	–	–	24,649
Placements with financial institutions and other liquid assets	128,000	213,395	–	–	341,395
Positive fair value of derivatives	–	–	–	45,033	45,033
Receivables	–	270,755	–	–	270,755
Loans and advances	–	169,832	–	–	169,832
Co-investments					
Hedge funds	607,398	–	–	–	607,398
Corporate investment	1,067,748	37,503	16,484	–	1,121,735
Real estate investment					
Debt	–	35,446	–	–	35,446
Equity	153,392	–	–	–	153,392
Total financial assets	1,956,538	751,580	16,484	45,033	2,769,635
Non-financial assets					
Prepayments					29,681
Premises, equipment and other assets					59,235
Total assets					2,858,551
Financial liabilities					
Deposits from clients*	–	413,337	–	–	413,337
Negative fair value of derivatives	–	–	–	22,804	22,804
Payables and accrued expenses	–	197,524	–	–	197,524
Medium term debt	–	584,912	–	–	584,912
Long term debt*	–	574,640	–	–	574,640
Total financial liabilities	–	1,770,413	–	22,804	1,793,217
Non-financial liabilities					
Deferred income					4,997
Total liabilities					1,798,214

* Adjusted for related fair value hedges.

4. ASSETS UNDER MANAGEMENT

The Group's clients participate in products offered under its three alternative investment asset classes. Total assets under management ('AUM') in each of the reporting segments at the balance sheet date are as follows:

	June 30, 2012				June 30, 2011			
$ millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment ('CI')								
Closed-end committed funds								
CI-NA & Europe	476	206	64	746	476	206	64	746
CI-Technology	424	61	15	500	424	61	15	500
CI-MENA	853	70	6	929	853	70	6	929
Sub total	1,753	337	85	2,175	1,753	337	85	2,175
Closed-end invested funds								
CI-Technology	213	31	10	254	214	36	10	260
Deal-by-deal investments								
CI-NA & Europe	2,112	876	319	3,307	1,988	831	323	3,142
Strategic and other investments	-	88	-	88	-	73	-	73
Total corporate investment	4,078	1,332	414	5,824	3,955	1,277	418	5,650
Hedge funds*								
Fund of hedge funds	2,090	86	1	2,177	2,648	138	4	2,790
Single managers	1,351	254	4	1,609	870	263	-	1,133
Structured products	107	371	4	482	211	609	6	826
Total hedge funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Real estate investment								
Closed-end committed funds	75	25	-	100	150	27	-	177
Closed-end invested funds	98	15	2	115	56	1	2	59
Deal-by-deal investments	844	124	28	996	756	166	29	951
Strategic and other investments	-	8	-	8	-	8	-	8
Total real estate investment	1,017	172	30	1,219	962	202	31	1,195
Corporate support								
Client call accounts held in trust	179	-	-	179	241	-	-	241
Total	8,822	2,215	453	11,490	8,887	2,489	459	11,835
Summary by category:								
Closed-end committed funds	1,828	362	85	2,275	1,903	364	85	2,352
Closed-end invested funds	311	46	12	369	270	37	12	319
Hedge funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Deal-by-deal investments	3,135	1,096	347	4,578	2,985	1,078	352	4,415
Total	8,822	2,215	453	11,490	8,887	2,489	459	11,835
Summary by segments:								
Corporate investment								
CI-NA & Europe	2,588	1,082	383	4,053	2,464	1,037	387	3,888
CI-Technology	637	92	25	754	638	97	25	760
CI-MENA	853	70	6	929	853	70	6	929
Strategic and other investments	-	88	-	88	-	73	-	73
Hedge funds	3,548	711	9	4,268	3,729	1,010	10	4,749
Real estate investment	1,017	172	30	1,219	962	202	31	1,195
Corporate support	179	-	-	179	241	-	-	241
Total	8,822	2,215	453	11,490	8,887	2,489	459	11,835

* Stated at gross value of the underlying exposure, including non-recourse third party leverage.

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

Certain of the Group's clients entered into a trust arrangement whereby their call account balances maintained with the Bank were transferred into individual trust fund accounts managed by a common trustee. These trust funds are invested in highly liquid assets which have a credit rating no lower than that of Investcorp, or placed on deposit with Investcorp. Client monies held in trust earn the return generated from the assets of the trust, with a guaranteed minimum return equivalent to inter-bank based market rates.

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

5. OPERATING EXPENSES

$000s	2012	2011
Staff compensation	67,545	130,209
Other personnel costs	14,629	17,266
Professional fees	23,383	22,999
Travel and business development	9,095	9,691
Administration and research	14,460	13,476
Technology and communication	2,984	3,017
Premises	10,509	10,675
Depreciation	6,037	6,803
Other	2,107	1,037
Total	**150,749**	215,173

6. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2012	June 30, 2011
Subscriptions receivable	44,363	106,884
Receivables from investee and holding companies	148,822	102,417
Investment disposal proceeds receivable	6,910	58,977
Hedge funds related receivables	29,491	10,599
Accrued interest receivable	4,912	4,617
Prepaid expenses	42,571	29,681
Other receivables	14,254	30,692
	291,323	343,867
Provisions for impairment (see Note 11 & 22(i))	(6,986)	(43,431)
Total	**284,337**	300,436

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

Subscriptions receivable represent amounts due from clients for participation in the Group's deal-by-deal investment products. These arise in the normal course of the Group's placement activities and are recorded when a client signs a binding agreement confirming his or her participation in an investment offering. These are typically collected over the short-term, and, in the interim period prior to receipt of cash, are collateralized by the underlying investment assets.

Receivables from investee and holding companies include management fees and other receivables, which are due from investee companies and performance fees accrued on client assets under management.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of corporate investments and real estate investments. They also include redemption proceeds receivable from underlying hedge fund managers relating to the Group's co-investment in HF through internal parallel vehicles.

Hedge funds related receivables represent amounts due from HFP funds for management and administrative services and performance fees.

Accrued interest receivable represents interest receivable on placements with banks and other financial institutions, from investee companies on investment debt and from investment holding companies on working capital advances.

7. LOANS AND ADVANCES

$000s	June 30, 2012	June 30, 2011
Advances to Gulf Opportunity Fund and technology funds	11,939	–
Advances to investment holding companies	79,835	114,200
Advances to Employee Investment Programs	94,667	97,617
Other advances	14,264	7,585
	200,705	219,402
Provisions for impairment (see Note 11 & 22(i))	(11,852)	(49,570)
Total	**188,853**	169,832

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

Advances to the Gulf Opportunity Fund and technology funds represent amounts invested on behalf of the Group's clients in the acquisitions and expenses of the funds in the interim period prior to receipt of the associated capital call from clients. These advances carry interest at market rates. In both cases the advances, in management's opinion, represent a low risk to the Group.

Advances to investment holding companies arise largely as a result of the Group extending working capital advances to companies established for client participation in the Group's investment products. These advances carry interest at market rates.

Advances to Employee Investment Programs represent the amounts advanced by the Group on behalf of employees in connection with their co-investment in the Group's investment products. These advances carry interest at LIBOR plus a margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

8. HEDGE FUNDS CO-INVESTMENTS

Co-investments in hedge funds, classified as FVTPL, comprise a portion of the Group's liquidity deployed alongside clients in the various fund of hedge funds and single manager hedge funds products offered by the Group, and similar internal vehicles. The Group currently manages several funds of hedge funds and structured fund products. The underlying hedge fund managers invest in a variety of financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in several emerging hedge fund managers on its single manager platform. An emerging manager is typically a manager who is just starting his or her firm, but may also include an established manager at low levels of AUM.

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

$000s	June 30, 2012	June 30, 2011
Direct fund investments	116,052	400,734
Structured and leveraged products	298,046	206,664
Total balance sheet co-investments	**414,098**	607,398

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

Out of the total co-investment in hedge funds, $29 million (June 30, 2011: $8.9 million) comprise funds which are not immediately available for redemption due to gating clauses imposed by the underlying fund managers.

A portion of the Group's co-investment in hedge funds is utilized to secure a structured revolving facility (see Note 14).

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2012	June 30, 2011
Corporate Investment – North America & Europe [See Note 9 (a)]	1,027,179	944,845
Corporate Investment – Technology [See Note 9 (b)]	83,073	80,006
Corporate Investment – MENA [See Note 9 (c)]	23,977	23,711
Strategic and other investments [See Note 9 (d)]	87,561	73,173
Total corporate co-investments	**1,221,790**	1,121,735

9(a) CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

The Group's co-investments in CI–NA & Europe are classified as FVTPL investments.

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

The carrying values of the Group's co-investments in CI-NA & Europe are:

$000s Vintage*	June 30, 2012	June 30, 2011
Vintage 1997 (1997 – 2000)	**165,601**	182,040
Vintage 2001 (2001 – 2004)	**10,686**	43,901
Vintage 2005 (2005 – 2008)	**514,461**	508,105
Vintage 2009 (2009 – 2012)	**336,431**	210,799
Total	**1,027,179**	944,845

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

Summary by sector and location:

	June 30, 2012			June 30, 2011		
$000s	North America	Europe	Total	North America	Europe	Total
Consumer products	**12,656**	**–**	**12,656**	47,743	–	47,743
Industrial products	**–**	**344,005**	**344,005**	–	381,465	381,465
Technology and telecom	**165,786**	**–**	**165,786**	182,225	–	182,225
Industrial services	**238,338**	**62,231**	**300,569**	138,593	44,638	183,231
Distribution	**164,769**	**39,394**	**204,163**	126,801	23,380	150,181
Total	**581,549**	**445,630**	**1,027,179**	495,362	449,483	944,845

9(b) CORPORATE INVESTMENT-TECHNOLOGY

Similar to CI–NA & Europe, the Group's co-investments in CI–Technology are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–Technology is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers and valuation techniques using a multiples-based approach applied to the most recent and relevant operating performance metric of the underlying company, typically EBITDA and sometimes sales. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for CI–NA & Europe co-investments as described in Note 9 (a).

The carrying values of the Group's co-investments in CI–Technology deals at June 30, 2012 and June 30, 2011 are:

$000s	Communication infrastructure	Wireless data	Digital content	Enterprise software	Other	June 30, 2012 Total
Technology Fund I						
North America	762	1,574	–	1,956	172	4,464
Sub-total	762	1,574	–	1,956	172	4,464
Technology Fund II						
North America	3,244	99	3,101	1,339	–	7,783
Europe	–	–	18,704	–	–	18,704
Sub-total	3,244	99	21,805	1,339	–	26,487
Technology Fund III						
North America	–	27,489	3,424	4,368	–	35,281
Europe	–	–	–	16,841	–	16,841
Sub-total	–	27,489	3,424	21,209	–	52,122
Total	4,006	29,162	25,229	24,504	172	83,073

$000s	Communication infrastructure	Wireless data	Digital content	Enterprise software	Other	June 30, 2011 Total
Technology Fund I						
North America	921	1,015	54	1,475	194	3,659
Sub-total	921	1,015	54	1,475	194	3,659
Technology Fund II						
North America	5,165	448	5,622	1,632	–	12,867
Europe	–	–	19,315	–	–	19,315
Sub-total	5,165	448	24,937	1,632	–	32,182
Technology Fund III						
North America	–	16,624	–	4,209	–	20,833
Europe	–	–	–	13,145	–	13,145
Sub-total	–	16,624	–	17,354	–	33,978
Direct co-investment						
Europe	–	–	10,187	–	–	10,187
Sub-total	–	–	10,187	–	–	10,187
Total	6,086	18,087	35,178	20,461	194	80,006

9(c) CORPORATE INVESTMENT – MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2012 and June 30, 2011:

	Industry			
$000s	Distribution	Industrial products	Consumer products	June 30, 2012 Total
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	–	–	9,445	9,445
Kuwait	6,537	–	–	6,537
Turkey	–	–	7,995	7,995
Total	6,537	–	17,440	23,977

	Industry			
$000s	Distribution	Industrial products	Consumer products	June 30, 2011 Total
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	–	–	8,196	8,196
UAE	–	6,975	–	6,975
Kuwait	4,720	–	–	4,720
Turkey	–	–	3,820	3,820
Total	4,720	6,975	12,016	23,711

Similar to CI–NA & Europe and CI–Technology, the co-investments in CI–MENA are classified as FVTPL investments.

The fair value of unquoted co-investments in CI–MENA is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses an EBITDA multiples-based valuation methodology.

9(d) STRATEGIC AND OTHER INVESTMENTS

Strategic and other investments represent the following types of investments of the Group:

1. Investments made for strategic reasons;
2. Investments made for relationship reasons e.g. an opportunity introduced by an employee or a counterparty relationship; and
3. Instruments obtained on disposal of exited corporate investments and real estate deals or portfolios.

These are held as AFS investments and debt instruments at amortized cost, except for investments amounting to $36.3 million (June 30, 2011: $35.9 million) that are classified as FVTPL, of which $25.3 million was valued based on information provided by the investment manager.

10. REAL ESTATE CO-INVESTMENTS

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

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

Certain of the debt investments forming part of the core plus and debt portfolios in real estate properties are classified as held-to-maturity ('HTM') investments amouting to $43.4 million (June 30, 2011 $35.4 million).

The carrying values of the Group's co-investments in real estate investment portfolios in the United States at June 30, 2012 and June 30, 2011 are:

$000s Portfolio type	June 30, 2012	June 30, 2011
Core plus	**83,438**	102,172
Debt	**26,927**	27,637
Opportunistic	**35,878**	50,687
Strategic and other	**8,217**	8,342
Total	**154,460**	188,838

11. PROVISIONS FOR IMPAIRMENT

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

$000s 12 months to June 30, 2012 Categories	At beginning	Charge	Written-off	At end
Receivables (Note 6 & 22(i))	**43,431**	**684**	**(37,129)**	**6,986**
Loans and advances (Note 7 & 22(i))	**49,570**	**404**	**(38,122)**	**11,852**
Total	**93,001**	**1,088**	**(75,251)**	**18,838**
12 months to June 30, 2011	90,902	2,099	–	93,001

12. DEPOSITS FROM CLIENTS

$000s	June 30, 2012	June 30, 2011
SHORT-TERM:		
Call accounts	**191,207**	162,922
Short-term deposits	**4,038**	5,987
Transitory balances	**–**	149,119
Total deposits from clients – short-term	**195,245**	318,028
MEDIUM-TERM:		
Medium-term deposits	**37,438**	18,598
Investment holding companies' deposits	**66,605**	59,540
Discretionary and other deposits	**15,198**	17,171
Total deposits from clients – medium-term	**119,241**	95,309
Total	**314,486**	413,337

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

Call accounts comprise amounts left on deposit by clients and deposits by the trust with the Bank for future participation in the Group's investment products.

Transitory balances comprise subscription amounts paid in by clients towards participation in specific investment products currently being placed by the Group. These also include investment realization proceeds held on behalf of investment holding companies by the Group in the interim period prior to distribution to or withdrawal by clients.

Investment holding companies' deposits represent excess cash deposited by the investment holding companies in the interim period prior to utilization or onward distribution. Discretionary and other deposits represent deposits held on behalf of various affiliates, including strategic shareholders and employees.

All deposits bear interest at market rates.

13. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2012	June 30, 2011
Accrued expenses – employee compensation	**16,785**	74,700
Vendor and other trade payables	**31,342**	35,744
Unfunded deal acquisitions	**153,104**	73,009
Investment related payables	**3,658**	3,658
Deferred income	**6,417**	4,997
Accrued interest payable	**3,126**	10,413
Total	**214,432**	202,521

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

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions, the agreements for which are signed as of the balance sheet date that have not been funded.

Investment related payables represent amounts contractually due in respect of exit proceeds that are held in escrow accounts and reserves pending onward distribution.

Deferred income represents amounts received by the Group from its investment activities, the recognition of which is deferred to future periods concurrent with the services to be rendered.

14. MEDIUM-TERM DEBT

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

			June 30, 2012			June 30, 2011		
$000s	Maturity	Tranche Type	Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year Eurodollar facility	July 2010	Revolver	–	–	–	150,000	11,507	–
5-year Eurodollar facility	July 2010	Funded	–	–	–	150,000	11,507	–
5-year Eurodollar facility	September 2010	Funded	–	–	–	50,000	10,685	–
5-year Eurodollar facility	December 2011	Revolver	–	115,164	–	500,000	423,906	50,000
5.5-year Eurodollar facility	December 2011	Revolver	–	–	–	40,000	33,096	–
5-year floating rate medium-term note	June 2012	Funded	–	18,429	–	19,000	19,000	19,000
3-year multi-currency facility	March 2013	Funded	281,703	281,703	281,703	281,703	271,028	281,703
3-year multi-currency facility	March 2013	Revolver	292,750	55,737	–	292,750	–	–
5-year Eurodollar facility	April 2013	Revolver	107,500	107,500	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	135,500	135,500	135,500	135,500	135,500	135,500
2-year structured facility	February 2014	Revolver	55,000	12,598	50,346	–	–	–
Total			**872,453**	**726,631**	**575,049**	1,726,453	1,023,729	593,703
Foreign exchange translation adjustments					(2,747)			3,328
Transaction costs of borrowings					(5,046)			(12,119)
					567,256			584,912

All medium-term facilities carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year multi-currency facility due March 2013 is subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

The 2-year structured revolving facility of $55 million (June 30, 2011: Nil) is secured by an equivalent amount of the Group's co-investments in hedge funds.

FORWARD START FACILITY

During the year ended June 30, 2012, the Group entered into a $504 million equivalent, multi-currency senior unsecured forward start facility. During July 2012, the facility was further increased by $25 million during the expansion period. This facility is split into various tranches available at various dates and with contractual amortizations in September 2013 of 15%, in September 2014 of 20%, and final maturity in September 2015 of the remaining balance of 65%. The facility is subject to certain customary covenants, including maintaining minimum levels of net worth and liquidity and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

$000s	Final maturity	June 30, 2012 Average outstanding	June 30, 2012 Current outstanding	June 30, 2011 Average outstanding	June 30, 2011 Current outstanding
PRIVATE NOTES					
$40 million private placement	December 2010	–	–	13,933	–
$20 million private placement	November 2011	6,776	–	20,000	20,000
$20 million private placement	April 2012	19,945	–	20,000	20,000
$71.5 million private placement	May 2012	17,826	–	33,595	17,875
$75 million bi-lateral placement	March 2013	20,000	20,000	21,151	20,000
$35 million private placement	December 2013	26,250	26,250	26,250	26,250
JPY 37 billion private placement	March 2030	332,328	332,328	332,328	332,328
$50 million private placement	July 2032	50,000	50,000	50,000	50,000
		473,125	428,578	517,257	486,453
Foreign exchange translation adjustments			133,604		128,501
Fair value adjustments			1,131		(37,128)
Transaction costs of borrowings			(2,822)		(3,186)
Total			560,491		574,640

Long-term debt issuances by the Group predominantly carry fixed rates of interest and are governed by covenants contained in the relevant agreements. Such covenants include maintaining certain minimum levels of net worth and liquidity coverage, and operating below a maximum leverage ratio.

16. SHARE CAPITAL AND RESERVES

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

	June 30, 2012 No. of shares	June 30, 2012 Par value $	June 30, 2012 $000	June 30, 2011 No. of shares	June 30, 2011 Par value $	June 30, 2011 $000
Authorized share capital						
Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
Preference and other shares	1,000,000	1,000	1,000,000	1,000,000	1,000	1,000,000
			2,000,000			2,000,000
Issued share capital						
Ordinary shares	800,000	250	200,000	800,000	250	200,000
Preference shares	515,132	1,000	515,132	515,132	1,000	515,132
			715,132			715,132

Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Bahrain.

Preference share capital

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

These preference shares are callable in part or in whole at the Bank's option any time on or after their first call dates at par plus dividend due up to the call date. The earliest call date for these preference shares is June 30, 2014.

The payment of dividends on preference shares is subject to recommendation by the Board of Directors, and approval by the CBB and ordinary shareholders. The preference shares take priority over the Bank's ordinary shares for payment of dividends and distribution of assets in the event of a liquidation or dissolution.

3,667 preference shares allocated to employees have been forfeited during the year ended June 30, 2011 and are carried as treasury shares by the Group, resulting in 511,465 (June 30, 2011: 511,465) net issued preference shares reported as part of equity.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB. During the fiscal year 2011, the Bank netted the fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium after obtaining regulatory approvals. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

Statutory reserve

The Bahrain Commercial Companies Law requires the maintenance of a statutory reserve equal to 50% of the Bank's issued and paid up ordinary share capital of $200 million, which amounts to $100 million. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law.

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a recommendation by the Board of Directors and approval by the CBB and ordinary shareholders. During the fiscal year 2011, the Bank transferred $50 million of the general reserve to retained earnings. Shareholders' approval was obtained at the ordinary general meeting of shareholders held in September 2011.

Treasury shares

186,698 (June 30, 2011: 203,607) ordinary shares were held as treasury shares as at June 30, 2012. Treasury shares include the equivalent of 16,000 shares (June 30, 2011: 20,000) allocated to the employees for which the income statement charge will be taken in the future, based on management's best estimate of future vesting. These relate to 24,000 shares which were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Bank has taken an income statement charge of $1.8 million (2011: $1.0 million) in the current year based on management's best estimate of the number of shares that are likely to vest.

17. UNREALIZED FAIR VALUE CHANGES RECOGNIZED DIRECTLY IN EQUITY AND REVALUATION RESERVE

This consists of unrealized fair value changes of AFS investments, cash flow hedges and revaluation reserve of premises and equipment recognized directly in equity.

Movements in fair value changes relating to AFS investments, cash flow hedges and revaluation reserve are set out below:

$000s	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2010	6,573	11,679	9,949	28,201
Net realized loss recycled to statement of income	–	1,279	–	1,279
Net unrealized (losses)/gains for the year	(1,860)	6,950	–	5,090
Revaluation loss on premises and equipment	–	–	(3,034)	(3,034)
Transfer of depreciation to retained earnings	–	–	(861)	(861)
Balance at June 30, 2011	4,713	19,908	6,054	30,675
Net realized gain recycled to statement of income	–	(792)	–	(792)
Net unrealized losses for the year	(1,986)	(14,494)	–	(16,480)
Transfer of depreciation to retained earnings	–	–	(230)	(230)
Balance at June 30, 2012	**2,727**	**4,622**	**5,824**	**13,173**

Refer to Note 19 for fair valuation of cash flow hedges.

18. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

Earnings per ordinary share is computed by dividing net income for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The Group's earnings per share for the year and proposed dividends are as follows:

$000s	2012	2011
Net income	**67,412**	140,313
Less: Proposed preference shares dividend	**(61,376)**	(61,376)
Net income attributable to ordinary shareholders	**6,036**	78,937
Weighted average ordinary shares	**619,714**	617,425
Basic and fully diluted earnings per ordinary share – on weighted average shares ($)	**10**	128
Proposed appropriations:		
Ordinary shares dividend	**4,720**	9,306
Preference shares dividend	**61,376**	61,376
Charitable contributions by shareholders	**–**	4,000
	66,096	74,682

The proposed ordinary share dividend is $7.5 (June 30, 2011: $15) per share payable only on issued shares, excluding treasury shares (other than shares allocated to the employees but not vested) that are held on the record date.

The proposed preference share dividend of $120 (June 30, 2011: $120) per share represents an annual dividend on issued preference shares, excluding the preference shares allocated to employees that have been forfeited, at the rate of 12%.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding unrealized changes relating to AFS co-investments, cash flow hedges, the revaluation reserve and proposed appropriations, by the number of ordinary shares outstanding at year end, is $738.64 per share (June 30, 2011: $743.66 per share). On a fully diluted basis, taking into account all allocated, unvested shares issued at year end, the book value per ordinary share is $719.86 per share (June 30, 2011: $714.89 per share).

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

- the hedging instrument, the underlying hedged item, the nature of the risk being hedged and the risk management objective and strategy must be formally documented at the inception of the hedge;
- it must be clearly demonstrated that the hedge, through changes in the value of the hedging instrument, is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item;
- the effectiveness of the hedge must be capable of being reliably measured; and
- the hedge must be assessed on an on-going 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 occasion, 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, 2012 and June 30, 2011:

$000s	June 30, 2012			June 30, 2011		
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	455,855	19,603	(85)	440,377	4,081	(48)
(ii) Cashflow hedges						
Forecasted transactions	2,578	50	–	–	–	–
Coupon on long-term debt	84,674	3,573	–	92,570	863	–
Total forward foreign exchange contracts	543,107	23,226	(85)	532,947	4,944	(48)
Interest rate risk being hedged using Interest rate swaps						
(i) Fair value hedges – fixed rate debt	550,585	37,790	–	563,062	23,440	–
(ii) Cashflow hedges – floating rate debt	650,000	–	(16,938)	500,000	–	(1,503)
Total interest rate hedging contracts	1,200,585	37,790	(16,938)	1,063,062	23,440	(1,503)
Total – hedging derivatives	1,743,692	61,016	(17,023)	1,596,009	28,384	(1,551)
(B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	27,698	1,650	(1,690)	32,007	1,507	(1,526)
Total – derivatives on behalf of clients	27,698	1,650	(1,690)	32,007	1,507	(1,526)
(C) OTHER DERIVATIVES						
Interest rate swaps	50,000	15,327	(15,328)	350,000	11,645	(12,412)
Forward foreign exchange contracts	374,701	2,988	(4,586)	346,359	2,830	(3,787)
Currency options	2,251	20	(20)	2,251	15	(15)
Cross currency swaps	250,680	249	(513)	265,838	652	(3,513)
Total – other derivatives	677,632	18,584	(20,447)	964,448	15,142	(19,727)
Total – derivative financial instruments	2,449,022	81,250	(39,160)	2,592,464	45,033	(22,804)

* Collateral amounting to $39.3 million (June 30, 2011 : $20.8 million) has been offset against the underlying derivatives positive fair value.

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2012:

	June 30, 2012				
	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	198,700	257,155	–	–	455,855
Interest rate swaps	–	–	34,696	515,889	550,585
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	–	84,674	–	–	84,674
Interest rate swaps	400,000	100,000	–	150,000	650,000
Forcasted transactions	2,578	–	–	–	2,578
Derivatives on behalf of clients:					
Forward foreign exchange contracts	3,253	24,445	–	–	27,698
Other derivatives:					
Interest rate swaps	–	–	–	50,000	50,000
Forward foreign exchange contracts	352,653	22,048	–	–	374,701
Currency options	–	–	2,251	–	2,251
Cross currency swaps	–	–	250,680	–	250,680
	957,184	488,322	287,627	715,889	2,449,022

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2011:

	June 30, 2011				
	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	436,549	–	3,828	–	440,377
Interest rate swaps	–	17,875	34,678	510,509	563,062
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	92,570	–	–	–	92,570
Interest rate swaps	–	–	500,000	–	500,000
Derivatives on behalf of clients:					
Forward foreign exchange contracts	30,399	1,608	–	–	32,007
Other derivatives:					
Interest rate swaps	–	300,000	–	50,000	350,000
Forward foreign exchange contracts	305,151	940	40,268	–	346,359
Currency option	–	–	2,251	–	2,251
Cross currency swaps	–	92,524	142,370	30,944	265,838
	864,669	412,947	723,395	591,453	2,592,464

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2012 were $20.7 million (June 30, 2011: losses of $25.5 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $23.0 million (June 30, 2011: gains of $22.8 million). These gains and losses are included in interest expense or treasury and other asset-based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. The cash flows from the hedged item impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

	June 30, 2012				
$000s	**Up to 3 months**	**>3 months up to 1 year**	**>1 year up to 5 years**	**Over 5 years**	**Total**
Currency risk					
Forecasted transactions	**(50)**	**–**	**–**	**–**	**(50)**
Fixed coupon on long-term debt*	**(8,154)**	**(8,154)**	**(65,231)**	**(212,001)**	**(293,540)**
Interest rate risk					
Fixed coupon on long-term debt*	**(1,412)**	**(2,098)**	**(12,555)**	**(2,760)**	**(18,825)**
	(9,616)	**(10,252)**	**(77,786)**	**(214,761)**	**(312,415)**

	June 30, 2011				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk					
Fixed coupon on long-term debt*	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)
	(8,065)	(8,065)	(64,516)	(225,806)	(306,452)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note.

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2012 was $1.5 million (June 30, 2011: $0.7 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	June 30, 2012	June 30, 2011
Investment commitments to closed-end funds	146,843	169,911
Other investment commitments	2,860	3,213
Total investment commitments	149,703	173,124
Non-cancelable operating leases	49,591	57,809
Guarantees and letters of credit issued to third parties	63,993	13,993

Investment related commitments include future funding of acquisitions that were contracted but not funded at the balance sheet date, and the Group's unfunded co-investment commitments to various corporate investment and real estate investment funds.

Non-cancelable operating leases relate to the Group's commitments in respect of its New York and London office premises.

Guarantees and letters of credit issued to third parties include financial guarantees provided to facilitate investee companies' on-going operations and leasing of equipment and facilities.

In addition, the Group has also issued indemnification letters and back stop guarantees in support of performance obligations of operating partners and investee companies in relation to real estate investments, which are covered under the Group's errors and omissions insurance policy.

The Group is engaged in litigation cases in various jurisdictions. The litigation cases involve claims made by and against the Group which have arisen in the ordinary course of business. The management of the Group, after reviewing the claims pending against the Group companies and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

21. REGULATORY CAPITAL ADEQUACY

The Group applies the Basel II framework regulations, as adopted by the CBB, on a consolidated basis to Investcorp Bank B.S.C. which is the entity licensed and regulated by the CBB.

For the assessment of the adequacy of regulatory capital, the Group has chosen the following approaches:

- standardized approach for credit risk and market risk
- basic indicator approach for operational risk

The following table outlines the corresponding Basel II risk weights by asset class.

Asset class segment	Basel II methodology June 30, 2012	Basel II risk weight June 30, 2012
Corporate investment	Standardized approach ('STA')	150%
Real estate	Standardized approach ('STA')	200%
Hedge funds	Standardized approach ('STA')	150%
CI and RE underwriting	Standardized approach ('STA')	100%
Operational risk	Basic indicator approach ('BIA')	15%

The table below summarizes the regulatory capital and the risk asset ratio calculation in line with the rules set out above. Following CBB guidelines, all co-investment activities are subject to a banking book credit risk framework, whereas foreign exchange risk comprises most of the trading book market risk.

$000s	June 30, 2012	June 30, 2011
Gross Tier 1 capital	1,035,192	1,049,570
Less: regulatory deductions	(44,367)	(22,195)
Tier 1 capital – net (a)	990,825	1,027,375
Gross Tier 2 capital	8,551	10,767
Less: regulatory deductions	(8,551)	(10,767)
Tier 2 capital – net (b)	–	–
Regulatory capital base under Basel II (a) + (b)	990,825	1,027,375

	June 30, 2012		June 30, 2011	
Risk weighted exposure $000s	Principal/ notional amounts	Risk weighted equivalents	Principal/ notional amounts	Risk weighted equivalents
Credit risk				
Claims on sovereigns	67	–	67	–
Claims on non-central government public sector entities	8,375	–	8,487	–
Claims on banks	262,562	53,412	247,722	50,444
Claims on corporates	494,060	422,244	532,370	436,370
Co-investments (including hedge funds)	1,790,348	2,540,593	1,917,971	2,842,177
Other assets	68,201	68,201	75,070	75,070
Off-balance sheet items				
Commitments and contingent liabilities	263,287	152,377	377,647	183,133
Derivative financial instruments	2,449,022	57,256	2,592,464	19,952
Credit risk weighted exposure		3,294,083		3,607,146
Market risk				
Market risk weighted exposure		1,738		7,904
Operational risk				
Operational risk weighted exposure		392,601		386,890
Total risk weighted exposure (b)		3,688,422		4,001,940
Risk asset ratio (a)/(b)		26.9%		25.7%
Minimum required as per CBB regulatory guidelines under Basel II		12.0%		12.0%
Capital cushion over minimum required as per CBB guidelines		548,214		547,142

22. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), which oversees the Group's risk management activities, and sets the Group's risk profile on an enterprise wide basis is comprised of members of senior management drawn from all key areas of the Group.

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 21). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently the aggregated economic capital is stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

The principal risks associated with the Group's business, and the related risk management processes are explained below:

(i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 19). With respect to the counterparty credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting and margin arrangements with counterparties, where possible, via ISDA and CSA agreements.

Risk management maintains an overall external rating-based methodology for setting Board approved counterparty limits. For rated counterparties, credit ratings from at least two rating agencies are used for developing counterparty limits. All non-rated counterparties are screened through detailed due diligence and credit analysis prior to the assumption of credit exposures to them by Investcorp. These non-rated counterparties are categorized under the 'standard' internal rating for financial reporting purposes.

The table below shows the relationship between internal rating and the category of the external rating grades.

Internal rating*	External rating by S&P and Moody's
High	AAA to A
Standard	A– to B–

* The internal rating is used to determine provisions and impairments for financial reporting purposes.

BUSINESS REVIEW CORPORATE GOVERNANCE AND BALANCE SHEET RISK MANAGEMENT CONSOLIDATED FINANCIAL STATEMENTS: INVESTCORP BANK B.S.C.

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 low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

The table below analyzes the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any credit enhancements.

	June 30, 2012						
	Neither past due nor impaired (a)						
	Credit risk rating						
$000s	High	Standard	Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Short-term funds	154,695	1,467	–	–	–	156,162	48,396
Placements with financial institutions and other liquid assets	165,187	29,380	–	–	–	194,567	287,213
Positive fair value of derivatives	54,006	27,244	–	–	–	81,250	70,473
Receivables	–	218,957	22,809	6,986	(6,986)	241,766	210,722
Loans and advances	–	188,853	–	11,852	(11,852)	188,853	122,051
Co-investments – debt	–	100,295	–	–	–	100,295	86,622
Guarantees	–	63,993	–	–	–	63,993	105,354
Total	373,888	630,189	22,809	18,838	(18,838)	1,026,886	

	June 30, 2011						
	Neither past due nor impaired (a)						
	Credit risk rating						
$000s	High	Standard	Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Short-term funds	24,498	–	–	–	–	24,498	34,226
Placements with financial institutions and other liquid assets	341,395	–	–	–	–	341,395	349,507
Positive fair value of derivatives	45,033	–	–	–	–	45,033	84,352
Receivables	–	171,107	99,582	43,497	(43,431)	270,755	298,086
Loans and advances	–	169,625	–	49,777	(49,570)	169,832	136,223
Co-investments – debt	–	72,949	–	–	–	72,949	76,781
Guarantees	–	146,714	–	–	–	146,714	146,714
Total	410,926	560,395	99,582	93,274	(93,001)	1,071,176	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2011: nil).

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

$000s	June 30, 2012	June 30, 2011
Up to 1 month	**2,261**	37,802
> 1 up to 3 months	**6,251**	34,398
> 3 up to 6 months	**2,947**	912
> 6 months up to 1 year	**51**	4,873
Over 1 year	**11,299**	21,597
Total	**22,809**	99,582

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2012 amounts to $403 million (June 30, 2011: $1,034 million).

(ii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems, and scenario analyses that are incorporated into a contingency funding plan. The framework is consistent with regulatory requirements and is subject to Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

The table below summarizes the maturity profile of the Group's assets and liabilities based on expected realizations.

	June 30, 2012							
$000s	Up to 3 months	>3 months up to 1 year	Sub-total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
ASSETS								
Cash and short-term funds	156,252	–	156,252	–	–	–	–	156,252
Placement with financial institutions and other liquid assets	191,567	3,000	194,567	–	–	–	–	194,567
Positive fair value of derivatives	7,455	11,322	18,777	1,352	588	44,970	15,563	81,250
Receivables and prepayments	95,979	31,124	127,103	157,234	–	–	–	284,337
Loans and advances	9,963	40,907	50,870	137,983	–	–	–	188,853
Co-investments								
Hedge funds	277,690	104,009	381,699	32,399	–	–	–	414,098
Corporate investment	197,757	178,868	376,625	845,165	–	–	–	1,221,790
Real estate investment	4,477	25,625	30,102	124,358	–	–	–	154,460
Premises, equipment and other assets	222	–	222	16,672	28,962	8,216	–	54,072
Total assets	941,362	394,855	1,336,217	1,315,163	29,550	53,186	15,563	2,749,679
LIABILITIES								
Deposits from financial institutions	10,111	–	10,111	–	–	–	–	10,111
Deposits from clients – short-term	195,245	–	195,245	–	–	–	–	195,245
Negative fair value of derivatives	3,004	3,850	6,854	514	–	12,529	19,263	39,160
Payables and accrued expenses	181,181	26,856	208,037	6,395	–	–	–	214,432
Deposits from clients – medium-term	–	–	–	119,241	–	–	–	119,241
Medium-term debt*	–	12,705	12,705	554,551	–	–	–	567,256
Long-term debt	–	19,404	19,404	26,038	–	466,873	48,176	560,491
Total liabilities	389,541	62,815	452,356	706,739	–	479,402	67,439	1,705,936
Net gap	551,821	332,040	883,861	608,424	29,550	(426,216)	(51,876)	
Cumulative liquidity gap	551,821	883,861	883,861	1,492,285	1,521,835	1,095,619	1,043,743	

* Does not take into account the $297.4 million undrawn revolvers of which $292.8 million is to be repaid in March 2013 on maturity. Further, the medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

$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, 2011				
ASSETS								
Cash and short-term funds	24,649	–	24,649	–	–	–	–	24,649
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	–	–	–	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	136,324	95,230	231,554	68,882	–	–	–	300,436
Loans and advances	330	9,741	10,071	158,926	–	835	–	169,832
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	–	–	–	607,398
Corporate investment	–	32,743	32,743	1,088,992	–	–	–	1,121,735
Real estate investment	–	42,090	42,090	146,748	–	–	–	188,838
Premises, equipment and other assets	166	–	166	18,322	32,531	8,216	–	59,235
Total assets	870,498	318,330	1,188,828	1,595,587	32,996	34,975	6,165	2,858,551
LIABILITIES								
Deposits from financial institutions	–	–	–	–	–	–	–	–
Deposits from clients – short-term	318,028	–	318,028	–	–	–	–	318,028
Negative fair value of derivatives	2,421	5,933	8,354	5,473	–	955	8,022	22,804
Payables and accrued expenses	173,883	15,965	189,848	12,673	–	–	–	202,521
Deposits from clients – medium-term	–	–	–	95,309	–	–	–	95,309
Medium-term debt*	–	68,183	68,183	516,729	–	–	–	584,912
Long-term debt	–	52,828	52,828	46,157	–	434,447	41,208	574,640
Total liabilities	494,332	142,909	637,241	676,341	–	435,402	49,230	1,798,214
Net gap	376,166	175,421	551,587	919,246	32,996	(400,427)	(43,065)	
Cumulative liquidity gap	376,166	551,587	551,587	1,470,833	1,503,829	1,103,402	1,060,337	

* Does not take into account the $536.25 million undrawn revolvers of which $293.5 million net is to be repaid in December 2011 on maturity.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective earliest contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

	June 30, 2012						
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
Financial liabilities							
Deposits from financial institutions	10,137	–	–	–	–	–	10,137
Deposits from clients	195,607	657	120,514	–	–	–	316,778
Payables and accrued expenses	181,181	26,856	6,395	–	–	–	214,432
Medium-term debt*	2,276	34,856	596,226	–	–	–	633,358
Long-term debt	10,254	33,016	108,707	101,739	636,798	52,020	942,534
	399,455	95,385	831,842	101,739	636,798	52,020	2,117,239
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	559,637	387,110	256,406	–	–	–	1,203,153
Contractual amounts receivable	(567,521)	(400,372)	(253,475)	–	–	–	(1,221,368)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,921)	(3,509)	(29,773)	(25,400)	(3,813)	(119)	(66,535)
Commitments	1,900	35,642	150,291	11,461	–	–	199,294
Guarantees	63,993	–	–	–	–	–	63,993
Total undiscounted financial liabilities	453,543	114,256	955,291	87,800	632,985	51,901	2,295,776

* The medium term debt maturities takes into account the impact of the forward start facility that the Group has signed amounting to $504 million. Please refer to Note 14 for details.

June 30, 2011							
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
Financial liabilities							
Deposits from clients	318,223	190	96,008	–	–	–	414,421
Payables and accrued expenses	173,883	15,965	12,673	–	–	–	202,521
Medium-term debt	4,376	84,962	543,050	–	–	–	632,388
Long-term debt	10,429	72,213	130,426	100,845	646,391	56,060	1,016,364
	506,911	173,330	782,157	100,845	646,391	56,060	2,265,694
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	658,426	166,827	247,470	6,935	43,484	–	1,123,142
Contractual amounts receivable	(663,665)	(163,206)	(239,563)	(2,294)	(37,366)	–	(1,106,094)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,118)	(6,948)	(37,898)	(13,388)	19,993	142	(41,217)
Commitments	1,916	40,373	169,155	19,490	–	–	230,934
Guarantees	32,323	–	85,420	28,971	–	–	146,714
Total undiscounted financial liabilities	532,793	210,376	1,006,741	140,559	672,502	56,202	2,619,173

(iii) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group's policies and procedures and the broad geographical and industry spread of its activities limit its exposure to any concentration risk. Additionally management has established credit limits for geographic and counterparty exposures, which are monitored on a daily basis.

The distribution of assets and off-balance sheet items by geographical region and industry sector is as follows:

	June 30, 2012			June 30, 2011		
$000s	Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure	Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure
GEOGRAPHICAL REGION						
North America	698,258	63,993	762,251	855,936	146,714	1,002,650
Europe	252,368	–	252,368	59,203	–	59,203
Middle East	12,236	–	12,236	9,237	–	9,237
Other	31	–	31	86	–	86
Total	962,893	63,993	1,026,886	924,462	146,714	1,071,176

	June 30, 2012			June 30, 2011		
$000s	Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure	Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure
INDUSTRY SECTOR						
Banking and finance	506,250	116	506,366	521,471	50,116	571,587
Consumer products	52,749	377	53,126	73,196	377	73,573
Consumer services	68,742	–	68,742	56,450	–	56,450
Distribution	30,536	–	30,536	32,979	–	32,979
Industrial products	117,089	–	117,089	70,226	–	70,226
Real estate	134,079	53,500	187,579	114,399	86,221	200,620
Technology and telecom	44,461	–	44,461	47,682	–	47,682
Others	8,987	10,000	18,987	8,059	10,000	18,059
Total	962,893	63,993	1,026,886	924,462	146,714	1,071,176

(iv) Market price risk

The principal market related risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, corporate investment and real estate investment, as well as on its debt financings. For purposes of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

In addition, for internal risk assessments, the Group uses a variety of internal models to analyze the market price risks that may arise from adverse market movements.

Market price risk has been further detailed below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

(iv) (a) Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments into US dollars utilizing currency risk management products. In the normal course of its business the Group utilizes forward foreign exchange contracts and foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and Value at Risk ('VaR') risk limits.

The Group's significant net hedged and unhedged foreign currency positions are set out below.

$000s	June 30, 2012		June 30, 2011	
Long (short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	–	39,774	–	39,667
Euro	367,331	356	412,247	68
Pounds Sterling	58,168	122	16,593	(56)
Japanese Yen	(467,559)	521	(411,276)	213
	(42,060)	40,773	17,564	39,892

* Currency exchange rate currently pegged against the US dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

The following table summarizes the 99% confidence level over a 1-day holding period VaR for the Group's foreign currency exposures.

$000s	2012	2011
Average FX VaR	6	13
Year end FX VaR	11	5
Maximum FX VaR	28	91
Minimum FX VaR	1	1

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by the Board of Directors. The Group does not typically take interest rate trading positions and all its interest rate risk is typically in the banking book where hedge accounting applies. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

A majority of the Group's interest earning assets and interest bearing liabilities carry floating rates of interest or if they carry fixed rates they have been hedged to floating rates of interest, except for the following:

- Investments amounting to $51.1 million (June 30, 2011: $27.2 million), which earn interest at an effective rate approximating 11.6% (June 30, 2011: 10.4%) per annum.
- Deposits from clients amounting to $37.7 million (June 30, 2011: $7.2 million) on which interest is paid at an effective rate of 4.66% (June 30, 2011: 0.9%) per annum reflecting the underlying maturity structure.

Apart from the above, the Group has a fixed interest rate on long term debt amounting to $650 million (June 30, 2011: $125 million) at an effective rate of 1.2% (June 30, 2011: 2.9%) per annum. This includes $400 million and $100 million of debt converted to fixed rate using interest rate swaps with short term maturities in July 2012 and March 2013 respectively. The remaining $150 million is part of a tactical move to take advantage of the low interest rate yields in the current environment and to hedge against any volatility in the future cash flows.

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2012	
Euro	(7,691)	1,864
Pounds Sterling	(1,333)	432
Japanese Yen	880	(167)
US Dollar	(8,207)	3,187
Others	155	(3)
Total	(16,196)	5,313

(a) Figures in parenthesis above represent loss.
(b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%.

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2011	
Euro	(9,673)	6,819
Pounds Sterling	(715)	234
Japanese Yen	1,246	(13)
US Dollar	(1,849)	928
Others	145	(10)
Total	(10,846)	7,958

(a) Figures in parenthesis above represent loss.
(b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end.

The Group monitors and capitalizes the credit spread risk arising from credit derivative instruments such as credit linked notes (CLN) and funded credit default swaps (funded CDS) where the referenced risk is highly rated sovereigns. The specific risk capital allocation against such exposures amounted to nil (June 30, 2011: $0.3 million), and general risk capital allocation amounted to $0.02 million (June 30, 2011: $0.25 million).

(iv) (c) Equity price risk

The Group's equity price risk arises primarily from its co-investments in hedge funds, corporate investment and real estate investment.

Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level, where an independent risk analysis is conducted at the pre-acquisition stage.

The table below summarizes the sensitivity of the Group's Level 3 co-investments in CI–NA & Europe, CI–Technology and real estate investment to changes in multiples / discount rates.

June 30, 2012

$000s	Factor	Change	Balance sheet exposure	Projected balance sheet exposure		Impact on income	
				Increase	Decrease	Increase	Decrease
CI–NA & Europe	**EBITDA multiples**	**+/- 0.5x**	**1,006,019**	**1,086,918**	**913,401**	**80,899**	**(92,618)**
CI–Technology	**Revenue multiples**	**+/- 0.5x**	**76,815**	**84,537**	**69,093**	**7,722**	**(7,722)**
Real estate investment	**Capitalization rate**	**+/- 1%**	**111,016**	**149,277**	**76,103**	**38,261**	**(34,913)**

June 30, 2011

$000s	Factor	Change	Balance sheet exposure	Projected balance sheet exposure		Impact on income	
				Increase	Decrease	Increase	Decrease
CI–NA & Europe	EBITDA multiples	+/- 0.5x	944,845	1,037,589	852,607	92,744	(92,238)
CI–Technology	Revenue multiples	+/- 0.5x	80,006	84,249	75,763	4,243	(4,243)
Real estate investment	Capitalization rate	+/- 1%	188,838	223,822	158,782	34,984	(30,056)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of CI–MENA, and in the equity of the Group in respect of AFS strategic co-investments.

Co-investments in hedge funds

The Group manages the market price risk in its hedge fund portfolio through its market risk management framework that uses the 'Value at Risk' (VaR) technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's hedge funds exposure.

$000s	2012	2011
Average VaR	**37,154**	**40,583**
Year end VaR	**31,060**	**37,920**
Maximum VaR	**41,598**	**43,799**
Minimum VaR	**31,060**	**37,920**

(v) Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events (such as natural disasters, changes in regulation or outsourcing of operations). Investcorp includes in this definition legal risk but excludes reputational and strategic risks.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout Investcorp. Internal audit makes regular, independent appraisals of the control environment in all identified risk areas. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios.

As a part of the Basel II implementation, Investcorp has put an operational risk framework in place. Under this framework Investcorp applies the Basic Indicator Approach ('BIA') to measure operational risk. Under this approach, Investcorp's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient which has been set at 15% in the CBB's Basel II capital adequacy framework.

Investcorp's operational risk framework, which is based on BIA for regulatory reporting, is being revised to include, in the first and second phases, a maker/checker process, an updated review of risk and control self-assessment and a tracker of material losses by Investcorp's lines of business. Subsequent to the implementation of these revisions, monitoring and reporting processes for operational risk exposures will be implemented for upward reporting to senior management and the Board.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value adjustments arise from re-measurement to fair value of investments, liabilities and derivatives.

The fair values of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value except for fixed rate liabilities effectively carried at amortized cost. The fair value of medium and long term debt amounts to $813.0 million (June 30, 2011: $1,016.3 million) as compared to the carrying value of $1,135.6 million (June 30, 2011: $1,159.6 million).

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

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	June 30, 2012			
$000s	Level 1	Level 2	Level 3	Total
Financial assets				
Placements with financial institutions and other liquid assets	–	3,000	–	3,000
Positive fair value of derivatives	–	81,250	–	81,250
Co-investments				
Hedge funds	–	414,098	–	414,098
Corporate investment	6,258	–	1,158,681	1,164,939
Real estate investment	–	–	111,016	111,016
Total financial assets	6,258	498,348	1,269,697	1,774,303
Financial liabilities				
Negative fair value of derivatives	–	39,160	–	39,160
Total financial liabilities	–	39,160	–	39,160

	June 30, 2011			
$000s	Level 1	Level 2	Level 3	Total
Financial assets				
Placements with financial institutions and other liquid assets	–	128,000	–	128,000
Positive fair value of derivatives	–	45,033	–	45,033
Co-investments				
Hedge funds	–	607,398	–	607,398
Corporate investment	3,571	–	1,080,661	1,084,232
Real estate investment	–	–	153,392	153,392
Total financial assets	3,571	780,431	1,234,053	2,018,055
Financial liabilities				
Negative fair value of derivatives	–	22,804	–	22,804
Total financial liabilities	–	22,804	–	22,804

During the years ended June 30, 2012 and June 30, 2011, there were no transfers of instruments between Level 1, 2 and 3 of the fair value measurement hierarchy.

A reconciliation of the opening and closing amounts of co-investment in corporate investment and real estate investment (including those measured using Level 1 input and assets at amortized cost) is given below:

	June 30, 2012					
$000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations/ placements	Other movements**	At end
CI-NA & Europe						
Level 3	938,345	185,143	4,874	(67,321)	(55,022)	1,006,019
Others	6,500	16,132	–	–	(1,472)	21,160
Sub-total	**944,845**	**201,275**	**4,874**	**(67,321)**	**(56,494)**	**1,027,179**
CI-Technology						
Level 3	66,248	3,424	11,404	–	(4,261)	76,815
Others	13,758	–	(2,563)	(10,187)	5,250	6,258
Sub-total	**80,006**	**3,424**	**8,841**	**(10,187)**	**989**	**83,073**
CI-MENA						
Level 3	23,711	–	5,051	(6,975)	2,190	23,977
Sub-total	**23,711**	**–**	**5,051**	**(6,975)**	**2,190**	**23,977**
Strategic investments and other						
Level 3	52,357	–	(1,583)		1,096	51,870
Others	20,816	–	–	–	14,875	35,691
Sub-total	**73,173**	**–**	**(1,583)**	**–**	**15,971**	**87,561**
Real estate investment						
Level 3	153,392	2,894	(3,455)	(41,815)	–	111,016
Others	35,446	7,729	–	(5,671)	5,940	43,444
Sub-total	**188,838**	**10,623**	**(3,455)**	**(47,486)**	**5,940**	**154,460**
Total	**1,310,573**	**215,322**	**13,728**	**(131,969)**	**(31,404)**	**1,376,250**

* Includes $2 million fair value loss in available for sale investments.
** Other movements include add-on funding and foreign currency translation adjustments.

$000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations/ placements	Other movements**	At end
	June 30, 2011					
CI-NA & Europe						
Level 3	889,953	47,928	97,014	(208,562)	112,012	938,345
Others	–	6,500	–	–	–	6,500
Sub-total	889,953	54,428	97,014	(208,562)	112,012	944,845
CI-Technology						
Level 3	45,288	3,016	13,745	–	4,199	66,248
Others	26,823	–	(765)	(15,722)	3,422	13,758
Sub-total	72,111	3,016	12,980	(15,722)	7,621	80,006
CI-MENA						
Level 3	18,112	3,820	589	–	1,190	23,711
Sub-total	18,112	3,820	589	–	1,190	23,711
Strategic investments and other						
Level 3	53,083	1,000	292	(2,969)	951	52,357
Others	19,506	–	–	–	1,310	20,816
Sub-total	72,589	1,000	292	(2,969)	2,261	73,173
Real estate investment						
Level 3	170,586	32,292	(7,287)	(43,134)	935	153,392
Others	46,191	–	–	(15,745)	5,000	35,446
Sub-total	216,777	32,292	(7,287)	(58,879)	5,935	188,838
Total	1,269,542	94,556	103,588	(286,132)	129,019	1,310,573

* Includes $1.9 million fair value loss in available for sale investments.
** Other movements include add-on funding and foreign currency translation adjustments

All the fair value movements noted above relate to financial assets based on Level 3, except for $2.6 million loss (2011: $0.8 million loss) for movements relating to Level 1 assets of CI–Technology.

24. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide employees with a secure compensation platform upon which they are encouraged to pursue outstanding returns and to reward them based on their results in line with the interests of clients and shareholders. This is achieved through a combination of cash salaries, variable bonuses dependent upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks.

Similar to most other investment institutions, the overall compensation paid to Investcorp's executives is highly correlated with Investcorp's net income.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders.

The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these benefits, amounts to $1.8 million (2011: $1.0 million).

Programs for investment profit participation

The Group's investment professionals in its corporate investment, real estate investment and placement and relationship management lines of business participate in 'carry-based' programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with these professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Programs for investment participation

The Group's professional staff is also offered the opportunity to co-invest alongside clients in the Group's investment products that they manage, including corporate investment, real estate investment and the hedge funds lines of business. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group. Employees may also invest in other lines of business as long as they meet the accredited/sophisticated investor criteria imposed by the regulatory authorities in the country in which their office is located.

Historically, the Group, together with third party lenders, provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2012 is $94.7 million (June 30, 2011: $97.6 million).

Employees share ownership plans

SIPCO Holdings Limited ('SHL') sponsors various employee share ownership plans under which eligible employees have previously received, and currently receive, a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank and have previously received a beneficial interest in the preference shares of the Bank. These beneficial interests have different vesting periods and are not transferable.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these beneficial interests in the shares of the Bank as they are accounted for expected vesting, since these awards occurred at the fair value of the shares. This expense is recorded based upon expected vesting of the shares. These plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the beneficial interest in shares of the Bank.

25. RELATED PARTY TRANSACTIONS

For the Group, related parties include its investee companies, companies that hold clients' investments (clients' investment holding companies), client fund companies associated with hedge funds and the parent company through which the employees invest in beneficial ownership of the Bank's ordinary shares.

It also includes major shareholders, directors and senior management of the Bank, their immediate families and entities controlled, jointly controlled or significantly influenced by such parties. Income is earned or expense is incurred in the Group's transactions with such related parties in the ordinary course of business. The Group's management approves the terms and conditions of all related party transactions.

Although these companies are being classified as related parties, the Group administers and manages the companies that hold clients' investments on a fiduciary basis on behalf of its clients who are third parties and are the beneficiaries of a majority of the economic interest from the underlying investments of these companies. As a result, the true nature of the Group's transactions with these companies is effectively at commercial terms as specified under pre-determined management agreements.

In addition to the compensation and benefits to employees disclosed in Note 24, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		June 30 2012	June 30 2011
Management fees	Investee companies	**19,154**	19,126
	Client companies	**53,250**	56,992
	Client companies associated with the HF	**25,603**	28,347
Activity fees	Investee companies	**45,726**	28,691
Performance fees	Client companies associated with the HF	**8,548**	6,084
	Client companies	**55,202**	31,134
Asset-based income	Investee companies	**32,867**	20,427
	Client companies	**1,835**	5,447
Interest expense	Client companies	**407**	(220)
Provisions for impairment	Employee investment programs	**(156)**	1,025

Of the staff compensation for the year set out in Note 5, $24.9 million (2011: $58.4 million) is attributable to senior management (including an employee who is also a director). Of the above mentioned remuneration of senior management, $21.6 million (June 30, 2011: $57.4 million) is short term in nature.

In addition to the compensation and benefits to employees disclosed in Note 24, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2012			June 30, 2011		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	**4,806**	**12,507**	**–**	4,806	12,518	–
Investee companies	**99,595**	**–**	**–**	73,201	–	–
Investment holding companies	**153,741**	**66,610**	**146,843**	88,290	71,480	169,911
Client fund companies associated with the HF	**29,491**	**–**	**–**	8,162	–	–
Directors and senior management	**1,096**	**630**	**–**	1,061	630	–
	288,729	**79,747**	**146,843**	175,520	84,628	169,911

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Bank and whose business interests are aligned with the interests of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $420 million as at June 30, 2012 (June 30, 2011: $422 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

The Group has also entered into management agreements with the strategic partners to manage these investments and consequently it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the table above, to the extent they result from transactions with related parties.

This page left blank intentionally