INVESTCORP

2012

In a period in which global financial markets faced enormous turbulence as a result of challenges in the Eurozone, Investcorp recorded another successful year with a net profit of $67.4 million. The financial strength shown in this report is testament to the solid foundations we have built. Momentum has continued in market penetration where robust access to our target markets has earned us an enviable reputation and franchise. We will continue to build this strong institution.

INVESTCORP GROUP 2012 ANNUAL REPORT

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MISSION

Investcorp's mission is to be our clients' preferred choice in meeting their needs for alternative investment products: corporate investment, hedge funds and real estate investment. In fulfilling this mission, our most important asset is our reputation. Investcorp has earned its distinction through reliability, transparency, business judgment, value creation, innovation and superior results.

The Investcorp brand is universally recognized for its excellent performance in global alternative investments. We are determined to maintain and build on this powerful reputation. To this end, we will ensure that all our lines of business generate top-quartile results in their respective sectors.

We will continue to set the standard for superior client service in our industry, focusing on our core market of institutional and high-net-worth clients in the Gulf region and growing our franchise with selected new clients. Investcorp will continue to be a management-driven organization, institutional in its practices and disciplines while preserving its entrepreneurial environment and partnership mindset. Our determination to develop, retain and attract talented people, and to provide a distinctive culture in which they can thrive and excel, will remain unchanged.

MESSAGE TO SHAREHOLDERS

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 29th fiscal year ended June 30, 2012.

We are greatly encouraged by the progress made in a challenging year for financial markets and financial services firms worldwide. This fiscal year unfolded against the backdrop of the European sovereign debt crisis and a slowing global economic environment. As a result, our Fiscal 2012 net income of $67.4 million was the outcome of two distinct underlying dynamics.

On the one hand, we saw strong upward momentum in fee income which increased by 20% to $236.0 million. This was the result of a significant increase in acquisition and placement activity that demonstrated the durability of our franchise and relationships in the Gulf region and the robust recovery of our transactional businesses following the global financial crisis. On the other hand, asset-based income declined to $31.0 million for the period, largely due to negative returns on our hedge fund co-investment portfolio — the result, in turn, of extreme levels of uncertainty and negative sentiment in global markets that affected returns throughout the industry. In light of the distinct economic slowdown, we also took a conservative view towards marking to market our corporate investments, particularly in Europe. Gross operating income in Fiscal 2012 was $267.1 million.

We raised a substantial $1.3 billion from investors in this period. Corporate investment deal placement was $214 million and in real estate we raised $207 million through the placement of five real estate portfolios and the first closing of the real estate third debt fund. We raised $917 million in new subscriptions into hedge funds from global institutions.

We have maintained our prudent approach towards balance sheet management. Total liquidity remains strong, in excess of $1.0 billion. Total assets are $2.7 billion. Our capital adequacy ratio stands at 26.9%, well above the Central Bank of Bahrain's regulatory minimum of 12%. We also completed a new $529.0 million forward start loan facility to refinance debt maturing in March and April 2013, which received strong support from international and Gulf relationship banks.

Operating expenses decreased by 30% to $150.7 million, reflecting lower fixed operating expenses and lower incentive compensation in line with net income for the period. Total interest expense decreased by 15% to $47.8 million.

We continued to take a disciplined approach to investments against the background of a deteriorating global economy. We invested $573 million in new corporate investments including Sur La Table, GL Education, Archway Marketing Services and Esmalglass Itaca. The Investcorp

Technology Partners III Fund acquired a significant minority stake in Thought Equity Motion, now rebranded T3Media. The Investcorp Gulf Opportunity Fund I agreed to acquire significant minority stakes in Orka Group and one other GCC-based company. Both transactions are expected to close in early Fiscal 2013. We undertook several attractively priced add-on investments through the Investcorp Technology funds and the Investcorp Gulf Opportunity Fund. We also facilitated several add-on acquisitions for corporate investment portfolio companies including FleetPride, IPH, Berlin Packaging and Skrill.

We deployed $184.0 million in ten new real estate investments. Of these, three were placed with clients in a Sharia-compliant US Diversified Properties X Portfolio, two with clients in a Sharia-compliant Texas Apartment Portfolio and one with clients in the Northern California Portfolio while two debt investments were placed with clients in the Southland and Arundel Mezz portfolio. A bridge loan investment in New York's Paramount Hotel was subsequently replaced by the first investment made by the third real estate debt fund.

Investcorp's balance sheet co-investment in hedge funds delivered unlevered returns of -4.7% which, although negative, was in line with industry benchmarks in an exceptionally difficult return environment. There was a modest recovery in the second half of the fiscal year compared to the first half, with a return of 1.2% for the six-month period. Investcorp's Single Manager Platform outperformed the benchmark, delivering returns of +3.6% over the twelve months.

We delivered more than $649.0 million in proceeds from realizations and other distributions this year, further evidence of our success in managing investments through difficult times in order to maximize value. We sold Accuity Inc, a former subsidiary of SourceMedia Inc, for an enterprise value of $530.0 million, and the Gulf Opportunity Fund I made its first sale, its stake in Redington International, for a total consideration of $115.0 million. Real estate realizations included the sale of the W South Beach Mezzanine Loan.

Out of the net income for the current fiscal year, Investcorp's Board of Directors is proposing appropriations of $4.7 million as ordinary share dividends (representing $7.50 per ordinary share) and $61.4 million in preference share dividends at the stated rate of 12% per annum.

Our achievements this year have reinforced the foundations on which Investcorp will build for the future. We are pleased to acknowledge the commitment, skills and professionalism of Investcorp's people who have made these many achievements possible. We also pay tribute to the support of our Strategic Partnership Group and to the trust placed in us by our clients and shareholders. The Board records its thanks to you all. And as always, we wish to mark our gratitude for the longstanding support given to this Firm by the Central Bank of Bahrain and the Government of the Kingdom of Bahrain.

Signed on behalf of the Board of Directors

Abdul Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

OUR BUSINESS

PLACEMENT & CLIENT RELATIONSHIP MANAGEMENT

This year demonstrated how much our hallmark high touch service is valued by our clients. Against the background of a slowing in the global economy our fund-raising momentum continued, demonstrating that our long history, commitment and track record in the Gulf region made us particularly trusted by our investors. We were able to find them investment opportunities that took advantage of current dislocations while providing the risk-return balance they required.

We continued to provide alternative investment products in corporate investment, real estate investment and hedge funds. These were placed predominantly with private and institutional investors in the six GCC countries, and also with a number of international institutions.

Strong fundraising momentum continued this year and we raised a total of $1,339 million. Corporate investment deal-by-deal placement was $214 million including placement of equity in three new US and European companies, Sur La Table, GL Education and Esmalglass Itaca. In total we closed placement on eight deal-by-deal offerings this year bringing to 15 the total number of deal-by-deal products fully placed in the post crisis period since the beginning of FY10. In real estate investment we raised $207 million through the placement of five real estate portfolios and the first close of the new debt fund. Strong interest in our hedge fund platform continued and we had new subscriptions from institutional investors of $917 million.

We delivered $649 million in proceeds from realizations and other distributions this year. These included the profitable exits of Accuity Inc and the sale of the Gulf Opportunity Fund I investment in Redington International Holdings Ltd.

CORPORATE INVESTMENT

The macro environment remained challenging for corporate investment and absolute return expectations continued to be lower than historical averages, in line with public equities and bonds. However, it was possible to find middle-market companies in the US and Europe with strong market niches and the potential to out-perform. MENA continued to benefit from strong oil revenues, government expenditure and continued strong demographic trends and the GCC and Turkey provided compelling investment opportunities.

Our disciplined approach towards investment activity was maintained this year. We invested $573 million in new corporate investments including Sur La Table, a leading US national kitchenware retailer, GL Education, a UK-based provider of non-regulated pupil and school assessment solutions and performance management tools, Archway Marketing Services, North America's leading outsourcer of marketing fulfillment services, and Esmalglass Itaca, a Spanish head-quartered producer of intermediates for the global ceramic industry. The Investcorp Technology Partners III Fund acquired a significant minority stake in Thought Equity Motion, now rebranded T3Media, the leading provider of cloud-based video management and footage licensing services.

The Investcorp Gulf Opportunity Fund I agreed to acquire significant minority stakes in Orka Group and in a GCC company in transactions that are expected to close in the first half of the 2013 fiscal year. We invested an additional $43 million in follow-on investments through the three technology funds and the Gulf Opportunity Fund I. We also facilitated several add-on acquisitions for corporate investment portfolio companies including FleetPride, IPH, Berlin Packaging and Skrill.

Notable exits included the partial exit of SourceMedia following the sale of subsidiary Accuity Inc and the sale of the stake in Redington International Holdings Ltd. held by the Gulf Opportunity Fund I.

HEDGE FUNDS

Geopolitical events and uncertainty in Europe led to significant levels of volatility combined with low absolute returns making this an exceptionally challenging year in which many hedge fund strategies struggled to generate returns. Distressed and Event Driven managers in particular were significantly impacted. Portfolio Insurance managers, selected to control the downside, also muted overall returns during positive months. Nonetheless, investor inflows remained strong. Industry assets under management surged to a peak of over $2 trillion and surpassed the pre-crisis high.

During FY12, Investcorp's hedge funds co-investment portfolio delivered unlevered returns of -4.7%. This performance was in line with the industry benchmark, the HFRI Fund of Funds Composite Index, which produced a return of -4.4% during the same period.

During this difficult period for hedge funds, Investcorp's Single Manager Platform outperformed the benchmark by +3.6% including a notable performance by one of our managers focusing on corporate credit and structured finance. Generally, we saw a continuation of the trend towards investing in single managers and in customized accounts. At year end 38% of our client hedge fund assets under management were invested with single managers and 56% were invested through customized accounts. The percentage of assets in fund of fund products continued to decrease.

We finished the fiscal year with hedge fund assets under management of $4.3 billion. $3.5 billion were client assets and $0.7 billion were co-investments. Around 90% of our assets under management were managed for a range of institutional clients including pension funds, insurance companies, endowments and foundations.

REAL ESTATE INVESTMENT

Overall, the US commercial real estate market continued to improve, although the pace of recovery slowed in the second half. International investors continued to increase allocations. Interest was focused on primary markets, but there was also focus on secondary markets that had strong employment drivers from concentrations of globally competitive industries. Investors also showed interest in the multi-family rental sector.

We made ten new investments during the fiscal year, deploying $184 million. We purchased The Ashford, a multi-family community in Georgia, Bethesda Health City, a medical office building in Florida, and Park Tower, an office building in California. These were combined in the US Diversified Properties X Portfolio. We also bought two Texas properties, Sheffield Square, a multi-family property in Dallas, and an interest in a portfolio of four multi-family properties in the Copperfield community in Houston. These formed the Texas Apartment Portfolio. We acquired two mezzanine loans secured by the Paramount Hotel in New York's Times Square. We acquired two further mezzanine loans, the first secured by Arundel Mills, a Hilton Garden Inn/Homewood Suites branded property in Maryland, and the second in Southland Mall, a retail mall in South Florida. These were combined in a debt portfolio, Southland and Arundel Mezz. We also made an investment in a portfolio of 14 office, industrial and retail properties near San Francisco, which formed the Northern California Portfolio.

Our new real estate debt fund had its first close. It also made its first investment as part of a refinancing of the debt at the Paramount Hotel when our bridge loan investment was replaced with a new debt structure from third parties including an investment by the fund.

We made a profitable sale of the W South Beach mezzanine loan investment, sold the remaining assets in the Diversified II portfolio and exited our bridge loan investment in the Paramount Hotel.

FINANCIAL REVIEW

EXECUTIVE SUMMARY

MARKET ENVIRONMENT

- The latter part of calendar year 2011 saw a major deterioration in the global economy, driven by a worsening Eurozone debt and banking crisis. The first six months of calendar year 2012 saw much of the Eurozone slump back into recession, and the US recovery slow noticeably. Forecasts for global growth in 2012 and 2013 are currently being downgraded by the IMF and others, with world growth estimates for 2012 of around 3.5% incorporating a wide divergence between regions. The US is set to grow by around 2.1%, but the Eurozone area may continue to contract slightly (-0.3%), with the EU overall seeing no growth. Emerging economies are expected to grow at around double the pace of OECD countries this year (5.7%) and could accelerate somewhat next year.

- The Eurozone, and the broader EU, has seen fiscal and credit tightening, a lack of economic confidence and multiple credit rating downgrades of Eurozone sovereigns and banks. The three year liquidity injection provided by the ECB in late 2011 and early 2012 had some impact but this quickly wore off. Policy initiatives appear to be having only a short term impact in ameliorating unsustainable sovereign debt challenges, exemplified by government bond yields in Spain and Italy. There are, however, some positive signals. Markets have been impressed by the pace of reform in Italy, and Spain's political stability will underpin its adjustment process. Nevertheless, the multi-year fiscal adjustment required in parts of Europe, together with bank deleveraging, is likely to contribute to weak growth and periodic financial market jitters.

- In the US, the economic recovery has clearly decelerated due to the Eurozone recession, combined with continued housing weakness and consumer deleveraging. While truck and rail volumes are reasonably robust and the auto sector is performing well, employment growth is only modest. Monetary policy remains highly accommodative but fiscal retrenchment at a state and local level is now clearly counterbalancing federal fiscal policy. Markets are already aware of the challenges that dealing with the 'fiscal cliff' will hold for the executive and legislative branches of the government following the US elections in late 2012.

- The financial market rally in early 2012 faded away, but the increased liquidity due to central bank action has increased risk appetite and the price of risk assets somewhat in recent months. Market and liquidity risks globally are seen to have fallen from the elevated levels at the end of 2011, though they remain elevated in Europe. Emerging market risks in particular are modest given other pressures, reflecting the financial strengths of key emerging markets.

- The six GCC countries are forecast to see strong GDP growth of around 5% in 2012, compared to 6.9% in 2011, underpinned by healthy oil revenues, with oil output up 5.5%, and the continuation of expansionary fiscal and accommodative monetary policies. Saudi Arabia's economy will slow slightly in 2012 to a still vigorous growth rate of 6%. The UAE and Kuwait will also see somewhat slower growth of 2.3% and 6.6% respectively.

- Oil prices have been volatile in 2012, with a wide range of forecasts reflecting the countervailing tensions of OECD economic weakness and geopolitical uncertainty. Global oil demand is however predicted to increase in 2012, with Saudi Arabia having significant spare capacity to bring into the market should geopolitical tensions cause supply bottlenecks. Over 70% of GCC oil exports now go to Japan or emerging Asian economies, rather than to the Eurozone or the US. The GCC's consolidated fiscal surplus is set to rise to 12% in 2012 before falling back to 7.4% in 2013. While breakeven oil prices remain much higher than five years ago, they are not predicted to rise significantly further in 2012.

- The overhang of geopolitical risks to markets will remain a central factor for both GCC economies and GCC investors in the coming year. Further progress on enhanced security co-operation by GCC countries and increased military spending will support economic growth, while also underlining the rationale for investment diversification. The number of Gulf HNWIs increased by 2.7% in the last year, more than double the rate in Europe. Gulf equity and credit markets have remained thin and volatile, thus underscoring the continuing need for global investment opportunities.

BUSINESS ENVIRONMENT

- The environment for our **corporate investment – North America & Europe** business has been mixed. While calendar 2011 saw the highest volume of transactions since 2008, the slowdown in the second half of 2011 carried through to 2012 with only a slight pick-up in Q2 2012. The US saw roughly double the transaction volume in Europe. The pace of exits was relatively slow and fell off in 2012. The volume of capital overhang remains elevated but has been declining. Bank financing became somewhat more available, particularly in the US. However, available leverage remains well below pre-crisis levels. Banks are not always extending maturities on existing transactions given increased regulatory and capital pressures. Financial deleveraging, especially in existing European portfolios, is expected to continue and may become increasingly important if growth slows further. Absolute return expectations continue to be lower, in line with similarly lower return expectations from public equities and bonds, compared to historical averages. Even in current economic conditions, there are middle-market companies in the US and Europe with strong market niches and the potential to out-perform the broader economy.

- Our **corporate investment – technology** business has continued to see strong M&A activity in its sector, driven by strategic buyers with substantial cash resources. US buyers have been dominant. Corporate spending on IT remains buoyant, with efficiency and regulation as powerful growth drivers. Powerful operational leverage means large IT corporates can muster the cash resources to fund acquisitions, while they will also continue to divest non-core assets. In addition, consolidation, especially in Europe's fragmented tech sector, is expected to provide a stimulus. Exits seem likely to remain concentrated on trade sales and secondaries. There are no signs of a sustained revival of the IPO market for smaller tech firms, despite several recent high profile IPOs for major tech players. Sub-sectors in which investment activity may be concentrated include software, cybersecurity, smartphones, mobility and intellectual property.

- For **corporate investment – MENA** the region continues to benefit from strong oil revenues, government expenditure in key sectors supporting nation building and continued strong demographic trends, all enhanced by a rising class of vibrant entrepreneurs. The GCC and Turkey remain compelling investment destinations. Government stimulus packages, infrastructure projects and regulatory reforms have reinvigorated various attractive sectors from basic materials and manufacturing to healthcare and education. Sectors underpinned by demographic growth including transportation and food and beverage also continue to be attractive. As lending practices become tighter and more stringent for medium-sized companies and family businesses in the GCC, however, they are increasingly inclined to seek equity funding rather than debt financing. IPO activity picked up in the GCC, with Q2 2012 witnessing the strongest quarterly IPO performance in the last two years. A strong pipeline in Saudi Arabia is expected and some more companies will come to market in Q3 and Q4 of 2012.

- Overall the environment for our **real estate investment** business has continued to improve, but with the pace of market recovery slowing in the second half of FY12. The low interest rate environment in the US has kept downward pressure on capitalization rates, which have fallen for two consecutive years for tier one property in the strongest performing markets, particularly in the office sector. The low interest rate environment should continue to positively influence cap rate levels across all property sectors in the medium term. Investors are favoring primary markets, such as New York, San Francisco, Los Angeles, and Houston/Dallas and technology markets that benefit from local concentrations of globally competitive industries, such as energy production or technology, and are showing stronger than average employment demand. REIT capital raised grew further in 2011. CMBS issuance also started to pick up, but remains at a small fraction of pre-2007 levels.

- The last 12 months represented an exceptionally challenging period for **hedge funds**, with the HFRI Fund of Funds Composite Index delivering -4.4% for this period. From the middle of calendar 2011 onwards, two factors impacted returns. Uncertainty in Europe and other geopolitical events led to significant levels of volatility, combined with low absolute returns. In addition, correlations across asset classes moved to exceptionally high levels, creating very difficult conditions in which to generate positive returns by taking long or short positions. While the extreme tail risks associated with the European debt crisis have been largely mitigated, it is expected that the environment for hedge funds will remain somewhat challenging. However, we believe that emerging managers that have the flexibility to execute on their best ideas will be in the best position to generate alpha in the current environment, resulting in a differentiation between emerging and established managers. The hedge fund industry has now surpassed previous AUM peaks. The latest estimates indicate the industry has grown above $2 trillion in assets under management. More institutional investors are making direct investments with hedge fund managers, but this trend is imposing a higher transparency burden, as well as creating fee pressures on managers.

FINANCIAL PERFORMANCE

- Investcorp's fee income in FY12 was $236.0 million, an increase of 20% from $197.4 million in FY11, as a result of a significant increase in acquisition and placement activity. Asset-based income for the period declined to $31.0 million from $216.2 million in FY11. This was primarily due to negative returns from hedge funds and lower mark to market valuations of the European corporate investment portfolio. Gross operating income in FY12 was therefore $267.1 million compared to $413.6 million in FY11, and overall net income for FY12 declined to $67.4 million compared to $140.3 million in FY11.

- Fee income in FY12 was driven by a 28% increase in activity fees to $84.2 million as a result of a significant increase in new investment and placement activity. Total deal-by-deal placement increased by 22% to $347 million from $284 million in FY11. Management fee income was slightly down at $88.1 million against $93.2 million in FY11. Performance fees increased, driven by strong underlying performance at some of the corporate investment portfolio companies.

- Gross asset-based income, including the impact of unrealized changes in fair value of corporate and real estate investments, fell to $31.0 million (FY11: $216.2 million) as asset returns declined across all three asset classes.

- Operating expenses in FY12 were 30% lower at $150.7 million (FY11: $215.2 million), due to reductions in fixed operating expenses and lower incentive compensation accruals in line with lower net income. Interest expense also fell by 15% to $47.8 million as the average level of debt continued to decline in line with Investcorp's balance sheet deleveraging plans.

- At June 30, 2012, total assets were $2.7 billion, a slight decrease from the position at June 30, 2011 reflecting lower aggregate balance sheet co-investments, which declined slightly to $1.8 billion. Co-investments as a multiple of book equity fell to 1.7x.

- We maintained comfortable levels of liquidity to meet underwriting and operational cash flow requirements. Short-term accessible liquidity was $0.6 billion at June 30, 2012 and total liquidity remained in excess of $1.0 billion, which covers the total amount of medium and long term debt repayments that fall due over the next five years. Total liabilities decreased by 5% from $1.8 billion at June 30, 2011 to $1.7 billion at June 30, 2012, primarily reflecting the redeployment of transitory client account balances early in the fiscal year.

- Capital Intelligence confirmed Investcorp's investment grade credit rating in April 2012. Moody's Investor Service affirmed Investcorp's credit rating at Ba2 in March 2012 and Fitch Ratings revised Investcorp's credit rating to BB from BB+ in February 2012. Investcorp's subsequent refinancing of upcoming debt maturities due in March and April 2013 has successfully addressed a point raised by all the rating agencies in their credit opinions.

- Net book equity at June 30, 2012 was $1.0 billion, unchanged from June 30, 2011. Book equity includes proposed appropriations for preference share dividends of $61.4 million ($120 per preference share, 12% per annum) and for ordinary share dividends of $4.7 million ($7.50 per share). Our Basel II capital adequacy ratio (CAR) at June 30, 2012 increased to 26.9% (June 30, 2011: 25.7%), reflecting primarily a decrease in risk-weighted assets. CAR is comfortably in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%.

INVESTMENT AND REALIZATION ACTIVITY

- Given the backdrop of a slowing global economy, we continued to take a disciplined approach towards investment activity in FY12. We invested $573 million in new corporate investments including **Sur La Table, GL Education, Archway Marketing Services** and **Esmalglass Itaca**. The Investcorp Technology Partners III Fund acquired a significant minority stake in Thought Equity Motion, now rebranded **T3Media**. The Investcorp Gulf Opportunity Fund I agreed to acquire significant minority stakes in **Orka Group** and in a GCC company in transactions that are expected to close in H1 FY13. We invested an additional $43 million in several follow-on investments in the three technology funds and the Gulf Opportunity Fund. There was a follow-on investment through the Investcorp Technology Ventures I Fund in **Atrenta** and follow-on investments through the Investcorp Technology Ventures II Fund in **Kentrox Inc, Magnum Semiconductor** and **Zeta Interactive Corp**. The Investcorp Technology Partners III Fund made follow-on investments in **eviivo Limited** and **OpSec Security Group**. The Investcorp Gulf Opportunity Fund I made one follow-on investment in **Tiryaki Agro**.

- We also facilitated several add-on acquisitions for corporate investment portfolio companies including **FleetPride, IPH, Berlin Packaging** and **Skrill**.

- We deployed $184 million in ten new real estate investments. Three investments were combined and placed with clients in a Sharia-compliant **US Diversified Properties X Portfolio**, two investments were combined and placed with clients in a Sharia-compliant **Texas Apartment Portfolio**, one investment was placed with clients as the **Northern California Portfolio**, two debt investments were combined and placed with clients in the **Southland and Arundel Mezz** portfolio, and a direct bridge loan investment in **Paramount Hotel** in New York City's Times Square was replaced by the first debt investment made by our third real estate debt fund.

- We successfully exited **Accuity Inc**., a former subsidiary of SourceMedia Inc., and **Redington International Holdings Ltd.**, held by the Gulf Opportunity Fund I. In real estate we made a highly profitable sale of the **W South Beach** mezzanine loan investment, sold the remaining assets in the **Diversified II** portfolio and exited our bridge loan investment in the **Paramount Hotel** after only eight months. Distributions to Investcorp and its clients during FY12 were $649 million.

PORTFOLIO COMMENTARY

- At June 30, 2012 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe increased to $1,027.2 million (20 companies) from $944.8 million at June 30, 2011 (17 companies) primarily due to the increase in acquisition activity during the year. Corporate investment – North America & Europe represents 57.4% of total balance sheet co-investments at June 30, 2012. Only three investments exceed 10% of shareholders' equity – TelePacific and Berlin Packaging, both of which are performing well, and Archway, a new investment that includes $100 million of underwriting which will reduce once the investment is placed with clients and co-investors in the first part of FY13. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – technology was $83.1 million at June 30, 2012. Technology Ventures Fund I and Fund II are fully invested. The $500 million Technology Partners Fund III, raised in 2008, is currently 59% deployed. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – MENA was $24.0 million at June 30, 2012. The $929 million Gulf Opportunity Fund I has invested 60% of its available capital.

- Investcorp's co-investment in hedge funds delivered unlevered returns of -4.7% on our average gross exposure of $1.0 billion during FY12. This was a consequence of extremely uncertain and also highly volatile market conditions triggered by the European sovereign debt crisis. This performance was in line with the industry benchmark, the HFRI Fund of Funds Composite Index, which produced a return of -4.4% during the same 12-month period.

- At June 30, 2012, Investcorp's real estate co-investments totaled $154.5 million compared with $188.8 million at June 30, 2011. This represents 8.6% of total balance sheet co-investments at June 30, 2012, compared with 9.8% at June 30, 2011. Investcorp currently has 24 active real estate investment portfolios, including three debt funds. The $108 million US Mezzanine Fund I and the $176 million Investcorp Real Estate Credit Fund are both fully deployed. The third real estate debt fund had its first closing in May 2012 at $100 million.

FUNDRAISING

- Total placement and fundraising in FY12 was $1,339 million. Corporate investment deal-by-deal placement was $214 million. We raised $207 million through the placement of real estate portfolios and the first close of the new debt fund. New subscriptions into hedge funds from institutional investors were $917 million.

- Total assets under management decreased by 2.9% to $11.5 billion at June 30, 2012 from $11.8 billion at June 30, 2011. Total client assets under management decreased to $8.8 billion at June 30, 2012 from $8.9 billion at June 30, 2011 with the decline in AUM from redemptions and negative performance in hedge funds mostly offset by the new hedge fund subscriptions and the increase in real estate and corporate investment AUM from increased acquisition and placement activity.

- At June 30, 2012, hedge fund assets under management were $4.3 billion, $3.5 billion from third party clients and $0.7 billion of balance sheet co-investments. 71% of client assets under management were from US institutional investors and 29% from Gulf private and institutional investors. Assets under management with single managers stand at 38% and 56% of client hedge fund assets under management are now through customized accounts.

DISCUSSION OF RESULTS

NET INCOME

Net income consists of (i) **fee income** generated from transactional activity and managing client AUM; and (ii) **asset-based income** earned on Investcorp's corporate investment, real estate investment and hedge fund co-investments, as well as invested liquidity. Asset-based income also includes unrealized changes in fair value of corporate and real estate co-investments.

Income ($m)	FY12	FY11	% Change B/(W)
Fee income	**236.0**	197.4	20%
Asset-based income	**31.0**	216.2	(86%)
Gross operating income	**267.1**	413.6	(35%)
Provisions	**(1.1)**	(2.1)	48%
Interest expense	**(47.8)**	(56.0)	15%
Operating expenses	**(150.7)**	(215.2)	30%
Net income	**67.4**	140.3	(52%)
Earnings per ordinary share ($)	**10**	128	(92%)

Gross operating income declined by 35% in FY12 to $267.1 million (FY11: $413.6 million). Fee income increased 20% from last year largely as a result of a significant increase in acquisition and placement activity. The decline in asset-based income stems largely from the European sovereign debt crisis, accentuated by a slowing and more recessionary economic environment, and its impact on hedge fund returns and valuations of the European corporate investment portfolio.

In line with Investcorp's deleveraging plans, interest expense fell by 15% to $47.8 million from a combination of lower levels of debt and a decline in the average cost of funds. A reduction in fixed operating expenses as well as a lower incentive compensation accrual in line with lower income led to a 30% reduction in operating expenses, down to $150.7 million (FY11: $215.2 million).

Overall net income of $67.4 million represents a respectable achievement in the face of very challenging market conditions and despite the $185.1 million adverse swing in asset-based income. It shows strong progress across the core business areas of placement and transactional activity, deleveraging of the balance sheet, and control of operating expenses.

Earnings per ordinary share decreased to $10 in FY12 from $128 in FY11.

FEE INCOME

Fee income earned in FY12 increased by 20% to $236.0 million compared to $197.4 million for FY11. As a result of increased acquisition and placement activity in corporate investments and real estate, the activity fee increased by 28% to $84.2 million. Total deal-by-deal placement increased by 22% from $284 million to $347 million. Management fees were slightly down from FY11. Performance fees increased significantly and were driven by the strong underlying performance at some of the corporate investment portfolio companies.

Summary of fees ($m)	FY12	FY11	% Change B/(W)
Management fees	**88.1**	93.2	(5%)
Activity fees	**84.2**	65.7	28%
Performance fees	**63.8**	38.5	66%
Fee income	**236.0**	197.4	20%

ASSET-BASED INCOME

Gross asset-based income, including unrealized changes in the fair value of corporate and real estate co-investments decreased by 86% to $31.0 million (FY11: $216.2 million), as returns declined across all three asset classes.

Asset-based income ($m)	**FY12**	FY11	% Change B/(W)
Corporate investment	**59.8**	121.7	(51%)
Hedge funds	**(50.2)**	39.5	)(100%)
Real estate investment	**17.3**	40.6	(57%)
Treasury and liquidity income	**4.2**	14.5	(71%)
Gross asset-based income	**31.0**	216.2	(86%)

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

The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half year periods, by asset class. Corporate investment returns were slightly negative over the last six months as the negative impact of the continuing European sovereign debt crisis and the ensuing economic slowdown on the performance of some of the European portfolio companies offset gains elsewhere in the portfolio. Real estate asset yields were positive for a second consecutive year in FY12 with yields improving in the second half of the fiscal year. Hedge funds showed a modest recovery from the exceptionally difficult returns environment in the first half of the fiscal year to record a 1.2% gain in H2 FY12.

Asset yields	H1 FY10	H2 FY10	H1 FY11	H2FY11	**H1 FY12**	**H2 FY12**
Corporate investment	5.6%	7.2%	3.6%	9.5%	**6.1%**	**(0.5%)**
Real estate investment	(12.1%)	(22.5%)	6.9%	13.1%	**1.0%**	**6.8%**
Hedge funds*	15.5%	(0.4%)	7.1%	(0.3%)	**(9.6%)**	**1.2%**
Average co-investment yield**	3.8%	0.9%	3.8%	4.9%	**0.4%**	**0.9%**

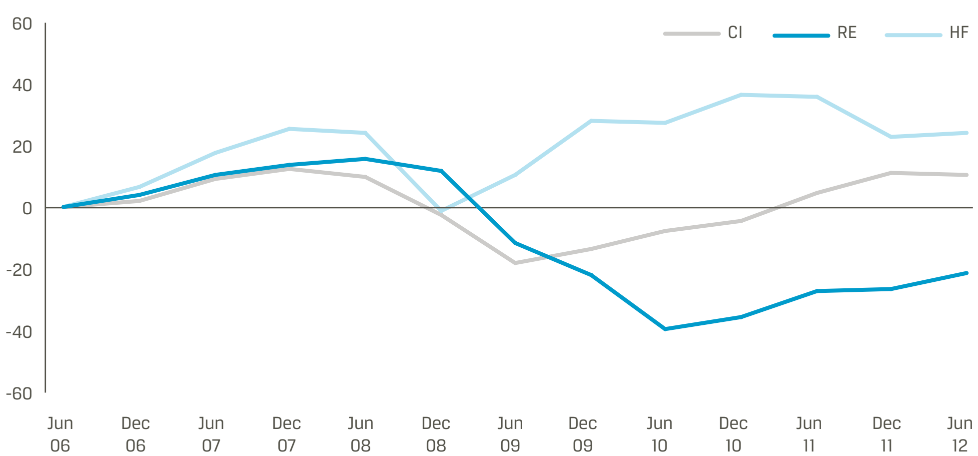
* Non $ weighted, levered returns on net balance sheet co-investment.

** Includes treasury and liquidity income.

The chart below illustrates the cumulative returns for each asset class since June 2006 on a non-dollar weighted basis.

Cumulative returns since June 06

(%)



Hedge funds, with a cumulative return of 24.5% are still significantly above the low point reached in December 2008 despite the losses over the last year. The cumulative return for corporate investment of 10.9% includes a slight drop of 0.5% between December 2011 and June 2012 from the impact of the European economic slowdown on the valuations of some of the European portfolio companies offset by gains in the US-side of the portfolio. Real estate investments continued to rebound in FY12 with a cumulative loss narrowing to 21.3% compared to a cumulative loss of 27.1% at the end of FY11.

ASSET-BASED INCOME BY ASSET CLASS

The tables below summarize the primary drivers of asset-based income for corporate investment (CI), hedge funds (HF) and real estate investment (RE):

CI asset-based income KPIs ($m)	FY12	FY11	% Change B/(W)
Asset-based income	**59.8**	121.7	(51%)
Average co-investments (excluding U/W)	**1,074.6**	931.9	15%
Absolute yield for period	**5.6%**	13.1%	(7.5%)

HF asset-based income KPIs ($m)	FY12	FY11	% Change B/(W)
Asset-based income	**(50.2)**	39.5	>(100%)
Average co-investments	**599.7**	607.4	(1%)
Non $ weighted returns	**(8.5%)**	6.8%	(15.3%)

RE asset-based income KPIs ($m)	FY12	FY11	% Change B/(W)
Asset-based income	**17.3**	40.6	(57%)
Average co-investments	**217.4**	201.8	8%
Absolute yield for period	**7.9%**	20.1%	(12.2%)

INTEREST EXPENSE

Total interest expense of $47.8 million in FY12 was 15% lower than in FY11.

Interest expense ($m)	FY12	FY11	FY12 vs. FY11 H/(L)
Average short term interest-bearing liabilities	**397**	337	60
Average medium and long term interest-bearing liabilities	**1,324**	1,621	(297)
Average interest-bearing liabilities	**1,721**	1,959	(237)
Interest expense	**47.8**	56.0	(8.2)
Average cost of funding	**2.8%**	2.9%	(0.1%)

The average level of interest bearing debt continued to decline in line with Investcorp's balance sheet deleveraging plans. Investcorp's debt margins increased because of the progressive drawdown of higher-cost medium term loans but this was more than offset by lower levels of average US$ Libor and Euribor rates. The average cost of debt therefore fell slightly year on year. The combination of lower levels of debt and a decline in the average cost of funds led to a lower interest expense.

The table below breaks down the impact on interest expense from these two components.

Interest expense variance ($m)	FY12 vs. FY11 H/(L)
Due to lower average interest-bearing debt	6.8
Due to decrease in average cost of funding	1.4
Total variance	8.2

OPERATING EXPENSE

Operating expenses decreased by 30% from $215.2 million in FY11 to $150.7 million in FY12 due to a combination of reduced fixed operating expenses and lower variable compensation accruals in line with the lower net income for the year. Staff compensation represented 45% (FY11: 61%) of total operating expenses.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses decreased by 2% to $83.2 million in FY12.

Opex metrics ($m)	**FY12**	FY11	Change
Staff compensation	**67.5**	130.2	(48%)
Other opex	**83.2**	85.0	(2%)
Total opex	**150.7**	215.2	(30%)
Full time employees (FTEs) at end of period	**304**	300	4
Staff compensation per FTE ('000)	**222.2**	434.0	(49%)
Other opex per FTE ('000)	**273.7**	283.2	(3%)
Total staff comp/total opex	**45%**	61%	(16%)
Opex/(net income + opex)	**69%**	61%	9%

Total expenses, as a percentage of net revenues increased from 61% in FY11 to 69% in FY12 due to the fall in revenues from asset-based income.

INCOME BY SEGMENT

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

	Fee income			Asset-based income			Total		
Summary by business unit ($m)	**FY12**	FY11	Change	**FY12**	FY11	Change	**FY12**	FY11	Change
Corporate investment	**183.6**	133.8	37%	**59.8**	121.7	(51%)	**243.4**	255.5	(5%)
Hedge funds	**30.5**	45.0	(32%)	**(50.2)**	39.5	>(100%)	**(19.7)**	84.4	>(100%)
Real estate investment	**21.9**	18.6	18%	**17.3**	40.6	(57%)	**39.2**	59.2	(34%)
Corporate support	**–**	–	–	**4.2**	14.5	(71%)	**4.2**	14.5	(71%)
Revenue contribution	**236.0**	197.4	20%	**31.0**	216.2	(86%)	**267.1**	413.6	(35%)
Operating expenses	**(125.3)**	(159.8)	22%	**(25.5)**	(55.4)	54%	**(150.7)**	(215.2)	30%
Interest expense	**–**	–	–	**(47.8)**	(56.0)	15%	**(47.8)**	(56.0)	15%
Provision for impairment	**–**	–	–	**(1.1)**	(2.1)	48%	**(1.1)**	(2.1)	48%
Net income	**110.7**	37.6	>100%	**(43.3)**	102.7	>(100%)	**67.4**	140.3	(52%)

Revenue contributions across both corporate investment and real estate investment remained positive during FY12, although they were lower than in FY11 due to a decline in asset-based income. Increased activity and performance fees for corporate investment and real estate investment boosted the fee revenues by 20% in FY12. Total hedge fund income in FY12 was significantly lower than in FY11, largely as a result of the negative return environment in the first half of the fiscal year.

Net fee income of $110.7 million, a key indicator of Investcorp's overall performance and health, nearly tripled compared to last year's level of $37.6 million.

BALANCE SHEET

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY12	FY11
Total assets	**$2.7 billion**	$2.9 billion
Financial leverage*	**1.6x**	1.7x
Liabilities/equity	**1.6x**	1.7x
Shareholders' book equity	**$1.0 billion**	$1.1 billion
Co-investments/book equity	**1.7x**	1.8x
Regulatory risk asset ratio (Basel II) – CAR	**26.9%**	25.7%
Residual maturity – medium and long term facilities	**81 months**	67 months

* Adjusted for transitory balances.

ASSETS

At June 30, 2012, total assets were $2.7 billion, a slight decrease from the previous fiscal year end (June 30, 2011: $2.9 billion) reflecting lower aggregate balance sheet co-investments.

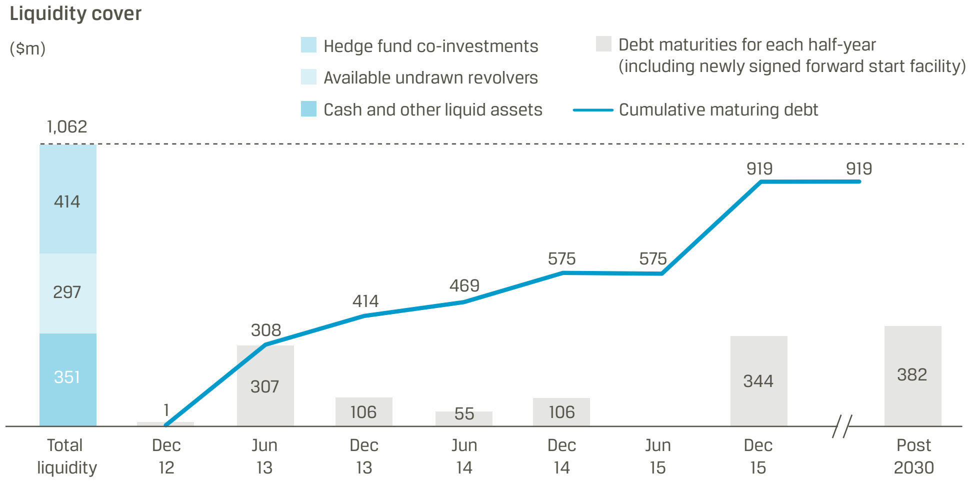
Assets ($m)	FY12	FY11	Change H/(L)
Cash and equivalents	**348**	353	(5)
Other liquid assets*	**3**	13	(10)
HF co-investments	**414**	607	(193)
CI and RE co-investments	**1,376**	1,311	66
Other (working capital and fixed assets)	**609**	575	34
Total assets	**2,750**	2,859	(109)
Co-investment assets	**1,790**	1,918	(128)

* Non cash equivalent.

Co-investments in corporate investment, hedge funds and real estate investment decreased marginally, from $1.9 billion to $1.8 billion and as a multiple of book equity fell to 1.7x. Although Investcorp will always be a significant co-investor alongside its clients in each line of business, accounting for 19% of total AUM at June 30, 2012 (June 30, 2011: 21%), a gradual reduction of co-investment levels continues to be a target over the medium-term, as part of overall de-leveraging plans.

LIQUIDITY

During FY12, Investcorp continued to maintain comfortable levels of liquidity. Short-term accessible liquidity (cash plus undrawn revolvers) at June 30, 2012 was $0.6 billion (June 30, 2011: $0.9 billion). With the addition of $0.4 billion held in hedge fund co-investments, two-thirds of which is contractually available within a three month period, total liquidity remains in excess of $1 billion. The level of total liquidity covers the total amount of medium and long term debt repayments that fall due over the next five years.



LIABILITIES

Total liabilities decreased by 5% during FY12, from $1.8 billion at June 30, 2011 to $1.7 billion at June 30, 2012, primarily reflecting the redeployment of transitory client balances early in the fiscal year.

Liabilities ($m)	FY12	FY11	Change H/(L)
Client and other deposits	**205**	318	(113)
Medium term debt and deposits	**579**	524	55
Medium term revolvers – drawn	**107**	157	(49)
Long term debt	**560**	575	(14)
Other	**254**	225	28
Total liabilities	**1,706**	1,798	(92)

Investcorp completed a new $529 million forward start loan agreement to early refinance debt maturing in March and April 2013. The financing was arranged with international and Gulf relationship banks, has a final maturity in September 2015 and consists of term loan and revolving credit tranches. The facility was structured with amortizing repayments over the next three years in order to mirror continued gradual balance sheet deleveraging while maintaining adequate operational liquidity for the bank's underwriting and placement activities.

CREDIT RATINGS

Below is a summary of Investcorp's public credit ratings:

Agency	Rating grade	Comment
Capital Intelligence	BBB+ Negative Outlook	Rating and outlook confirmed in Apr-12
Moody's Investors Service	Ba2 Negative Outlook	Rating and outlook unchanged in Mar-12
Fitch Ratings	BB Negative Outlook	Rating changed in Feb-12

Capital Intelligence confirmed the bank's investment grade credit rating in April 2012. Moody's affirmed Investcorp's credit rating at Ba2 in March 2012 and Fitch Ratings revised Investcorp's credit rating to BB from BB+ in February 2012. Investcorp's subsequent refinancing of upcoming debt maturities due in March and April 2013 has successfully addressed a point raised by all the rating agencies in their credit opinions. All rating agencies continue to recognize Investcorp as a strong Gulf-based alternative investment franchise maintaining adequate levels of capital with appropriate measures to mitigate risk from any regional political unrest.

BOOK EQUITY

Net book equity at June 30, 2012 was $1.0 billion, unchanged from June 30, 2011. The book equity includes proposed appropriations for preference share dividends of $61.4 million ($120 per preference share, 12% per annum) and for ordinary share dividends of $4.7 million ($7.50 per share).

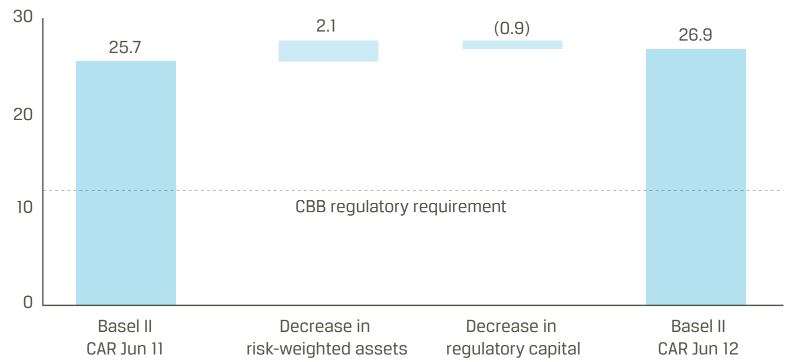
Equity ($m)	FY12	FY11	Change H/(L)
Ordinary shareholders' equity	**453**	443	10
Preference share capital	**511**	511	–
Proposed appropriations	**66**	75	(9)
Fair value and revaluation adjustments	**13**	31	(18)
Net book equity	**1,044**	1,060	(17)

REGULATORY CAPITAL UNDER BASEL II

The Basel II capital adequacy ratio (CAR) at June 30, 2012 increased to 26.9% (June 30, 2011: 25.7%), reflecting a decrease in risk-weighted assets offset partly by slightly lower regulatory capital. The reported CAR, consisting of all Tier 1 capital, is comfortably in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%.

Regulatory capital adequacy ratio (CAR)

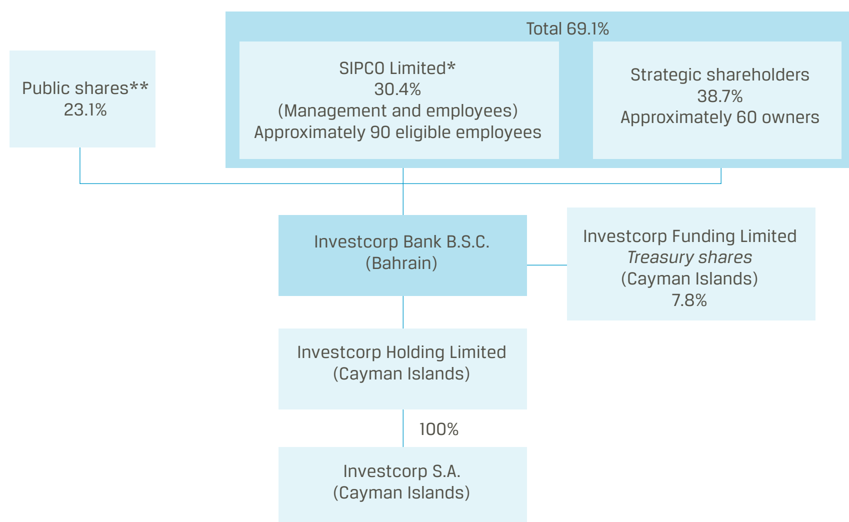
(%)



SHAREHOLDER BASE

At June 30, 2012, Investcorp remains a management controlled company, with management, in concert with strategic shareholders, controlling the voting of 69.1% of Investcorp's ordinary shares. The public float of 23.1% is split between owners holding 22.8% in ordinary shares on the Bahrain Bourse, and 0.3% of beneficial ownership through unlisted GDRs.

Ownership structure



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

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

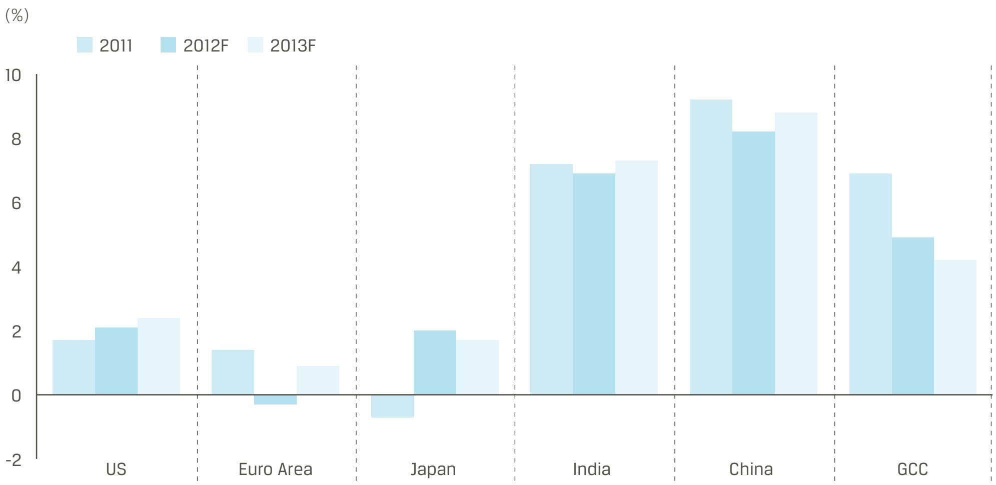
MARKET CONTEXT

The global economy

The latter part of calendar year 2011 saw a major deterioration in the global economy, driven by a worsening Eurozone debt and banking crisis. More bullish financial sentiment at the start of 2012 fizzled out quickly, with the first six months of calendar 2012 seeing much of the Eurozone slump back into recession, and the US recovery slow noticeably. June brought some progress on the EU crisis as key fiscal policy decisions were reached and further liquidity injected, but very significant risks to world growth remain in 2012 and 2013.

Forecasts for global growth in 2012 and 2013 are currently being downgraded by the IMF and others, with world growth estimates for 2012 of around 3.5% incorporating a wide divergence between regions. The US is set to grow by around 2.1%, but the Eurozone area may continue to contract slightly (-0.3%), with the EU overall seeing no growth. Global growth in 2013 has been predicted to accelerate slightly to 4.1%, but there are now significant risks to such forecasts. Estimates at this stage for US growth in 2013 vary from 1.8% to 3%, reflecting the scale of economic uncertainty.

Global GDP growth



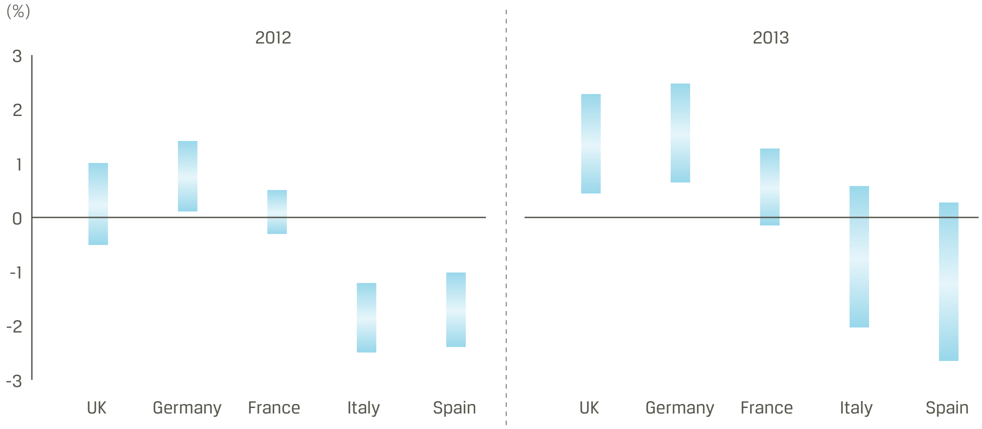
Source: IMF World Economic Outlook April 2012 & IIF Regional Overview April 2012

The world economy this year is being supported by a solid recovery in Japan, which is set to grow at 2% in 2012 after the earthquake and tsunami induced downturn in 2011.

Emerging economies are expected to grow at around double the pace of OECD countries this year (5.7%) and could accelerate somewhat next year.

The Eurozone, and the broader EU, is now back in recession as a result of fiscal and credit tightening and a lack of economic confidence, conditions mirrored by multiple credit rating downgrades of Eurozone sovereigns and banks. The three year liquidity injection provided by the ECB in late 2011 and early 2012 had some impact but this quickly wore off. The pattern of the last 12 months in Europe is that policy initiatives have only a short term impact in ameliorating unsustainable sovereign debt markets, exemplified by government bond yields in Spain and Italy. Both countries are set to see a GDP drop of close to 2% in 2012 before an expected slow recovery in 2013.

European GDP forecasts Hi/Lo



Source: The Economist poll of forecasters — June averages

The German economy performed strongly for the last half of calendar 2011, but the Eurozone downturn in the last few months has now hit its economic performance as well. The Eurozone purchasing managers index has reflected worsening conditions, with nine of the ten months to June 2012 showing contraction.

The latest EU summit in June 2012 appears so far to have had a positive impact, with more flexible help for Spain's banking sector and tentative moves towards a 'banking union'. It was viewed as a compromise between differing views about the right balance between fiscal consolidation and growth stimulating measures for austerity-weary economies. The second Greek election also appeared to bring some relief from potential contagion, although clearly a Greek Euro exit, along with the possible exit of one or two other smaller Eurozone members, is now largely priced in to market levels.

There are some positive signals in the Eurozone: the markets have been impressed by the pace of reform in Italy, and Spain's political stability will underpin its adjustment process. Nevertheless, the likelihood is that the multi-year fiscal adjustment required in parts of Europe, together with bank deleveraging, will contribute to on-going weak growth and periodic financial market turmoil.

In the US, the economic recovery has clearly decelerated, due to the Eurozone recession and the continuing impact of housing weakness and consumer deleveraging. While truck and rail volumes are reasonably robust and the auto sector is performing quite strongly, higher oil prices earlier in the year have hit US consumers and employment growth is only modest.

While monetary policy remains highly accommodative, fiscal retrenchment at a state and local level is now clearly counterbalancing federal fiscal policy. Overall, policy is on hold until the presidential elections, and markets are already aware of the challenges that dealing with the 'fiscal cliff' will then hold for the executive and legislative branches of the US government.

The financial market rally in early 2012 faded away, but the increased liquidity due to central bank action has increased risk appetite and the price of risk assets somewhat in recent months. Market and liquidity tail risks globally are seen to have fallen from the elevated levels at the end of 2011, though they remain elevated in Europe.

The sluggish global economy, and the reliance of advanced economies on exceptionally accommodative monetary policy has led to forecasts for 'risk free' yields being further lowered, with forecasts for US 10-year Treasury yields of just 1% until the end of 2013. Increased financial regulation and widespread sovereign downgrades have increased the proportion of investors with a requirement or preference for safety and liquidity however low the yield. Such low yields on risk free assets do however stimulate other investors to consider potentially less liquid, but attractively priced alternative assets with limited correlation to macro-economic conditions.

THE GULF

The six GCC countries are forecast to see strong GDP growth of around 5% in 2012 compared to 6.9% in 2011, underpinned by healthy oil revenues (with oil output up 5.5%) and the continuation of expansionary fiscal and accommodative monetary policies.

GDP growth in GCC countries

%	2011	2012F	2013F
Bahrain	2.2	3.3	4.6
Kuwait	8.2	6.6	1.8
Oman	5.4	6.4	5.7
Qatar	18.8	6.0	4.6
Saudi Arabia	6.8	6.0	4.1
UAE	4.9	2.3	2.8

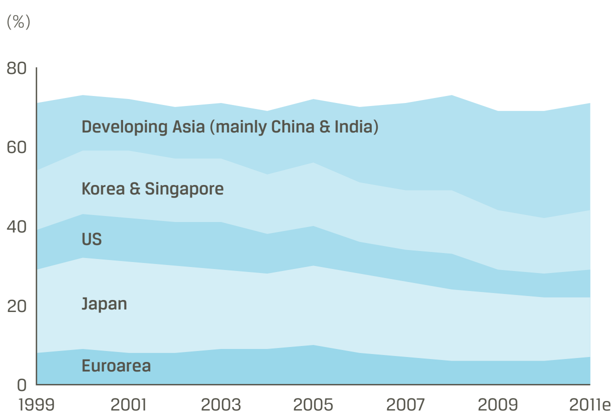
Source: IMF World Economic Outlook April 2012 & IIF Regional Overview April 2012

Saudi Arabia's economy will slow slightly in 2012 to a still vigorous 6%. The UAE and Kuwait will also see somewhat slower growth of 2.3% and 6.6% respectively. At this stage, forecasts suggest a slight slowing of overall GCC growth in 2013 to 4.2%.

Oil prices have been volatile in 2012 so far, with a wide range of forecasts reflecting the countervailing tensions of OECD economic weakness and geopolitical uncertainty. Global oil demand is however predicted to increase in 2012, with Saudi Arabia having significant spare capacity to bring into the market should the geopolitical issues cause supply bottlenecks.

Importantly, neither the Euro area nor the US are now significant in terms of GCC oil exports, over 70% of which go to Japan or emerging Asian economies.

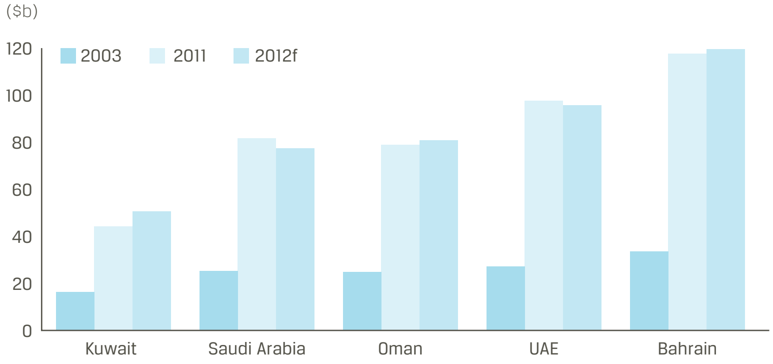
GCC exports aligning to high growth Asia



Source: IIF Regional Overview April 2012

The GCC's consolidated fiscal surplus is set to rise to 12% in 2012 before falling back to 7.4% in 2013. While breakeven oil prices remain much higher than five years ago, it is noteworthy that in 2012 they are not predicted to rise significantly further, and Saudi Arabia's breakeven price has dropped from $82/b to $79/b due to higher oil production and a small reduction in government spending, following the one-off stimulus spending in 2011.

Breakeven oil prices for GCC countries



Source: IIF Regional Overview April 2012

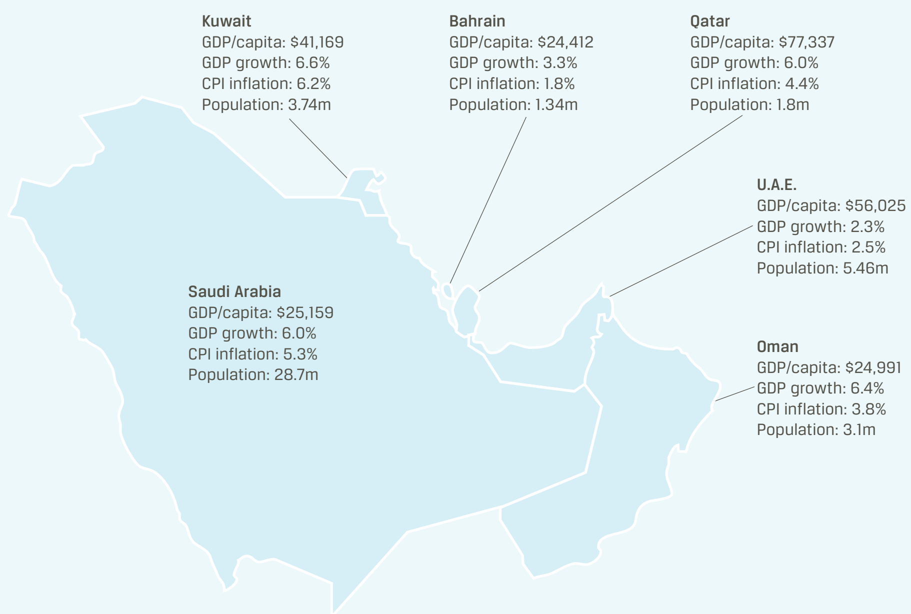
Saudi Arabia's non-oil real growth remains strong, and the substantial new supply of affordable housing coming on stream is likely to dampen the inflation pressures that have built up.

In Dubai, solid growth in trading activities, retail sales and tourism is counterbalancing weakness in construction. The banking sector's balance sheets continue to recover, and financial markets have welcomed a better delineation of sovereign and quasi sovereign borrowing. The real estate sector is now showing signs of stabilization, with supply finally becoming more limited.

Qatar's exceptionally high recent growth is set to moderate slightly in 2012 to 6%, compared to its huge growth spurt of over 18% in 2011. Growth will remain robust given the scale of gas income and the extensive infrastructure investment program.

Bahrain's GDP is forecast to increase by 3.3% in 2012, accelerating to 4.6% in 2013.

Overview of the six Gulf Cooperation Council countries for 2012F



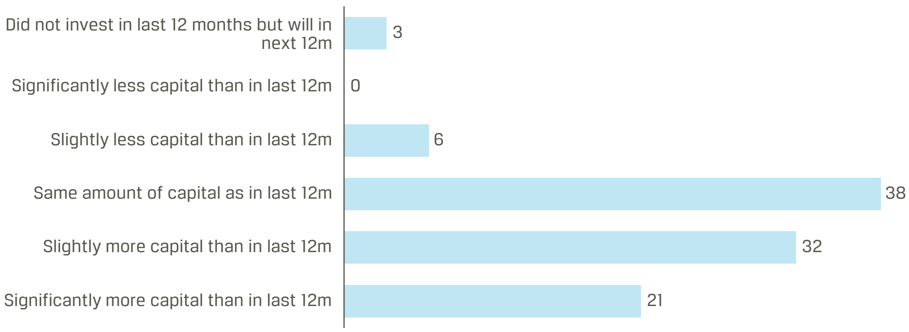
Source: Bloomberg, SWF Institute and IIF Regional Overview April 2012
All 'GDP' refers to Nominal GDP
Map not drawn to scale

Geopolitical risks to markets will remain a central factor for both GCC economies and GCC investors in the coming year. Further progress on enhanced security co-operation by GCC countries and increased military spending will support economic growth, while also underlining the rationale for investment diversification.

The number of Gulf HNWIs increased by 2.7% to around 500,000 in the last year, more than double the rate in Europe. Gulf equity and credit markets have remained thin and volatile, thus underscoring the continuing need for global investment opportunities. While the climate has been challenging for all asset classes, the outperformance of alternatives over a longer-term horizon remains a powerful argument for increased allocations to alternative investments.

Wealth managers/investors plans for alternative investments

(%)



Source: Preqin Wealth Manager Outlook: Alternative Assets H2 2012

Internationally, surveys of wealth managers' investments in alternatives suggest more than two thirds of such investors are satisfied with their performance, while 6% think alternatives' performance has exceeded their expectations. Over 50% of such investors plan to increase commitments to alternatives over the coming 12 months compared with the previous period, while only 6% plan to commit less to alternatives.

BUSINESS ENVIRONMENT

Corporate investment – North America and Europe. Challenging economic conditions and financial markets resulted in a mixed performance for the sector over the fiscal year. While calendar 2011 saw the highest number of transactions since 2008, this was marked by a slowdown in the second half of 2011 that has carried through to 2012. Although deal activity picked up in the last quarter after a very subdued Q1 2012, private equity-backed deal flow for H1 2012 stands at $104.4 billion, down 25% from H1 2011. European activity did increase in Q2 2012, but lagged the US, which, with $32.8 billion, saw roughly double the transaction volume of Europe.

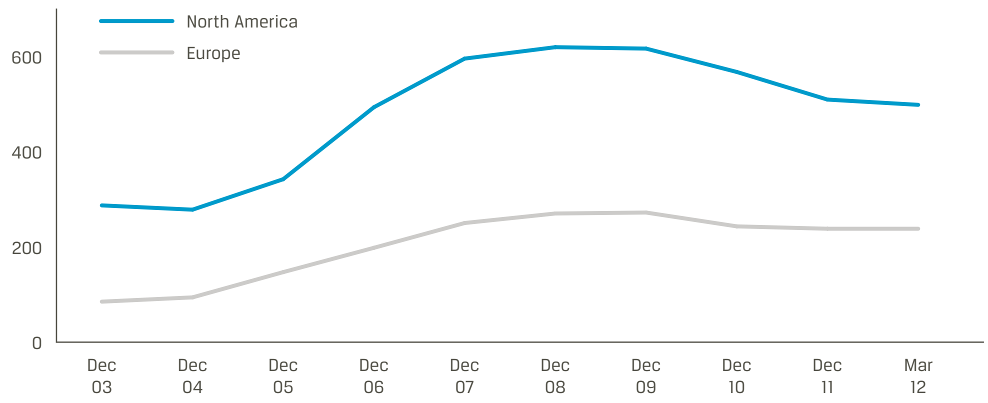
Private equity backed exits were relatively slow and fell off in the second half of FY12, due to tightened credit market conditions, unfavorable public equity markets and underlying economic uncertainty, particularly in Europe.

Private equity global fundraising also remains relatively restrained, with, for example, the $61 billion raised in Q1 2012 being in the range of quarterly fundraising over the last two years, but low compared to quarterly levels in the 2005-2008 period.

The volume of uninvested capital overhang remains elevated but has been declining moderately due in part to reduced fundraising and a steady level of investment. Over the next two years, 2007 and 2008 vintage funds will be reaching the end of their investment periods, potentially triggering a greater desire to put funds to work. The rate that capital is called down has been gradually slowing. Funds raised from 1999 to 2007 held an average of 29% in unfunded commitments at the end of their third year. For the 2008 vintage, however, that number has risen to 38%, largely attributable to the significant fundraising that occurred that year. The amount of committed capital that firms fail to allocate during their five-year investment window averages more than 10% and continues to rise, slowing the rate of investment for subsequent funds.

Private equity dry powder still elevated

($b)



Source: Preqin Deals Analyst Online Service

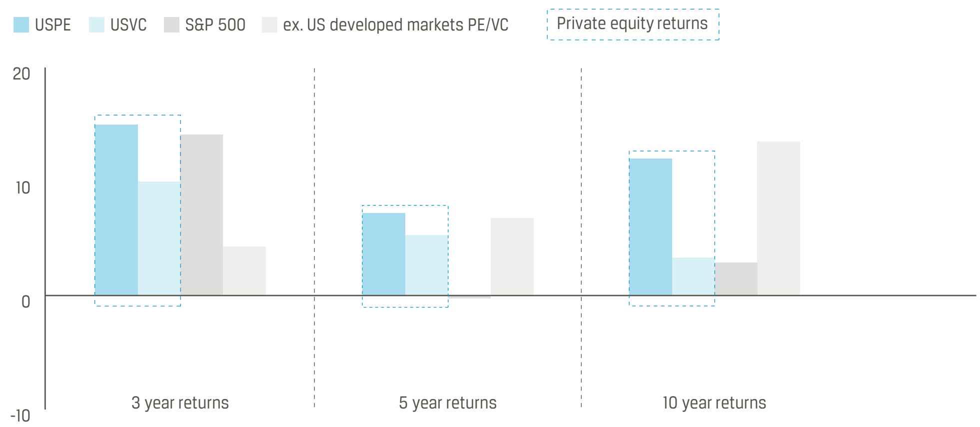
Bank financing has become somewhat more available towards the end of the fiscal year, particularly in the US. However, leverage levels are still substantially lower than pre-crisis. Banks are also reasserting their influence with financial sponsors and not always extending maturities on existing transactions for relationship reasons, given the increased regulatory and capital pressures they face. Financial deleveraging, especially in existing European portfolios, is expected to continue and may become increasingly important if growth slows further.

Absolute return expectations continue to be lower, in line with similarly lower return expectations from public equities and bonds, compared to historical averages. The long term outperformance of alternatives such as private equity is likely to attract investors, given its ability to deliver superior, non-correlated returns over the economic cycle.

Even in current economic conditions, there is a broad swathe of middle-market companies in the US and Europe with strong market niches and thus the potential to out-perform the broader economy. This is particularly true when the company is backed by an active, experienced private equity owner who has a clear strategy to create value and drive operational improvements.

Private equity outperforms public markets

(%)



Source: Cambridge Associates LLC. All data shown as of 31 December 2011 except ex-US developed markets

Corporate investment – Technology. The technology sector has continued to see strong M&A activity, driven by strategic buyers with substantial cash resources seeking to expand into new markets or acquire new technologies. US buyers have been dominant: for the 12 months to May 2012, M&A transactions in the US IT space amounted to 1,856, up 16.9% in volume from the 12 months prior. 2012 transaction value is on a par with 2011, when global technology M&A increased by 44% to $223 billion, the highest level since 2007.

Corporate spending on IT remains buoyant, with efficiency and regulation as powerful growth drivers, and the need for growth is fuelling technology M&A activity. Enterprise-focused technology conglomerates are extending their product reach and looking to fill in gaps, such as social media and mobile applications. The disruptive nature of market change means companies are willing to consider 'large bets'. Powerful operational leverage means large IT corporates can muster the cash resources to fund acquisitions, while they will also continue to divest non-core assets.

In addition, consolidation, especially in Europe's fragmented technology sector, will be a stimulus for further transactions. While multiples in certain technology verticals remain high, sellers may well become more realistic, especially as many technology venture capital and private equity funds need exits to help raise new funds. Given the lack of debt finance, those with cash, in the corporate and private equity worlds, will be better positioned. Meanwhile, smaller public companies will increasingly be open to public-to-private deals, given the lack of public market liquidity and limited capital raising options that they face. Exits in the technology space for private equity backed companies are likely to remain concentrated on trade sales and secondaries, with no signs of a sustained revival of the IPO market for smaller technology firms, despite several high profile IPOs for major technology players.

Sub-sectors in which investment activity may be concentrated include software, cybersecurity, smartphones, mobility and intellectual property.

Corporate investment – MENA. The GCC and Turkey remain compelling investment destinations with high forecasted 2012 GDP growth of 5% and 3%, respectively. Private equity investors in the region are predominantly in the phase of seeking to deploy capital selectively in non-cyclical and defensive sectors. Government stimulus packages, infrastructure projects and regulatory reforms embarked upon by various governments in the GCC have reinvigorated various sectors of interest to private equity, ranging from basic materials and manufacturing to healthcare and education. Sectors underpinned by demographic growth, including transportation and food and beverage, continue to be attractive.

The ability of private equity firms to secure acquisition financing for sizable companies has improved. Credit growth is forecasted to increase by 10% to approximately $766 billion as bank provisioning declines. According to S&P, the capitalization of GCC banks generally exceeds their international peers and they are expected to remain isolated from Euro area turmoil for the rest of 2012 and 2013. As lending practices become tighter and more stringent for medium-sized companies and family businesses in the GCC, however, they are increasingly inclined to seek equity funding rather than debt financing.

The robust macroeconomic environment in the GCC and Turkey has been conducive for private equity investors. Private equity investments by regional players in these markets increased slightly from 18 in FY11 to 21 in FY12. The majority of these investments were in the UAE, Turkey and KSA, primarily in the following key sectors: industrial manufacturing and construction, education, general services, information technology and financial services.

Meanwhile, private equity investors are also planning exits for their more mature portfolio companies. Private equity exits both to private buyers and through IPOs increased significantly from 11 in FY11 to 20 in FY12, the majority of which were in the UAE, Turkey, Kuwait, Saudi Arabia and Oman.

IPO activity picked up in the GCC in Q2 2012 witnessing the strongest quarterly IPO performance in the last two years. A total of four IPOs raised $1.1 billion on the GCC stock exchanges during the quarter compared to three IPOs which raised $340 million in Q2 2011, a 69% increase in value. A strong pipeline in Saudi Arabia is expected and more companies are expected to come to market in Q3 and Q4 of 2012.

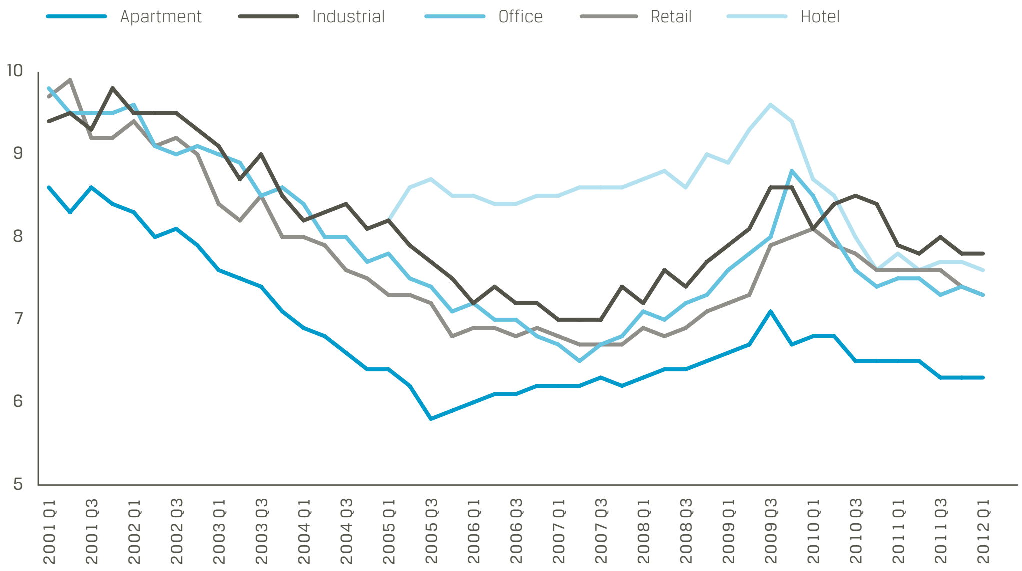
In summary, notwithstanding slowing global, and to a lesser extent regional, growth, the MENA region continues to benefit from strong oil revenues, government expenditure in key sectors supporting nation building and continued strong demographic trends, all enhanced by a rising class of vibrant entrepreneurs. Deal flow and IPO activity have picked up somewhat and this continues to create a healthy environment for strong and well capitalized corporate investment firms, like Investcorp, to continue to find attractive investment opportunities.

US real estate. Overall the US commercial real estate market has continued to improve, but with the pace of recovery slowing down in the second half of FY12. Vacancy rates have now fallen for seven consecutive quarters with modest rent growth, concentrated in Class-A properties.

Calendar 2011 saw US commercial real estate investment increasing strongly to $154 billion, the highest total since 2007, and the first half of 2012 has continued the trend. The low interest rate environment in the US has kept downward pressure on capitalization rates. Capitalization rates have fallen for two years for tier one property in the strongest performing markets, most notably in the office sector. Capitalization rates for high quality office property are now close to 2007 lows. The US Federal Reserve is expected to maintain the low interest rate environment in the medium term which should continue to positively influence capitalization rate levels across all property sectors.

Capitalization rates in US real estate

(% average quarterly)

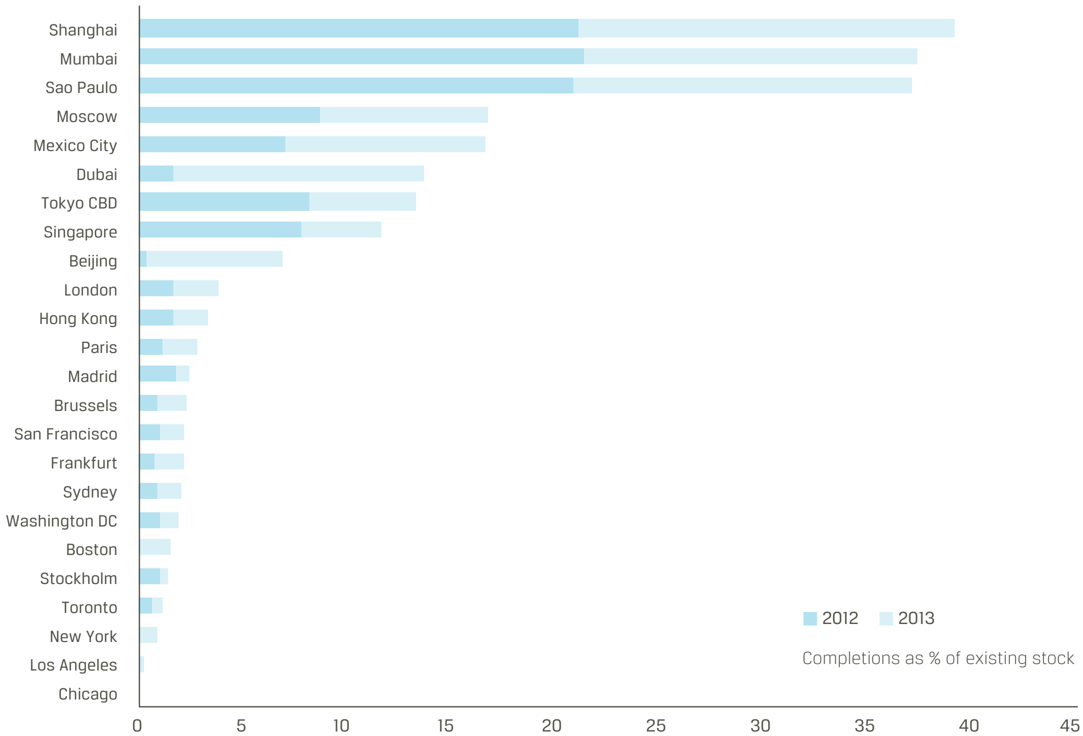


Source: Real Capital Analytics

The majority of investor interest continues to be focused on primary markets. However, of late, there has been increased interest in some secondary markets as buyers seek additional yield. Large metropolitan areas such as New York, San Francisco, Los Angeles and Houston/Dallas as well as technology markets such as Boston, Silicon Valley and the Research Triangle in North Carolina, are in demand. This is a result of stronger than average employment drivers in those markets. They are benefiting from local concentrations of globally competitive industries, for example, energy production which strongly supports the Texas marketplace or a pre-eminence in technology and related industries, which benefits areas such as San Francisco/Northern California, New York, Boston and the Research Triangle in North Carolina.

Investors are also focusing on the multi-family rental sector which is benefiting from the shift away from home ownership to renting. Home ownership in the US is at its lowest level since 1997 as potential buyers are delaying home purchases due to the uncertain economy and more stringent lending practices. Multi-family is also seen as lower risk as multiple tenants have staggered lease maturities.

US real estate underpinned by limited office supply



Source: Jones Lang LaSalle New York Capital Markets Group

REIT capital raised grew further in 2011 to $51 billion (compared with $43 billion in 2010 and just $14 billion in 2008), with the first quarter of 2012 seeing $21 billion raised. CMBS issuance has also started to pick up, but remains at a small fraction of pre-2007 levels. CMBS refinancing remains a challenge, but 2013 and 2014 have relatively low volumes to refinance before dramatically higher maturities in 2015-2017.

While debt markets have improved, the high levels of maturing real estate loans in the coming five years and the weak recovery in CMBS will provide attractive investment potential for well-financed buyers. Volatile global markets may mean that international investors continue to increase allocations to US real estate, particularly given the favorable supply/demand dynamics in major US cities compared with some potentially 'overbuilt' emerging markets.

Hedge funds. The last 12 months represented an exceptionally challenging period for the entire hedge fund industry, with the HFRI Fund of Funds Composite Index 12-month performance to June 2012 of -4.4%.

From the middle of calendar 2011 onwards, two factors negatively affected returns. First, due to uncertainty in Europe as well as other geopolitical events, the global markets experienced significant levels of volatility, combined with low absolute returns. In addition, asset class correlations moved to exceptionally high levels, creating very difficult conditions to generate positive returns by taking long or short positions. In spite of the challenging environment, certain strategies have done very well. For example, managers focusing on structured credit have been able to post excellent returns over the last 12 months.

While the tail risks associated with a European debt crisis have been largely mitigated, it is expected that the environment for hedge funds will remain somewhat challenging. However, we believe that emerging managers that are nimble and able to execute on their best ideas will be in a position to generate alpha in the current environment. Empirical evidence suggests that emerging managers outperform their established counterparts over a market cycle. The next 12 months will bring about further differentiation between these two types of managers.

We believe that the environment for seeding new hedge fund managers is exceptional. There has been an abundant supply of high quality managers seeking seed capital. The changing regulatory environment and shrinking bank balance sheets have triggered this wave and new players are emerging to take advantage of the opportunities. Where funds can be seeded and launched with an institutional backing, investors are more likely to invest.

The hedge fund industry has now surpassed previous AUM peaks. The latest estimates indicate the industry has grown above $2 trillion in assets under management. More institutional investors are making direct investments with hedge fund managers without going through an intermediary. This trend will impose a higher transparency burden, as well as create fee pressures on managers. Firms that can position themselves in line with the evolving industry trends are likely to survive and outperform the competition.

INVESTMENT ACTIVITY

We have continued to take a disciplined approach towards investment activity during FY12, against the challenging backdrop of a slowing global economy. Alternative investments continue to be able to generate alpha in a portfolio through long-term value creation. Rigorous evaluation combined with creative sourcing is more necessary than ever to find those investments with a controlled and well managed risk profile that we believe can ultimately meet the requirements of our clients for superior returns.

Corporate investment – North America & Europe. Overall, we have continued to target European and North American businesses in the middle market that have strong cash flow characteristics and are leaders in high growth sub-sectors within their industries. Specifically in Europe we have been focusing on businesses that have international growth prospects outside the Eurozone as well as on opportunities where good companies are being sold in distressed situations. In addition, we continued to look for opportunities to support growth of businesses in our current portfolio through add-on acquisitions. Generally, the macro environment makes finding opportunities more challenging. However, we believe that our sector specialization provides us with insight that enables us to define superior risk/return profiles with particular precision. We deployed $458 million in this sector during FY12.

Corporate investment – Technology. The technology investment market has been active and we have continued to look for opportunities to make control investments in profitable and growing small to medium-sized European and North American technology companies through growth buyouts, corporate carve outs or take-private transactions. We have also supported growth through acquisitions by businesses in our current portfolios and we saw a number of opportunities that fit our investment criteria although it is necessary to scrutinize opportunities carefully to identify sustainable businesses that are priced appropriately. In this sector Investcorp deployed $51 million during FY12.

Corporate investment – MENA. We continued to evaluate minority and majority investment opportunities in the MENA region, looking in particular at opportunities in Saudi Arabia, the United Arab Emirates, Kuwait and Turkey. Our long-standing Gulf regional experience provides us with an advantage in screening opportunities and mitigating risks through extended due diligence. We have in particular sought out companies with proven business models and growth prospects in defensive industries such as transportation and logistics, and basic materials. We also worked in partnership with the management teams of our portfolio companies to improve operations, raise equity and debt financing, optimize balance sheets and evaluate and execute add-on acquisitions to create value in these portfolio companies. In this sector Investcorp deployed $108 million during FY12.

Real estate investment. Transaction volume in US commercial real estate has been solid in this fiscal year. We have looked for equity and debt investments in sectors and markets in the US where we felt there were good risk-adjusted returns and we have found opportunities in both. Generally, asset prices are thought to have hit bottom in most major markets and operating fundamentals for all property types have continued to improve. We have focused on assets generating strong cash flow yields, a strategy that is well suited to the gradually stabilizing market. In equity investment, we have targeted high quality and stable assets, often in overlooked real estate markets, where these were attractively priced. In debt investment, we investigated opportunities to originate or acquire mezzanine debt and subordinated debt that could deliver attractive risk-adjusted returns and saw an increase in sellers of existing debt positions and opportunities to originate subordinated debt. Overall, in this sector Investcorp deployed $184 million of acquisition capital during FY12.

INVESTMENTS

In July 2011, we closed on the $146 million acquisition of **Sur La Table**, a leading national kitchenware retailer with locations across the United States. Sur La Table is a multi-channel retailer that has over 80 stores in the United States, but also sells through its catalog, web site and gift registry. It sells kitchenware brands and products and also provides the largest avocational culinary instruction program in the United States. This direct investment was fully placed with clients during Q2 FY12. In March 2012, we made the £48 million acquisition of **GL Education**, a leading provider of non-regulated pupil and school assessment solutions and performance management tools used by teachers and schools to measure students' core abilities, take decisions about students' learning paths and raise educational standards. This direct investment was placed with clients during Q4 FY12. In May 2012, we agreed the $146 million acquisition of **Archway Marketing Services**. Archway is North America's leading outsourcer of marketing fulfillment services, delivering point-of-purchase marketing related materials for blue-chip customers such as Pepsi, Mars, Target and AT&T. This investment will be offered to clients in H1 FY13. In June 2012, we agreed the €72 million acquisition of **Esmalglass Itaca**, a leading producer of intermediates for the global ceramic industry. Esmalglass has a presence in Spain, Brazil, China, Portugal, Italy, Russia and Indonesia and produces high quality ceramic glazes and colors as well as inkjet inks to decorate tile surfaces. The company's products are sold to 450 customers worldwide. The placement of this direct investment with clients will be concluded in H1 FY13.

In December 2011, the Investcorp Technology Partners III Fund agreed to acquire a significant minority stake in Thought Equity Motion, which recently rebranded itself as **T3Media**, the leading provider of cloud-based video management and footage licensing services, in a transaction that closed in early January 2012. Based in Denver, Colorado, T3Media provides its services to large production houses and content owners and has clients including the BBC, Paramount Pictures, Sony Pictures Entertainment, National Geographic and the NCAA. The company digitizes and hosts material such as sports, news and entertainment content for clients that was previously stored on analogue tapes, and provides a platform that enables them to access their content digitally. It also arranges for them to license the content to third parties under royalty sharing agreements. The Fund invested a total of $27.4 million, making it the largest single shareholder in T3Media.

In July 2012, the Investcorp Gulf Opportunity Fund I agreed to acquire a 30% stake in **Orka Group**, one of Turkey's leading and fastest growing menswear retailers in a transaction that is expected to close in H1 FY13. Orka Group sells its Damat, Tween and D'S Damat-branded clothing in more than 250 stores in 40 different countries worldwide, including through franchises. Also in July 2012, the Investcorp Gulf Opportunity Fund I agreed to acquire a significant minority stake in a GCC company in a transaction that is expected to close in H1 FY13.

During the year, there was one follow-on investment from Investcorp Technology Ventures I in **Atrenta**. The team also made follow-on investments in **Kentrox Inc, Magnum Semiconductor** and **Zeta Interactive Corp**. through the Investcorp Technology Ventures II Fund. There were three follow-on investments through the Investcorp Technology Partners III Fund during the year, two in **eviivo Limited** and one in **OpSec Security Group**, which included the successful completion of a tender offer to increase the Fund's overall ownership in OpSec Security Group to a controlling position of 55%.

The Investcorp Gulf Opportunity Fund I provided a follow-on investment in **Tiryaki Agro**, the leading trader and supply chain manager of agro products in Turkey.

In real estate we made ten new investments during the fiscal year. In September 2011, Investcorp made a $11.4 million investment in **The Ashford**, a garden and townhouse multi-family community of 15 residential buildings containing 221 units, located in Atlanta, Georgia. In October 2011 we made two investments. $13.1 million was invested in **Bethesda Health City**, a 133,000 square foot medical office building in Boynton Beach, Florida and $10.7 million was invested in **Park Tower**, a 120,000 square foot multi-tenant office building in Long Beach, California. All three properties were selected for their strong and stable cash flow profiles and ties to growing metropolitan communities and above-market cash yields. They were combined to form the Sharia-compliant **US Diversified Properties X Portfolio**, which saw strong demand and was fully placed with investors during Q2 FY12.

In November 2011, a $10.8 million investment was made in **Sheffield Square**, a 400 unit multi-family property in Dallas, Texas. In May 2012, we acquired for $17.5 million an interest in a portfolio of four multi-family properties in the master-planned **Copperfield** community in Houston, Texas. These were placed with clients in the Sharia-compliant **Texas Apartment Portfolio**.

In November 2011, we made a $40.1 million investment to purchase two mezzanine loans, with a scheduled maturity in July 2012, secured by the **Paramount Hotel**, a 598-room hotel located in New York City's Times Square. The investment was held on Investcorp's balance sheet. In July 2012, a syndicate led by Citigroup funded a mortgage and mezzanine debt position secured by the Paramount Hotel, which fully repaid the mezzanine debt that was held on Investcorp's balance sheet. Concurrently, in its first investment, our third real estate debt fund closed on a $30.0 million mezzanine loan as a member of the Citigroup syndicate.

In December 2011, we acquired an $8.9 million mezzanine loan secured by **Arundel Mills**, a Hilton Garden Inn/Homewood Suites branded property of 250 hotel rooms and extended stay suites in Hanover, Maryland. In January 2012, we acquired a $14.8 million mezzanine loan in **Southland Mall**, a 986,514 square foot retail mall located in South Florida. These formed a debt portfolio, **Southland and Arundel Mezz**, placed with clients in February 2012.

In February 2012, we made a $26.6 million investment in a portfolio of 14 office, industrial and retail properties in Petaluma, near San Francisco. Known as the **Northern California Portfolio**, this was placed with clients in Q4 FY12.

A number of companies in our corporate investment portfolio made add-on acquisitions to grow value as part of their investment strategies. Such add-on acquisitions enable the companies to grow revenues for example, by developing market share, by entering new markets and geographies, or by extending services or product range. Over the course of FY12 **FleetPride** made six acquisitions: Interstate Turbo Supply, McDowell Truck Parts, Fleet Brake, Trane's Diesel Service, Westpac Heavy Duty and Catoco. In October 2011, **TelePacific Communications** acquired TelWest and in November 2011, **Veritext** acquired Sarnoff Court Reporters. In December 2011, an Investcorp Gulf Opportunity Fund I portfolio company, **Gulf Cryo**, closed on the acquisition of International Industrial and Medical Liquid Gas Company in Jordan and in July 2012, it increased its stake in Shuoiba Oxygen, a supplier of industrial gases to the Kuwaiti company Equate, from 30% to 50%. In February 2012, **IPH Group** made two acquisitions in Germany, Zitech Industrietechnik and Wilhelm. In April 2012, **OpSec Security** acquired Delta Labelling Ltd. and in May 2012, **Berlin Packaging** acquired Lerman Container. In June 2012, **Ceme** agreed to acquire Maflex and **Skrill** agreed to acquire paysafecard, both with expected closings in Q1 FY13. No additional equity from Investcorp or its investors was or will be required to complete these add-on acquisitions.

REALIZATION ACTIVITY

There were a number of profitable exits during FY12. Total realization proceeds and other distributions to Investcorp and its clients were $649 million.

In November 2011, Investcorp sold **Accuity Inc**, a former subsidiary of SourceMedia Inc (formerly Thomson Media), to Reed Elsevier, for an enterprise value of $530 million. This successful partial exit returned $360 million in gross proceeds. Investcorp acquired Accuity as part of SourceMedia from The Thomson Corporation in November 2004 and subsequently spun off Accuity to become a stand-alone business providing global payment routing data, anti-money laundering screening data and software and professional services. Our investors continue to own their interests in SourceMedia, a leading business-to-business provider of multimedia information to the banking, financial services and related technology markets.

In January 2012, we closed the sale of the **W South Beach Mezzanine Loan**. In May 2010, we made an investment of $20.7 million to acquire certain discounted mezzanine loan interests in **W South Beach**, a first-class condominium hotel development on a prime oceanfront site in Miami. Investcorp and co-investors had developed this hotel in 2004 and successfully realized the investment in September 2007, returning all original invested capital plus a profit to investors. In 2010 we saw an opportunity to restructure the debt and to purchase the mezzanine debt at a significant discount. This created a new opportunity for our investors and the debt investment was placed with investors. The sale, 18 months later, resulted in a significant overall investor return over this holding period. Investcorp continues to hold its interest in the C Mortgage Note acquired at the same time which was retained on the balance sheet. In March 2012, the **Diversified II** portfolio was closed out with the successful sale of its remaining assets in Colorado.

In December 2011, an agreement was signed for the sale of the 26% stake in **Redington International Holdings Ltd.**, the leading distributor of IT and telecom products in the Middle East, Africa and Turkey, held by the Gulf Opportunity Fund I. The deal closed successfully in February 2012. The stake, which the Fund acquired in 2008 for $65 million, was sold to Redington India for a total consideration of $114.5 million and marked the first exit by the Gulf Opportunity Fund I.

As part of our strategy to manage certain challenged pre-2008 real estate investments and provide them with stable capital structures to preserve value as far as possible, we concluded two refinancings. The Investcorp Real Estate Credit Fund completed a foreclosure of its mezzanine loan interest in the Wyndham Highgate hotel portfolio and the portfolio was subsequently refinanced allowing an early repatriation of a portion of investor equity. Ownership of three investments, where it did not make economic sense to restructure, was transferred to lenders through foreclosure.

PORTFOLIO COMMENTARY

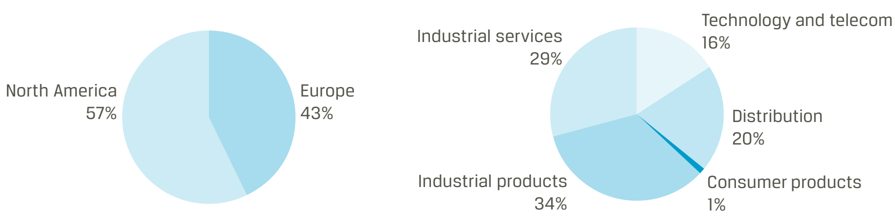
CORPORATE INVESTMENT

Corporate investment – North America & Europe. At June 30, 2012 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $1,027.2 million (20 companies) compared with $944.8 million at June 30, 2011 (17 companies). The total co-investment amount represents 57.4% of total balance sheet co-investments at June 30, 2012, compared with 49.3% as at June 30, 2011. Please refer to the table in Note 9(a) of the consolidated financial statements of Investcorp Bank B.S.C., which summarizes the June 30, 2012 and June 30, 2011 carrying values by vintage years.

The portfolio is balanced between North America and Europe and is well diversified by sector.

Corporate investment – North America & Europe portfolio

At June 30, 2012



Only three investments represent more than 10% of shareholders' equity at June 30, 2012. The investment in Archway includes underwriting of $100.0 million which will reduce once the investment is placed with clients and co-investors in the first part of FY13.

Portfolio company	Carrying value June 30, 2012 ($m)	% of total portfolio	% of total S/H equity
TelePacific	165.6	16%	16%
Berlin Packaging	117.1	11%	11%
Archway	115.2	11%	11%
Three largest co-investments	397.9	39%	38%
Remaining co-investments	629.3	61%	60%
Total	**1,027.2**	**100%**	**98%**

While our US portfolio continued to mostly outperform, some of our European portfolio companies understandably faced challenging conditions given the economic headwinds in Europe. Aggregate EBITDA for the portfolio at June 30, 2012 was approximately $1.1 billion, an increase of 8% over the June 2011 figure on a constant currency basis. These numbers do not include the three most recent acquisitions, GL Education, Archway and Esmalglass, whose combined EBITDA as of June 2012 is close to $100 million. Ten portfolio companies (excluding the three new acquisitions) experienced year-on-year EBITDA growth with seven companies growing greater than 10% compared to last year. Seven companies experienced slight EBITDA declines in the mid- to low single digits. Portfolio company leverage is low and the average debt across the portfolio is relatively modest at 4.5x EBITDA, with only three companies levered above 5x EBITDA.

More detailed information on all companies in the North American and European corporate investment portfolio can be found in the Portfolio Review section. Overall, we believe the portfolio continues to be well positioned and that our portfolio companies have performed relatively well during this challenging period as a result of the active management characteristic of our value enhancement driven approach to corporate investing.

Corporate investment – Technology. The carrying value of Investcorp's balance sheet co-investment exposure in this sector was $83.1 million at June 30, 2012.

Corporate investment – technology funds	Fund I	Fund II	Fund III
Fund size	$230 million	$300 million	$500 million
Vintage year	2001	2005	2008
Percentage of commitments drawn	100%	99%	59%
Investcorp co-investment	$43 million	$24 million	$61 million
Number of investments	24	12	7
Number of exits*	22	7	0
Returned capital	$206 million	$42 million	$0 million
DPI (distributions over paid-in capital)	**90%**	**14%**	**0%**

* Includes partial exits/write offs.

In corporate investment – Technology, Investcorp's clients are offered participation on a portfolio basis through dedicated technology funds in which Investcorp is a co-investor as well as, in some situations, on a deal-by-deal basis. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in the final stages of being harvested. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $297 million deployed and $3 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Partners Fund III was raised in 2008 and is currently 59% deployed.

Corporate investment – MENA. The carrying value of Investcorp's balance sheet co-investment exposure in this sector at June 30, 2012, was $24.0 million.

In corporate investment – MENA, Investcorp's clients participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. The Investcorp Gulf Opportunity Fund I has $929 million in capital commitments. With 60% of its available capital invested, it is in the advantageous position of having dry powder at a time when MENA markets are demonstrating their relative resilience and providing a pipeline of attractive investment opportunities.

HEDGE FUNDS

Performance

During FY12, Investcorp's hedge funds co-investment portfolio delivered unlevered returns of -4.7%. This was in line with the industry benchmark, the HFRI Fund of Funds Composite Index, which produced a return of -4.4% during the same period.

Hedge funds faced a very challenging and volatile market environment throughout the fiscal year. In the first half, lack of agreement among political parties in the US on a deficit reduction plan contributed towards the downgrade of US government debt by credit rating agency Standard & Poor's. Simultaneously, the spread of the European crisis from smaller, peripheral countries to much larger economies led to an abrupt change in the markets. Aggressive ECB action subsequently mitigated the tail risk of a disorderly breakdown in Europe. However concerns about European sovereign credit persisted throughout the year. Central bank actions caused short term interest rates and long term interest rates to trend lower but had little impact on growth prospects. While unemployment rates declined slightly in the US, they continued to be at record levels in the Eurozone. Overall, the global economy showed signs of a slow-down.

Against this backdrop, many hedge fund strategies struggled to generate returns. Distressed and Event Driven managers in particular were significantly impacted. Portfolio Insurance managers helped control the downside, but also muted overall returns during positive months.

During this difficult environment for hedge funds, Investcorp's single manager platform outperformed the benchmark by +3.6% with a notable performance by a manager that focuses on corporate credit and structured finance.

Liquidity

Investcorp's hedge funds co-investment portfolio is constructed so that a significant part of it is available for monetization in a three to six-month window.

Time period	Cumulative % available for monetization
Within 1 month	28%
Within 3 months	67%
Within 6 months	76%
Within 12 months	92%
Over 12 months	100%

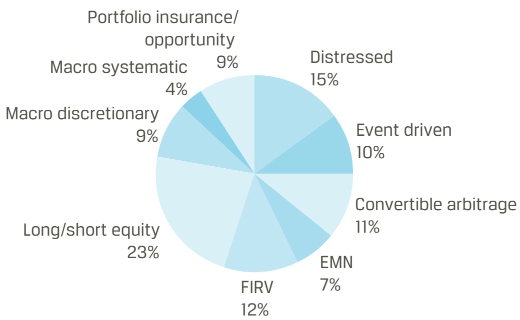
Client portfolios are also constructed with similar guidelines so that during a stressed period, the liquidity needs of clients and Investcorp are both satisfied. At June 30, 2012, approximately 67% of Investcorp's hedge funds co-investment was contractually available for monetization within a three-month window. The high availability of liquidity from our hedge funds co-investments is integral to Investcorp's overall liquidity contingency planning. A large portion of the co-investment portfolio is invested through separate accounts, that, in turn, reduces gating risk.

Portfolio exposures

Investcorp's balance sheet hedge funds co-investment is invested in several external hedge fund managers, including six managers on Investcorp's single manager platform. Total gross exposure was approximately $711 million at June 30, 2012, of which $254 million was invested in the six single managers. $297 million of the gross investment was financed through non-recourse notes, giving a net balance sheet investment at June 30, 2012 of $414 million. While Investcorp's exposure is directed through several different vehicles, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio's risk-return profile and tactical asset allocations consistent with the views of the investment team. Investcorp adopts a top-down view of the investment strategies when designing its hedge fund portfolio.

Strategy allocations of Investcorp's HF portfolio

At June 30, 2012



During FY12, Investcorp undertook a widespread repositioning across portfolios. This was achieved through selection of managers who did not run sizeable market exposures and also by implementing appropriate hedges through Portfolio Insurance and Opportunistic strategies. In doing so, the portfolio's aggregate allocation to the two strategies increased from 2.6% in the beginning of FY12 to a peak level in December, before dropping to the current level of 8.5%. Distressed and Convertible Arbitrage allocations were lowered during the year, whereas allocations to Fixed Income and Macro managers were increased.

Portfolio outlook and positioning

We continue to remain modestly positive on Macro strategies. While tail risks have been contained, underlying issues in Europe have still not been resolved. These could lead to a potential for large shocks to global asset prices, which might benefit Macro strategies. The outlook for Relative Value strategies, namely Convertible Arbitrage, Fixed Income and Equity Market Neutral, has improved. We remain neutral on Hedge Equity, Distressed and Event Driven strategies. While US growth has been steady and corporate earnings and valuations are healthy, we are mindful that these trends can reverse abruptly due to exogenous shocks. Furthermore, the US has a looming 'fiscal cliff' in 2013 when the existing, or a new, administration will need to deal with significant fiscal austerity. As a result, we continued to maintain a prudent allocation to Portfolio Insurance/Opportunistic managers. Overall, we prefer lower beta strategies where improvement in spreads, valuations and stock selection alpha is resulting in better returns – both absolute and risk-adjusted.

Strategy	Outlook
Macro	Modestly positive
Relative Value	Modestly positive
Fixed Income Relative Value	Modestly positive
Equity Market Neutral	Modestly positive
Portfolio Insurance	Modestly positive
Hedge Equities	Neutral
Event Driven	Neutral
Distressed	Neutral

REAL ESTATE INVESTMENT

At June 30, 2012, Investcorp's real estate balance sheet co-investments totaled $154.5 million compared with $188.8 million at June 30, 2011. This consisted of $111.1 million of marked-to-market equity investments and $43.4 million of debt investments, held at net amortized cost inclusive of any provisions for impairment. The total real estate co-investment amount represents 8.6% of total balance sheet co-investments at June 30, 2012, compared with 9.8% at June 30, 2011.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect some stabilization in real estate valuations as well as the impact of exits during the period. The decline in carrying value of vintage FY11 co-investments is due to completion of placement during FY12 of a couple of portfolios that were acquired in late FY11.

Investcorp co-investments by year ($m)	Carrying values as of June 30, 2012	Carrying values as of June 30, 2011	Change H/(L)
Vintage FY03	–	1.1	(1.1)
Vintage FY05	1.7	7.5	(5.8)
Vintage FY06	20.3	25.8	(5.4)
Vintage FY07	31.4	40.4	(9.0)
Vintage FY08	31.5	32.7	(1.2)
Vintage FY10	1.1	1.1	0.0
Vintage FY11	10.8	32.3	(21.5)
Vintage FY12	3.1	–	3.1
Others	54.5	48.0	6.5
Total	**154.5**	188.8	(34.4)

Overall, valuations on the portfolio have stabilized as the economy and operating fundamentals have improved. During the year, valuation mark downs on the legacy (pre-2008) portfolio were limited to a small number of cases and were asset specific in nature.

Investcorp currently has 24 active real estate investment portfolios, including its three debt funds. At June 30, 2012, 13 of these were on or ahead of plan. The remaining 11 pre-2008 portfolios, rated behind plan, are generally those holding hotel, condominium developments and offices in regions where the economic environment has generally slowed. Overall, the strategy for these portfolios is to position them for medium to long term ownership in stable capital structures with modest or no additional capital investment requirements. As of June 30, 2012, the carrying value of the investments on or ahead of plan is $86.8 million and the carrying value of the behind plan investments is $67.6 million.

The five largest co-investments, each of which is approximately 1% of total shareholders' equity, are Best Western Hotel, W South Beach (the residual C-Note), Investcorp Real Estate Credit Fund I (IRECF), Diversified VII and Bravern.

Portfolio company	Carrying value, as at June 30, 2012 ($m)	% of total portfolio	% of total S/H equity
Best Western	14.3	9%	1%
W South Beach	14.2	9%	1%
IRECF	14.1	9%	1%
Diversified VII	13.1	9%	1%
Bravern	10.6	7%	1%
Five largest co-investments	66.5	43%	6%
Remaining co-investments	88.0	57%	8%
Total	**154.5**	**100%**	**15%**

Overall, Investcorp has concentrated on preserving and/or regenerating value in current real estate assets through aggressive management and strategic capital investment. Our attention remains on optimizing cash flow and capital reserve management, tenant retention and expense reduction programs to sustain or improve operating performance.

In addition to the deal-by-deal offering of equity and debt investments in US commercial real estate, Investcorp's clients have the opportunity to make debt investments through a fund format. We have raised three funds to invest in and originate commercial real estate debt, in which Investcorp is a co-investor. The $108 million US Mezzanine Fund I, created in FY07, is fully deployed. The $176 million Investcorp Real Estate Credit Fund, created in FY08, is also fully deployed. The third real estate debt fund had its first close in May 2012 at $100 million.

Investcorp has continued to focus on income-producing commercial real estate with a broad diversification across US regions and property sectors and no meaningful exposure to the US 'for sale' residential housing sector.

REAL ESTATE PORTFOLIO

Investcorp co-investment by year ($m)	Properties (original/current)	Sector	Geographic location*
Commercial IV	12/2	Office	E
Diversified V	5/1	Office	E
Vintage FY05			
Commercial V	3/1	Retail	SE
Retail III	8/8	Retail	MW
Retail IV	29/23	Retail	SW
Opportunity II	3/1	Opportunistic	W
Opportunity III	3/2	Opportunistic	E
Vintage FY06			
Diversified VI	2/2	Retail/Hotel	SE/SW/MW
Diversified VII	4/4	Industrial/Office/Hotel	E/MW
Hotel	9/9	Hotel	E/SE/SW/MW
Bravern	1/1	Opportunistic	W
Vintage FY07			
Diversified VIII	5/4	Office/Hotel	W/SW/MW/SE
Weststate	1/1	Opportunistic	W
Best Western	1/1	Hotel	E
Vintage FY08			
Retail V	1/1	Retail	SW
Vintage FY10			
Commercial VI	3/3	Retail & Office	E/SE/SW
Diversified IX	2/2	Office/Hotel	W
Vintage FY11			
Diversified X	3/3	Residential/Office/Medical	SE/W
Northern California	14/14	Diversified	W
Southland & Arundel Mezz	0/0	Retail/Hotel	SE/E
Texas Apartment	5/5	Residential	SW
Vintage FY12			
Total	**88**		

* W = West, E = East, SW = Southwest, SE = Southeast, MW = Midwest

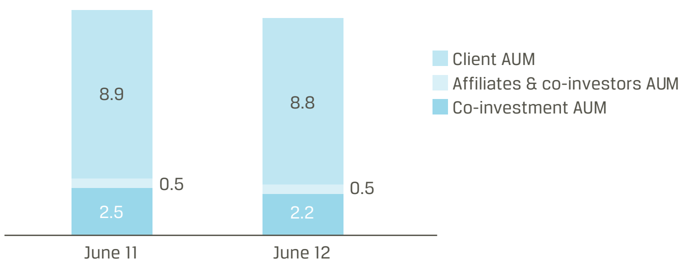
FUNDRAISING

ASSETS UNDER MANAGEMENT

Total assets under management decreased by 2.9% to $11.5 billion at June 30, 2012 from $11.8 billion at June 30, 2011.

Total AUM

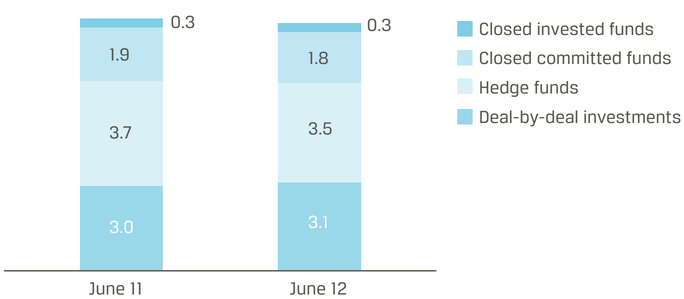
($b)



Total client assets under management decreased to $8.8 billion at June 30, 2012 from $8.9 billion at June 30, 2011 with new subscriptions net of redemptions and negative performance in hedge funds mostly offset by the increase in real estate and corporate investment AUM from the increased acquisition and placement activity over the last year.

Total client AUM

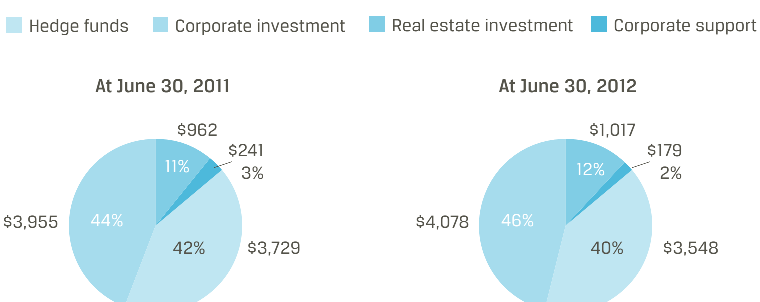
($b)



Corporate investment and hedge funds continue to be the dominant components of client assets under management. Corporate investment represents 46% of client assets under management and hedge funds 40% of client assets under management. Corporate investment's share increased from 44% last year while hedge funds' share decreased from 42%.

Client AUM

($m)



Key AUM and fundraising performance indicators (by asset class)

Corporate investment:

($m)	FY12	FY11	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,753**	1,753	0%
Deal-by-deal investments	**2,112**	1,988	6%
Closed-end invested funds	**213**	214	(1%)
Total client AUM – at period end	**4,078**	3,995	3%
Average client AUM	**4,017**	4,256	(6%)
Equity deployed*	**471**	228	>100%
Deal-by-deal placement	**214**	143	49%

* FY11 includes Sur La Table as it was signed in June 2011. Archway and Esmalglass included in FY12 as they were signed in May 2012 and June 2012 respectively.

Hedge funds:

($m)	FY12	FY11	% Change B/(W)
Client AUM			
Fund of funds	**219**	604	(64%)
Customized accounts	**1,979**	2,255	(12%)
Single managers	**1,351**	870	55%
Total client AUM – at period end	**3,549**	3,729	(5%)
Average total client AUM	**3,716**	3,862	(4%)
Fundraising	**917**	550	67%

Real estate investment:

($m)	FY12	FY11	% Change B/(W)
Client AUM			
Closed funds (mezzanine)	**173**	206	(16%)
Deal-by-deal investments	**844**	756	12%
Total client AUM – at period end	**1,017**	962	6%
Average client AUM	**952**	1,037	(9%)
Capital deployed	**184**	76	>100%
Deal-by-deal placement	**132**	58	>100%

CLIENT PLACEMENT

We continued to provide alternative investment products and solutions to clients through our range of corporate investment, real estate investment and hedge fund products. These are placed predominantly with private and institutional investors in the six GCC countries, but also with a number of international institutions. In particular, we market our hedge fund products to US institutions.

FY12 saw strong fundraising and we raised a total of $1,339 million in the year. Corporate investment deal-by-deal placement was $214 million. Real estate raised $207 million through the placement of real estate portfolios and the first close of the new debt fund. New subscriptions into hedge funds from institutional investors were $917 million.

We successfully closed placement on eight deal-by-deal offerings this year. We have now fully placed 15 deal-by-deal offerings in the post crisis period since the beginning of FY10.

We continued to provide our hallmark high touch service to our Gulf clients. Our history, commitment and track record in the region means we are particularly trusted by Gulf investors to provide them with unique and non-traditional investment opportunities and services and also to ensure that those investment opportunities are suitable for their risk-return preferences.

CLOSED-END FUNDS

Investcorp's third real estate debt fund, established to invest in and originate commercial real estate debt, had its first close in May 2012 at $100 million. It received commitments from several large European and US institutional investors, including Akard Street Partners, an investment partnership operated by Hunt Realty Investments, Inc. with substantial funding from the Teacher Retirement System of Texas, as well as from a significant UK-based pension scheme.

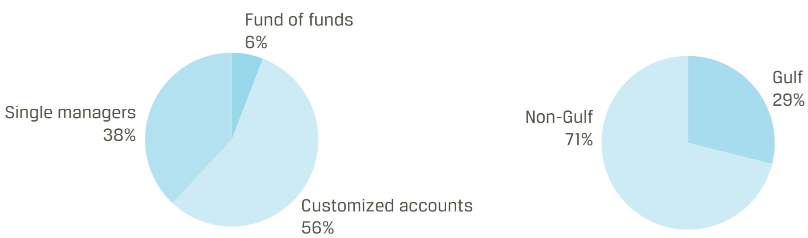
The foregoing information about closed-end funds is being provided to satisfy the requirements of the Central Bank of Bahrain. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction. Interests in the foregoing funds have not been registered under the US Securities Act of 1933, as amended, or any US state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

OPEN-END HEDGE FUNDS

At June 30, 2012, hedge fund assets under management were $4.3 billion. $3.5 billion were client assets and $0.7 billion were co-investments.

Hedge fund assets by product and region

At June 30, 2012



71% of client assets were from US institutional investors and 29% from Gulf private and institutional investors. 56% of client hedge fund assets are invested through customized accounts. The percentage of assets in fund of fund products continues to decrease, from 16% to 6%. Assets with single managers increased and stand at 38%, reflecting an increasing trend towards this product. Customized accounts and single managers are an important component of our strategy to grow hedge fund assets under management.

At June 30, 2012, approximately 90% of hedge fund assets under management were managed for a range of institutional clients including pension funds, insurance companies, endowments and foundations, and fund of hedge funds. This high level of institutional clients provides a more stable AUM base that tends to be sticky through market cycles.

PORTFOLIO REVIEW: CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

Esmalglass is one of five global producers serving the global ceramics intermediate products industry. Established in 1978 in Villareal, Spain, Esmalglass produces ceramic glazes (vitreous layers applied to the surface of tiles); ceramic colors (compounds used to color the body or the surface of tiles); and inkjet inks (an innovative and rapidly growing technology to decorate tile surfaces).

The company has a strong market position in all segments of the growing ceramics intermediate products industry, with a particular stronghold in colors, the highest value-added product segment. Esmalglass serves more than 450 customers in 69 countries worldwide, complementing its highest quality product offering with customer-oriented service and renowned technical assistance. The company generates more than half of its sales from emerging market economies including Brazil (25% of 2011 sales), the Middle East (10% of 2011 sales) and China (5% of 2011 sales). Its global activities are supported by three manufacturing plants in Spain and Brazil and mixing plants in Portugal, Italy, Russia and Indonesia. The acquisition closed in July 2012.

Archway is North America's leading outsourcer of marketing fulfillment services. Headquartered in Minnesota, Archway distributes and fulfills point-of-purchase marketing-related materials for customers with broadly distributed locations in a manner that provides significant efficiencies for its customers with high volumes of critical point-of-purchase, not-for-sale marketing materials.

Archway's customers (such as Target, AT&T, Pepsi and Pfizer) are diverse and blue chip, and span ten different end-markets including retail, consumer products, technology and communications, food and beverage, fast food restaurants, pharmaceutical, and prepaid cards. With 24 locations across 13 metropolitan areas, Archway is North America's only scale player in the highly fragmented, $2-3 billion outsourced marketing fulfillment industry. The company offers three core services, distribution/fulfillment of not-for-sale marketing materials (65% of revenues), transportation management services (23%) and materials management services (12%). The acquisition closed in July 2012.

GL Education is the leading UK provider of non-regulated pupil and school assessment solutions for primary and secondary schools. Headquartered in London, UK and founded in 1981, the company provides assessment products and services used by teachers to measure students' core abilities and to take critical decisions upon the direction and nature of their learning path. The group comprises two business units, GL Assessment and GL Performance, which, together, deliver to more than 15,000 schools the tools they require to raise standards in children's education.

GL Assessment focuses on providing a complete picture of a pupil's abilities, motivations, strengths, anxieties, school-based relationships and future learning behaviors via its cognitive ability, subject/curriculum based and psychological assessment products. GL Performance complements the group's assessment solutions offering, supporting schools in their performance management through the provision of resources such as school self-evaluation and stakeholder surveys, data interpretation and analysis services, and other professional development support. The acquisition closed in March 2012.

Sur La Table is a specialty retailer of culinary merchandise and a leading provider of non-degree culinary courses in North America. Offering a broad selection of the best culinary brands and an assortment of innovative kitchenware products, Sur La Table operates 92 stores across the United States with a widely distributed catalog and a premium online platform. The company provides items for cooking and entertaining and has a knowledgeable staff that provides high level service in its stores. Sur La Table also offers cooking classes at 30 of its stores to over 100,000 customers annually, which builds customer relationships and solidifies its reputation as an authority in the kitchenware segment.

The last decade has seen an explosion in the amount of media programming dedicated to cooking as consumers have shown a keen interest in cooking and entertaining at home. Celebrity chefs and other cooking media have generated significant awareness of cooking and reinforced mainstream interest. As a result of these trends and the continued shift away from department stores to specialty stores, the $3 billion US specialty kitchenware industry is expected to outpace the broader $14 billion US kitchenware market and grow at 3%-6% per annum over the next four years. This is driven by the cooking enthusiast who tends to be a more affluent consumer and represents the majority of the kitchenware spend in the US. Sur La Table will continue to target this highly desirable customer base with the expectation of continuing to benefit from these trends.

Sur La Table has built a multi-channel business in which each channel is profitable on a standalone basis. Plans for growth include the addition of stores in existing and new markets; the expansion of the direct sales channel; growing the newly re-launched gift registry; continuing refinement of the operating model as the company leverages its established infrastructure; driving same-store sales via proven initiatives; and expansion of the ever-evolving culinary program. The acquisition closed in July 2011.

Veritext is a leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations and regulatory agencies in the United States. It operates in the stable and growing legal services industry through 30 locations across six geographic regions in the largest legal markets in the United States. The company's core product is the conversion of a witness or expert's spoken testimony under oath into a certified written transcript. This is a critical service for a lawyer or general counsel and is used to build the fact base of a case. Veritext's services can be used by both the plaintiffs and defendants in nearly every litigation proceeding. The company also provides other value-added services that capture additional information during the deposition and allow clients to manage the information more efficiently.

Since acquisition, the senior management team has been strengthened with the appointment of a new Chief Executive Officer, Bob Cullen, who has subsequently recruited a talented, experienced and high caliber team. Since December 2010, the company has completed three accretive acquisitions, realizing synergies, gaining market share in new geographies and adding talented management and sales personnel. The most recent investment in Sarnoff Court Reporters, a traditional court reporting firm focused on high-end litigation, has already proven to be a very attractive and strategic acquisition, moving Veritext to be the number one competitor in its industry's two largest markets of New York and California. In calendar year 2012 momentum is expected to continue by focusing on growing the sales force, gaining market share and expanding national footprint. The acquisition closed in July 2010.

N&W is the only pan-European manufacturer of beverage and snack food vending machines. It offers a full product range in a market otherwise composed of smaller, regional participants. N&W is over four times larger than its nearest competitor, and operates three state-of-the-art production facilities in Italy and China.

After strong performance in 2010, which continued into the first half of 2011, there has been a slowdown in demand across all geographies and product categories, triggered by the uncertainty around Europe's debt crisis. Vending operators turned their attention to refurbishing - rather than replacing - existing vending machines. Gross margins in 2011 came under pressure as the customer mix shifted towards key accounts, commanding higher discounts and more complex products.

In January 2012, the company's CEO retired and was replaced by the existing CFO. The hand-over of responsibilities was effected in an expedited manner and completed during the first quarter. The retiring CEO continues to be involved in the company as Chairman, facilitating expansion in core international markets. The newly appointed CEO has successfully reorganized the top management structure and will now focus on reinforcing international management to support international growth strategy. He has also further reorganized internal reporting and functional management lines.

Phase two of the manufacturing optimization program is currently being implemented, and is expected to drive further operational efficiency measures such as pricing optimization, product range rationalization and increased low cost country sourcing for pre-assembly activities. In addition, management is looking at an international expansion strategy that will focus on Germany, the UK, Eastern Europe, South America and Asia.

N&W has a leadership position in its market and demand for new machines in the core European markets is expected to rebound when vending operators regain confidence. The acquisition closed in November 2008.

CEME is a leading manufacturer of fluid control components for household and industrial appliances such as espresso machines, steam ironing systems and gas boilers. Its main clients are well-established European manufacturers, but it is diversifying its customer base by expanding its distribution network in China, the Far East and North America.

In 2011, the company benefited from positive end-market dynamics such as strong espresso/capsule growth and generally good retail performance by coffee and steam appliances in most European countries, as well as from an increasing demand from the US and emerging markets. Two thirds of the company's top line growth came from key customer projects outperforming expectations. In 2012 however, the company has experienced mixed end market dynamics in Europe with weaker retail performance of small appliances, although coffee makers and steam stations continued to perform strongly in most countries.

In June 2012, Ceme agreed to acquire a small supplier, Maflex, for €1 million, which closed in mid-August. Maflex performs the automated insertion of electrical components into the bobbins used in the manufacturing of Ceme's oscillating piston pumps for coffee machines. This acquisition will give Ceme increased control over all the steps required for the manufacture of these pumps.

The company expects medium-term growth trends in its end markets to remain strong, as espresso and pad-filter machines take share from traditional filter coffee machines, and steam generators take share from traditional irons. In addition, projects with key customers are expected to support top line development for the future. The acquisition closed in July 2008.

Asiakastieto is the leader in the Finnish credit information market and is the dominant personal credit information database owner with approximately 74% market share. Asiakastieto's business is rooted in databases, which consolidate data gathered over decades from many sources to create Finland's most comprehensive historical business and credit information database and the country's only personal credit information database. Customers include financial institutions, telecom operators, consumer credit companies, wholesalers, retailers and debt collection agencies.

Asiakastieto's growth strategy is based on leveraging its leading market position, its well established customer relationships, its resilient cash flow characteristics and its experienced management team to drive growth both in its core risk management and credit information services market, as well as in adjacent market segments. Key value creation initiatives include the improvement of sales force effectiveness and on-going investment in new product development. In addition, Asiakastieto's new CEO, who replaced the retiring CEO in January 2012, is focusing on reorganizing the Business Information, Consumer Information and Consumer Management areas. A dedicated team is looking after the top seven accounts to facilitate close customer interaction in an effort to better understand customers' needs and thereby improve future new services and product solutions.

Asiakastieto is also working to counter recent changes to market conditions, such as price pressure from increased competition. It is also working to improve competitiveness by increasing the proportion of value-added products, rather than relying on pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States. Its products include B2B trade publications - primarily qualified circulation titles that rank first or second in their sector - live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates (EDA) business is an industry-leading collector and aggregator of industrial equipment purchase data that provides subscription-based sales lead generation and market intelligence products to the industrial equipment markets.

Randall-Reilly's end markets continue to show signs of economic recovery as trucking and infrastructure related construction remain a central and necessary component to the US economy. There has been an increase in truck orders and freight, as well as significant driver turnover and an aging demographic of drivers. Consequently, the primary source of growth for the company has been Randall-Reilly's truck driver recruiting division as fleets continue to advertise aggressively to hire drivers. The company continues to invest in digest books and online recruiting websites, with exclusive rights in four of the top five trucking rest stop chains. Along with the need for new truck drivers, the trucking industry is transforming overall and there is an increased need for new innovative digital talent. Randall-Reilly is therefore focused on making digital marketing services an integral part of all its products.

Randall-Reilly also continues to put significant resources into growing the data business and launching ancillary products for EDA that provide enhanced equipment ownership and risk data. The company expects this effort to entrench EDA with its customers and to drive revenue growth in calendar 2012 and beyond. The acquisition closed in February 2008.

Berlin Packaging is a leading supplier of rigid packaging in the United States. From strategic locations throughout the US, the company supplies plastic, glass and metal containers, closures and dispensing systems to customers in the food and beverage, personal care, and healthcare end markets. Through its design division, Studio 111, Berlin also provides value-added services such as packaging design and consulting services, acting as a 'one-stop-shop' for all the packaging requirements of many customers.

Berlin has a leading market position, strong management team, compelling value proposition to customers, growth-oriented culture and attractive industry structure. Sales levels continue to gain momentum as Berlin continues to realize benefits from its prospecting efforts. The company benefits from limited customer, product and geographic concentration, attractive free cash flow characteristics and 'best-in-class' operations and infrastructure. The company also continues to gain market share within its existing markets through new customer wins and increased penetration of existing customers, by growing the presence of the company's catalog business and Studio 111, as well as through add-on acquisitions.

In May 2012, Berlin completed the acquisition of Lerman Container. This is the company's third strategic acquisition since 2010, expanding its team of packaging solution experts and its presence in the Northeast US. This acquisition is expected to increase the scale of Berlin's enterprise, add personal care and pharmaceutical packaging expertise, and enable the company's suppliers to reach new customers and continue to grow sales.

The management team has been strengthened with a new head of supply chain and the team continues to focus on margin improvement initiatives, tight cost controls, and synergies from the All-Pak and Continental acquisitions. Berlin remains well positioned for continued strong performance through growth, both organic and through acquisition, continued margin management, sales force training, and on-going cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services and has 30 manufacturing sites and 85 offices throughout Europe and North America. Icopal's products are used for waterproofing, building membranes, pitched roofing and roofing accessories, and by specialized contracting services within flat roofing.

Icopal's business strategy is focused on developing and consolidating its market position in existing markets, complementing its product offering and further expanding in Eastern Europe. In addition, management is preparing for a strong rebound when demand recovers, drawing upon an institutionalized 'fill-the-gap' planning process that has identified more than 200 growth initiatives. These include setting up an in-house manufacturing capacity for breather membranes and the continued development of green waterproofing solutions, ultimately ensuring continued above-market performance.

After a positive 2010 and the first half of 2011, the second half of 2011 saw a slowdown in volume due to the effects of an uncertain market environment in Europe, which has delayed a broad based market recovery in the construction industry. Icopal had a good start to 2012 but has seen softer volumes in the second quarter due to continued uncertainty in Europe. On a positive note, raw material prices have started to come down.

Over the past three years, management has made four acquisitions including a leading Austrian-Hungarian bitumen membrane producer Villas, and a German high-end synthetic player, Wolfin, which have strengthened Icopal's position within the European membrane industry. Management priorities for the future include improving margins through the Procurement Business Intelligence System (IProBis), which is a fully automated module that analyzes spending levels across all geographies and based on that, facilitates real time pricing guidance through the system. Management has also created a new function to ensure a coordinated 'go to market' approach for new product introductions. In addition, Icopal is looking to expand into markets beyond Europe such as Brazil, Turkey and southeast Europe to drive growth. The acquisition closed in July 2007.

Armacell is a major supplier of engineered foams and expanded rubber products used in construction, industrial, sports, leisure and recreation, automotive, packaging and a wide range of custom applications. It is the undisputed global market leader in elastomeric insulation foams. Based in Germany, it has a network of 18 manufacturing facilities in 12 countries.

Armacell has undergone a significant business transformation, forming two divisions, Global Insulation and Technical Foam, and adding significant talent, including a new top management team. It has also rationalized its manufacturing footprint. The company is now positioning itself to leverage its economies of scale and scope, to develop and execute global programs and to respond to local market needs.

While industry activity levels in Armacell's traditional markets generally showed improvements in 2011, clear divergences were seen by segment and geography. Management implemented a number of sales initiatives, both geographic and product focused. Armacell has also increased its penetration of emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. Armacell expects to see above-market growth with these initiatives, supported by R&D and product development in markets such as industrial, marine and petrochemical.

Since the second half of 2010, the company has seen strong inflationary pressure on raw material prices. To mitigate margin pressure from this, management has been increasing prices as well as introducing a program to reduce costs and complexity. This has started to show benefits in the last six months. The acquisition closed in January 2007.

FleetPride Corporation is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the United States. It has 220 distribution branches in 40 states that carry a full-line of nationally-recognized, brand name parts, as well as an assortment of exclusive-brand parts. FleetPride offers in-house remanufactured products and provides truck and trailer repair services at many locations.

In the two and a half years since the new CEO and CFO were appointed, a number of operational initiatives have been put in place that have improved profitability and generated cash flow. Significantly, management has centralized supply chain management and established a national pricing department to change the national pricing model and better control margins. As a result of the pricing initiative launched in 2010, FleetPride has grown point of sales gross profit margins by over 100 basis points.

During 2011, FleetPride completed six acquisitions, adding $54 million in aggregate sales and $6 million in run-rate EBITDA. In the first six months of 2012, FleetPride acquired four companies, the largest being Catco Parts & Services, adding $67 million in sales and $7.5 million of EBITDA. In addition, the company is currently in discussions to close four more deals in the latter half of 2012. The company also successfully completed a refinancing in December 2011 and secured additional financing of $60 million in May 2012 to finance the most recent acquisitions.

FleetPride will continue to focus on expanding market coverage, pursuing additional strategic acquisitions, developing its national accounts and private brand growth plans. It will also continue to rationalize pricing policies and seek to improve purchasing and sourcing strategies. The company will also work to continue to strengthen its organizational structure. The acquisition closed in June 2006.

IPH Group, the holding company of Anfidis Networks and Orexad, which was formed through the merger of Orefi and AD Industrie, is the largest distributor of industrial supplies in France. IPH Group has a presence in all regions of France, and has 239 branches across Europe, including 54 acquired in 2007 from Anjac, the third largest competitor in the French market.

Despite the uncertainties surrounding the European macro-environment, the impact on the core business has been relatively negligible to date. IPH Group continues to leverage its market leading position and best-in-class key account organization by taking share from competitors and winning large contracts. In February 2012, the company acquired Zitec Industrietechnik and Wilhelm Jung, both German leading players in power transmission, positioning IPH among the top three distributors in Germany, Europe's largest market for industrial supply. The company now generates over a third of its EBITDA outside of France. Management is dedicating significant resources to ensure a smooth integration of the acquisitions, transferring best practices and capturing synergies.

IPH Group is also continuing its strategy of improving gross margins by focusing on pricing and procurement initiatives and further improving the penetration of its own label brand. The acquisition closed in June 2006.

Autodistribution is the leading independent distributor of auto and truck spare parts in France, and is the largest independent auto parts distributor in Europe. The company supplies products to an affiliated network of 2,200 garages and 400 body repair shops, as well as to truck repair shops and truck carriers and fleet managers.

Autodistribution has experienced softness in some of its end markets, which has put pressure on volumes. This has been mitigated by improved pricing and a positive sales mix effect. Management continues to focus on implementing a profit improvement plan, defined in early 2010, targeting €30 million of cumulative improvements by the end of calendar 2013. Current performance is on track. Initiatives include rationalization of the regional organization, turnaround of the loss making subsidiaries, productivity improvements, reengineering the cost structure, improvements in transportation and logistics costs, and gross margin increases.

The management team has recently been strengthened and is carefully monitoring its international presence while restoring the company's price competitiveness. The company is in the process of reviewing a potential add-on acquisition in France that would be expected to improve Autodistribution's footprint in the marketplace and bring significant synergies. The acquisition closed in March 2006.

CCC Information Services is the US market leader in automotive insurance claims software and information solutions. It provides 'mission critical' information and software solutions to parties involved in the automotive insurance claims process. CCC's products are sold on a subscription or transaction basis under multi-year contracts, resulting in a recurring and highly predictable revenue stream.

As transaction volumes in the industry have been relatively stable, growth has needed to come from market share gains by winning customers on the autobody side and insurance side, or from new product introductions. With many key customer renewals completed, CCC is now focused on future organic growth, with a particular emphasis on new product introductions. The introduction of a new shop management solution for the autobody shop business, CCC One, in calendar year 2010 started to show benefits in 2011 and further new product introductions are expected to drive meaningful uplift.

In 2011, CCC began to make significant investments in product development. It hired a new Chief Technology Officer to upgrade and improve the new product development effort and technology processes. It has expanded R&D spend on new product introductions and launched a wholly-owned subsidiary in China to develop a new product suite based on CCC technology using local development and sales teams. These efforts are expected to provide the company with a much improved growth story over the coming years. In addition to growing organically, management continues to pursue potential add-on opportunities to expand into new end markets and countries. The acquisition closed in February 2006.

Polyconcept is the world's largest supplier of promotional products, created by the combination of Polyconcept, Europe's leading generalist supplier of wearable and non-wearable promotional products, and Global Promo Group Inc., the number two non-wearable promotional product supplier in the US.

In April 2011, Polyconcept North America acquired Trimark Sportswear Group a leading Canadian apparel supplier, marking the fourth acquisition since Polyconcept's establishment in 2005 and its first move into the promotional apparel category.

With the addition of Trimark, Polyconcept became Canada's largest supplier of both apparel and hard goods under four industry leading brands (Leed's, Bullet Line, JournalBooks, and Trimark).

Performance continues to vary by geography. The macro environment in Europe remains uncertain while performance in the US has been protected by a better sales mix on higher margin products. Additionally, as the US apparel segment represents one of the largest organic growth opportunities for the company, Polyconcept has begun to roll-out a US apparel initiative, Trimark Powered by Leed's. Polyconcept recently conducted a European strategic review of the business and has implemented a change in management. The former Vice Chairman and CEO of PCNA and prior owner of Leed's, has become the new Chairman and CEO of the company. The management team is now more compact and experienced.

Polyconcept benefits from leading market positions in Europe and the US, strong and resilient cash flow generation and a strong liquidity position. It continues to gain market share by improving the positioning of individual companies within their markets using separate 'value' and 'premium' products and services, expanding or tailoring product offerings, and by taking advantage of weak competition. The acquisition closed in June 2005.

SourceMedia is a leading business-to-business provider of multimedia information to professionals in the banking, financial services and related technology markets. SourceMedia has a distinguished portfolio of products, including some of the longest-running titles in American business publishing, such as *American Banker, The Bond Buyer*, and *Financial Planning*. SourceMedia also offers subscription data, software tools, directories, conferences, and trade shows.

In November 2004, Investcorp acquired Accuity along with SourceMedia from The Thomson Corporation and subsequently spun off Accuity to become a stand-alone business. In November 2011, Investcorp agreed to sell Accuity to Reed Elsevier for an enterprise value of $530 million. As part of this transaction, SourceMedia was able to sever all remaining ties with Accuity and refinance the company's existing credit facility while maintaining appropriate financial flexibility. The corporate logo was also rebranded to symbolize SourceMedia's emergence as a diversified, digitally-focused media company.

Although conditions in SourceMedia's financial services end markets remain challenging, there have been improvements in certain segments, particularly *Investment Advisor, Professional Services* and *Financial Planning*. The company has continued to shift from traditional advertising-based print publishing to a community and content-focused enterprise that will deliver products to its customers in both print and electronic formats, and has had some success in introducing new products and revenue streams. While SourceMedia's market position and brand awareness remain strong, the company will continue to transition to and accelerate the subscription side of the business and prioritize digital product development. The acquisition closed in November 2004.

TelePacific is a facility based Competitive Local Exchange Carrier (CLEC) providing telecommunications services to small and medium sized businesses in California and Nevada in the USA. TelePacific is the leading CLEC and the largest alternative telecommunications provider to AT&T and Verizon in its market.

Despite the lagging economic recovery in TelePacific's markets, which has slowed new customer growth and reduced telecommunication usage by existing customers, the company has been successful in growing revenue and is performing very strongly relative to its peer group.

In calendar 2011, TelePacific closed on three add-on acquisitions, broadening its product options, building scale and reducing its cost structure. All of these transactions were financed through a combination of cash on hand and additional debt. TelePacific reduced its industry-leading customer churn rates through superior customer care initiatives and maintained strong profit margins. The company has also implemented the conversion of Verizon lines formerly under a special access contract to lower-cost UNE (regulated pricing) lines. These new contracts are expected to save approximately $11 million per year of costs.

TelePacific also made a significant investment in the rollout of Ethernet-over-Copper (EoC), which provides customers with high bandwidth products in a more cost effective way. Approximately 40% of TelePacific's new customers are being installed on this higher margin EoC platform, driving margin expansion in calendar 2012. Overall, the company has improved its competitive position over the last year through new technological platforms in order to provide higher bandwidth more cheaply.

TelePacific also broadened its product offering with products such as data centers and hosted VoIP, deepened its presence in existing markets and entered a new geographic market with attractive growth and profitability characteristics. TelePacific's outlook remains positive as it has positioned itself to compete and succeed in its market. The acquisition closed in April 2000.

Stratus Technologies is a global solutions provider focused exclusively on helping its customers achieve and sustain the availability of information systems that support their critical business processes. Based upon its 30 years of expertise in server and services technology for continuous availability, Stratus is a trusted solutions provider to customers in manufacturing, life sciences, telecommunications, financial services, public safety, transportation and logistics, and other industries. The acquisition closed in February 1999.

OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

Investcorp Bank B.S.C. ('Investcorp Bank') is domiciled in Bahrain as a wholesale bank, under the regulatory oversight of the Central Bank of Bahrain ('CBB'), with shares listed and traded on the Bahrain Bourse. Within the Investcorp Group of companies, Investcorp Bank is the principal parent entity and owns a 100% economic interest in Investcorp Holdings Limited ('IHL'), its Cayman Islands-based subsidiary. In turn, IHL has two subsidiaries, the principal subsidiary being Investcorp S.A. ('ISA'), domiciled in the Cayman Islands as a financial holding company. The significant subsidiaries of Investcorp Bank are discussed in Note 1(A) (iv) to the consolidated financial statements of Investcorp Bank. Investcorp Bank and its consolidated subsidiaries are referred to interchangeably as 'Investcorp' and the 'Investcorp Group'.

OWNERSHIP STRUCTURE

Overview

Investcorp Bank's ownership and subsidiary structure is designed to ensure that:

- the interests of Investcorp Bank's strategic shareholder group, comprised of Investcorp Bank directors, prominent Gulf individuals and institutional shareholders, together with public shareholders, are closely aligned with those of management; and
- Investcorp Bank effectively operates as a management controlled entity.

Substantially all of the Investcorp Group's assets and operations are owned and controlled by ISA. As a result, substantially all of the Investcorp Group's commercial risks are held outside of the Middle East.

Shareholding structure

The shareholding structure of Investcorp Bank is outlined in Note 1(A) (iii) to the consolidated financial statements of Investcorp Bank. At June 30, 2012, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 22.7% of the Ordinary Shares of Investcorp Bank which are traded on the Bahrain Bourse and are held predominantly by Gulf-based nationals and institutions and international shareholders hold 0.3% of the Ordinary Shares, represented by unlisted Global Depositary Receipts. SIPCO Limited (SIPCO) directly and indirectly owns 30.4% of Investcorp Bank's ordinary shares. Investcorp Funding Limited (IFL), a subsidiary of Investcorp Bank, holds 7.8% of Investcorp Bank's Ordinary Shares.

The 38.2% of Investcorp Bank's ordinary shares owned directly and indirectly by SIPCO and Investcorp Funding Limited represents:

- management and other employees (approximately 90 employees in the aggregate) ownership of beneficial interests in 14.9% of Investcorp Bank's Ordinary Shares through Investcorp Employee Share Ownership Plans (each such plan an 'ISOP');
- treasury shares, amounting to 13.5% in shares that are held for potential allocation to an ISOP and 2% unvested shares under an ISOP; and
- treasury shares, amounting to 7.8% of Investcorp Bank's Ordinary Shares, available for future sale to strategic shareholders or for management to acquire beneficial interests in Investcorp Bank's Ordinary Shares through an ISOP.

The ownership of beneficial interests in Investcorp Bank by management and other employees is implemented through the ISOPs. The ISOPs provide for management and other employees to buy their allocated beneficial interests in Investcorp Bank utilizing incentive compensation. These plans are intended to promote stakeholder alignment, encouraging management to focus on long term value creation and prudent control of balance sheet risks. Investcorp Bank has approval from the CBB to hold up to 40% of Investcorp Bank's Ordinary Shares for the ISOPs.

Cayman Islands country risk / Control of the Investcorp Group: creditor protection mechanisms

As at June 30, 2012, assets comprising 97.8% of the book value of the Investcorp Group's consolidated assets were owned directly or indirectly by ISA, which is wholly-owned by IHL.

In order to separate voting control from economic ownership, IHL has issued both voting shares and non-voting shares. Investcorp Bank holds 23.1% of the voting shares of IHL (through its ownership of IHL Series A Preference Shares) and 100% of the non-voting shares of Investcorp Bank (through its ownership of IHL Series B Preference Shares). IFL owns 7.8% of the voting shares of IHL. The IHL Series A Preference Shares owned by Investcorp Bank give it 100% of the economic ownership of IHL and, therefore, 100% ownership of the 97.8% of the book value of the Investcorp Group's consolidated assets owned directly or indirectly by ISA.

Under the Articles of Association of IHL, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair Investcorp Bank's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of Investcorp Bank's senior executive officers and certain of Investcorp Bank's Directors, have the power to declare that an 'investment protection event' has occurred. Examples of circumstances that would constitute an 'investment protection event' include the hostile invasion of Bahrain by the forces of a foreign state, the nationalization of Investcorp Bank or interference in the conduct of business that is reasonably likely to result in a material adverse change in the business, operations, assets or financial condition of Investcorp Bank. Should the Designated Representatives declare that an investment protection event has occurred, the IHL Series A Preference Shares and Series B Preference Shares held by Investcorp Bank will be automatically redeemed for nominal consideration. If the investment protection event is not temporary, IHL will issue shares and cause them to be delivered to the shareholders of Investcorp Bank so that each shareholder will own shares directly in IHL that are economically equivalent in all respects to the shares that they own in Investcorp Bank.

Further, pursuant to an agreement between Investcorp Bank and ISA, following the declaration of an investment protection event, all inter-company indebtedness owed to Investcorp Bank is automatically forgiven, except to the extent that Investcorp Bank is required to pay, and has paid, deposit liabilities. As a result, ISA is protected against any claims for the repayment of any indebtedness owed to Investcorp Bank, except to the extent that the cash proceeds of the repayment of that indebtedness are applied to satisfy the claims of Investcorp Bank's depositors.

Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 65.5% of Investcorp Bank's ordinary shares directly and through C.P. Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is majority owned by OHL which, in turn, is majority owned by SIPCO. Strategic shareholders own the balance of CPHL and OHL. SIPCO also holds 3.6% of Investcorp Bank's Ordinary Shares directly.

As a result of certain proxy arrangements and Investcorp Bank's ownership structure, a group of seven Investcorp Bank Directors and senior executive officers controls the voting of 69.1% of the Ordinary Shares of Investcorp Bank.

Investcorp's senior management (Investcorp's Managing Directors) hold beneficial interests in Investcorp Bank's Ordinary Shares through the ISOPs. Except for Nemir A. Kirdar, the Executive Chairman and Chief Executive Officer of Investcorp Bank, who holds 107 Ordinary Shares of Investcorp Bank in his capacity as a Director of Investcorp Bank, no member of senior management of Investcorp directly holds Investcorp Ordinary Shares. Certain members of senior management hold Investcorp Bank Preference Shares.

Information regarding the ownership and trading of Investcorp Bank's Ordinary Shares and Preference Shares by Investcorp Bank's Directors and the ownership of Investcorp Bank Preference Shares by certain members of senior management is provided in the Investcorp Bank Fiscal Year 2012 Corporate Governance Report ('Fiscal Year 2012 Corporate Governance Report') which is a supplement to this Annual Report. The Fiscal Year 2012 Corporate Governance Report also is available on Investcorp's website (www.investcorp.com).

As reported above, an aggregate of 76.9% of Investcorp Bank's Ordinary Shares are held by SIPCO, OHL, CPHL and IFL, each of which is a Cayman Islands company.

The table below shows the distribution by nationality of the holders of the 22.7% of Investcorp Bank's Ordinary Shares that are held by public shareholders and traded on the Bahrain Bourse.

Nationality	Number of shares	Ownership
American	11,166	1.4%
Bahamian	250	0.0%
Bahraini	38,359	4.8%
Belgian	100	0.0%
British	2,141	0.3%
Cayman Islander	13,512	1.7%
Channel Islander	1,238	0.2%
Emirati	15,835	2.0%
French	207	0.0%
Greek	600	0.1%
Kuwaiti	18,589	2.3%
Lebanese	400	0.1%
Liechtensteiner	2,158	0.3%
Omani	4,395	0.5%
Pakistani	100	0.0%
Qatari	13,969	1.7%
Saudi Arabian	56,113	7.0%
Spanish	100	0.0%
Swiss	1,640	0.2%
Virgin Islander	654	0.1%
Total	**181,526**	**22.7%**

The table below shows the distribution by nationality of the holders of Investcorp Bank's Preference Shares.

Nationality	Number of shares	Ownership
American	1,743	0.3%
Bahamian	100,000	19.4%
Bahraini	37,600	7.3%
British	2,375	0.5%
Canadian	1,000	0.2%
Cayman Islander	193,134	37.5%
French	1,000	0.2%
German	1,000	0.2%
Indian	950	0.2%
Jordanian	1,000	0.2%
Kuwaiti	118,350	23.0%
Lebanese	500	0.1%
New Zealander	150	0.0%
Omani	22,200	4.3%
Qatari	3,450	0.7%
Saudi	18,680	3.6%
Swiss	8,000	1.6%
Emirati	4,000	0.8%
Total	**515,132**	**100.0%**

The tables below shows the distribution of ownership of Investcorp Bank's Ordinary Shares and Preference Shares by size of shareholding.

	June 30, 2012		
Ordinary shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	176,296	294	22%
1% up to less than 5%	37,013	2	5%
5% up to less than 10%	62,443	1	8%
10% up to less than 20%	138,196	1	17%
More than 20%	386,052	1	48%
	800,000	299	100%

	June 30, 2012		
Preference shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	65,798	51	13%
1% up to less than 5%	79,334	6	15%
5% up to less than 10%	–	–	–
10% up to less than 20%	370,000	4	72%
More than 20%	–	–	0%
	515,132	61	100%

CORPORATE GOVERNANCE

Overview

Investcorp views corporate governance as the manner in which members of the Board of Directors, shareholders, investors, management and employees of Investcorp are organized and how they operate in practice. Good corporate governance involves keeping business practice above reproach and thus retaining the trust and confidence of all the stakeholders who enable Investcorp to operate, thrive and prosper.

Investcorp makes large investments in mostly illiquid asset classes such as corporate and real estate investment. It places a large proportion of these investments with clients and retains a portion for its own balance sheet. These investment activities operate with above-average risk levels and have led to the development of a comprehensive risk management infrastructure and strong corporate governance over the past 30 years. Investcorp's corporate governance practices have been structured around the following three principles:

i. alignment of interests among shareholders, clients and management combined with protection of lenders' interests;

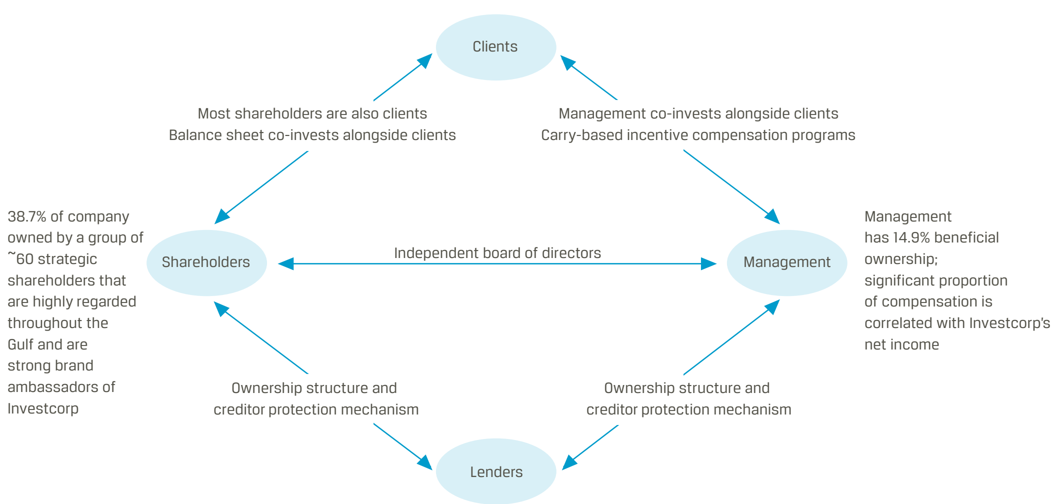
ii. transparency of reporting and actions plus proactive risk control; and

iii. collective decision-making.

Investcorp Bank's corporate governance is subject to the CBB's High Level Controls Module, ('Module HC') which incorporates the Corporate Governance Code of the Kingdom of Bahrain. Please see the Fiscal Year 2012 Corporate Governance Report for disclosure regarding Investcorp's compliance with Module HC.

i. Alignment of interests. A central tenet of Investcorp's philosophy is to ensure that interests among shareholders, clients and management are optimally aligned and that lender interests are well protected. The diagram below summarizes the key factors that drive this alignment.

Good alignment of interest between key stakeholders



A central tenet of Investcorp's philosophy is to ensure that interests among clients, shareholders and management are optimally aligned and that lender interests are well protected.

Co-investments: Clients, shareholders and management all participate in each of Investcorp's investment products. Investcorp retains a stake in each corporate or real estate investment transaction, placing the balance with clients. Investcorp also invests a substantial portion of its liquid assets in the hedge funds program. Hence, through ownership of Investcorp, shareholders indirectly participate in each of the investment products. In addition, Investcorp's employees co-invest alongside clients and Investcorp in these investment products (further described under 'Programs for Investment Participation' in Note 24 of the consolidated financial statements of Investcorp Bank). As a result, all three groups are collectively exposed to the same risks and share the same outcomes. This emphasis on co-investment ensures that all stakeholders are motivated to grow Investcorp and enhance its value through the generation of superior risk-adjusted returns in each of Investcorp's products.

Performance-based incentive compensation: Consistent with industry practice, Investcorp's investment professionals participate in performance-based 'carry' programs whereby a certain variable portion of exit proceeds due to investors from the realization of their investments is shared with the investment professionals, provided that a certain pre-established minimum performance objective is exceeded on the underlying investment.

In addition, the overall compensation paid to members of senior management and other Investcorp executives is highly correlated with Investcorp's net income. Investcorp's net income is driven by its ability to acquire, place, manage and realize investments and realize gains from investments on its balance sheet (franchise value). The franchise value, in turn, depends on management's ability to provide long-term value to Investcorp's clients and shareholders and protection for its creditors.

All of Investcorp's employees at the level of Principal and Managing Director are required to defer a percentage of their incentive compensation and utilize a portion of that deferred compensation to purchase beneficial interests in Investcorp Bank's Ordinary Shares through the ISOPs. These beneficial interests are subject to vesting requirements.

In this manner, Investcorp's executive compensation programs play a critical role in aligning management's interests with the interests of shareholders, clients and lenders.

The aggregate amount of compensation paid to senior management in respect of Fiscal Year 2012, including incentive compensation that is required to be deferred and utilized to purchase beneficial interests in Investcorp Bank's Ordinary Shares that are subject to vesting requirements, is disclosed in Note 25 of the consolidated financial statements of Investcorp Bank.

The names of the members of senior management and information regarding their roles within Investcorp and their professional backgrounds is included in the Managing Directors, Principals and Professional Staff section of this Annual Report.

ii. Transparency and risk control. Transparency at Investcorp involves the open and proactive discussion of issues and problems with all stakeholders. The role and nature of the Board of Directors and its committees and Investcorp's management structure are vital elements of an Investcorp Group-wide framework for mitigating risks, allocating resources and making decisions with full accountability based on all relevant information.

Board of Directors

Under the Articles of Association of Investcorp Bank, the Board of Directors consists of not less than five and not more than 20 Directors, and the number of Directors is determined by shareholder resolution.

The size of the Board of Directors was set at 14 by action of the shareholders at the Ordinary General Meeting of Shareholders held on September 21, 2010. All of the current Directors of Investcorp Bank were elected at that Ordinary General Meeting of Shareholders for a three year term that will expire at the 2013 Ordinary General Meeting of Shareholders.

Each Director has signed a formal written appointment letter agreement which addresses a number of matters, including the Director's duties and responsibilities in serving on the Board of Directors, the fact that annual remuneration for service as a Director is subject to the approval of the shareholders of Investcorp Bank, his entitlement to expense reimbursement and access to independent professional advice when needed. There are no arrangements in effect relating to the termination of any Director.

The Corporate Governance Committee of the Board of Directors has developed and the Board of Directors has approved a formal induction program for new Directors that includes briefings on (i) the duties and responsibilities of Directors, (ii) Investcorp's investing lines of business, (iii) Investcorp's financial position and (iv) key strategic issues.

The Board of Directors is ultimately accountable and responsible for the affairs and business performance of Investcorp. The specific responsibilities of the Board of Directors, as set out in its Charter, are as follows:

- ensuring that financial statements are prepared which accurately disclose Investcorp's financial position;
- the adoption and annual review of Investcorp's strategy, with responsibility as part of the strategy review process, for:
  - reviewing Investcorp's business plans and the inherent level of risk in these plans;
  - assessing the adequacy of capital to support the business risks of Investcorp;
  - setting performance objectives; and
  - overseeing major capital expenditures, divestitures and acquisitions;
- monitoring management performance and determining whether to approve recommendations by the Executive Committee for Administrative Policy (acting as a remuneration committee) for the remuneration of senior management;
- reviewing the systems and controls framework of Investcorp to ensure that this framework is appropriate for Investcorp's business and associated risks;
- establishing corporate standards for itself, senior management and all other employees, including policies and procedures for the identification, disclosure, prevention or strict limitation of conflicts of interest;
- convening and preparing the agenda for shareholders meetings;
- monitoring conflicts of interest and preventing abusive related party transactions;
- ensuring equitable treatment of shareholders, including minority shareholders; and
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

The Directors' names, years of service on the Board of Directors, other directorships held by them, attendance of Board of Directors meetings held during Fiscal Year 2012 and the aggregate remuneration proposed to be paid to the Directors in respect of Fiscal Year 2012 are reported in the Fiscal Year 2012 Corporate Governance Report.

The approval of the Board of Directors is required for material matters, including the business plan and budget for each fiscal year, capital raising, capital markets and other financing transactions, Investcorp Group-wide risk limits, employee incentive compensation plans and annual incentive compensation awards for senior management.

All of the Directors other than Mr Kirdar are non-executive. In line with the requirements of Module HC, the Board of Directors determines the independence of the Directors each year. The most recent determination of the independence of the Directors made by the Board of Directors is reported in the Fiscal Year 2012 Corporate Governance Report.

The Board of Directors has established four standing Executive Committees as follows: the Audit Committee, the Corporate Governance Committee, the Executive Committee for Administrative Policy and the Executive Committee for Investment Policy, each of which is described below.

The **Audit Committee** is responsible for the oversight of Investcorp Bank's internal audit, external audit, risk management and compliance functions. Investcorp Bank's external auditor and both the head of the Internal Audit department and the head of the Risk Management department report to the Audit Committee.

The members of the Audit Committee are appointed by the Board of Directors, and the Committee currently has four members. Consistent with Module HC, none of the members of the Audit Committee has any other Board responsibilities that could conflict with his obligations as a member of the Audit Committee. The Audit Committee is required to meet at least four times each fiscal year.

The responsibilities of the Audit Committee include:

- the appointment and termination, where appropriate, of the external auditor;
- determining the independence of the external auditor once a year;
- reviewing and discussing with the external auditor the scope and results of the audit of Investcorp Bank's financial statements and the audited financial statements and the reviewed half-year financial statements;
- the appointment and termination, where appropriate, of the head of the Internal Audit department and reviewing the budget allocated to the Internal Audit department;
- reviewing the adequacy of Investcorp Bank's internal audit personnel and procedures;
- reviewing the adequacy of Investcorp Bank's internal controls and compliance procedures and reviewing the budget allocated to the Compliance department;
- reviewing the risk management function, including the independence and authority of its reporting obligations and reviewing with the head of Risk Management the adequacy and effectiveness of Investcorp Bank's risk management policies and methodologies; and
- overseeing Investcorp Bank's compliance with legal and regulatory requirements and ensuring that Investcorp Bank communicates with shareholders and relevant stakeholders (internal and external) openly and properly.

The **Corporate Governance Committee** is responsible for overseeing Investcorp Bank's corporate governance. The members of the Corporate Governance Committee are appointed by the Board of Directors, and the Committee currently has four members.

The Corporate Governance Committee was formally established by the Board of Directors in January 2011 and it met for the first time in April 2011. The Corporate Governance Committee is required to meet at least two times a year.

The Corporate Governance Committee's responsibilities include:

- developing for consideration and approval by the Board of Directors, and recommending changes to the Board of Directors from time to time in, corporate governance guidelines, which constitute Investcorp Bank's corporate governance policy framework;
- overseeing Investcorp Bank's implementation of the Corporate Governance Code of the Kingdom of Bahrain;
- overseeing a formal and tailored induction program for newly appointed Directors, to which current Directors may be invited; and
- overseeing Directors' corporate governance educational activities.

The **Executive Committee for Administrative Policy** functions as (i) a nominating committee; (ii) a remuneration committee; and (iii) an administrative policy committee. The members of the Executive Committee for Administrative Policy are appointed by the Board of Directors, and the Committee currently has four members. The Committee is required to meet at least two times a year.

When acting as a nominating committee, its responsibilities include:

- making recommendations from time to time regarding changes to the size of the Board of Directors that the Committee believes to be desirable;
- when a vacancy on the Board of Directors arises, identifying persons qualified to become members of the Board of Directors and recommending a person to fill such vacancy, either through appointment by the Board of Directors (if a current Director ceases to serve on the Board of Directors) or by the shareholders (if a vacancy will arise due to the shareholders approving an increase in the size of the Board of Directors);

- identifying Directors qualified to fill any vacancy on any Committee of the Board of Directors; and
- identifying persons qualified to become the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of Investcorp considered appropriate by the Board of Directors except for the head of Internal Audit, which is the responsibility of the Audit Committee.

When acting as a remuneration committee, its responsibilities include:

- considering and making recommendations to the Board of Directors regarding remuneration policies for the Directors and senior management and policy guidelines to be used in evaluating a senior manager's performance;
- considering and making recommendations to the Board of Directors regarding the remuneration to be paid to Directors;
- considering and making recommendations to the Board of Directors regarding the remuneration to be paid to the Chief Executive Officer and other members of senior management;
- reviewing and approving the Chief Executive Officer's recommendations for compensation to be paid to each other employee of Investcorp; and
- evaluating the performance of the Chief Executive Officer in light of corporate goals, agreed strategy and objectives and business plans.

When acting as an administrative policy committee, its responsibilities include:

- reviewing and approving the Chief Executive Officer's recommendations for corporate and administrative policies;
- reviewing and approving the Chief Executive Officer's recommendations for capital expenditures;
- overseeing charitable contributions by Investcorp; and
- as required by Investcorp's Conflicts of Interest Policies and Procedures for members of the Board of Directors and senior management, considering any report of an actual or potential conflict of interest involving any Director or member of senior management and making a recommendation to the Board of Directors regarding such actual or potential conflict of interest.

The **Executive Committee for Investment Policy** is responsible for overseeing investment policy. The members of the Committee are appointed by the Board of Directors, and the Committee currently has four members. The Committee is required to meet at least twice each fiscal year.

The Committee's responsibilities include:

- reviewing and approving Investcorp's corporate funding plan for each fiscal year;
- reviewing and approving Investcorp's budget for each fiscal year;
- evaluating Investcorp's investment processes and recommending enhancement to those processes; and
- taking action with respect to any other matter relating to the oversight of Investcorp's investment processes.

The names of the members of each of the Executive Committees, their attendance at their relevant Executive Committee meetings during Fiscal Year 2012 and the aggregate remuneration proposed to be paid to Directors for their Executive Committee service during Fiscal Year 2012 is reported in the Fiscal Year 2012 Corporate Governance Report.

During Fiscal Year 2012, the Board of Directors evaluated the performance of the Board of Directors as a whole, each Executive Committee and each Director and the Board will continue such evaluations each year going forward. Information regarding the evaluation conducted during Fiscal Year 2012 is presented in the Fiscal Year 2012 Corporate Governance Report.

A report regarding the evaluations conducted each year also will be provided at each Ordinary General Meeting of Shareholders beginning with the Ordinary General Meeting of Shareholders to be held in September 2012.

For information regarding related party transactions, please see Note 25 to the consolidated financial statements of Investcorp Bank.

The Board of Directors has adopted Conflicts of Interest Policies and Procedures that apply to the Directors and all members of senior management. These policies and procedures prohibit certain activities and require the disclosure of any existing or potential conflict of interest to the Executive Committee for Administrative Policy. In addition, to ensure that any existing or potential conflict of interest is identified, Directors and members of senior management are required to periodically complete a questionnaire. The questionnaire requires disclosure of the companies in which directorships are held and interests in other entities (whether as a shareholder of 5% or more of the voting shares, a manager or some other form of significant participation).

The Board of Directors has approved a revised version of the Investcorp Group Code of Conduct, which has been revised so that it is aligned with the requirements of Module HC. On an annual basis, all Investcorp employees are required to certify in writing their compliance with the Code of Conduct. A copy of the Code of Conduct is printed as an Annex to the Fiscal Year 2012 Corporate Governance Code.

Transparency for other stakeholders

It is the policy of Investcorp Bank to provide to its shareholders, clients, creditors and other stakeholders public disclosure that is fair, transparent, comprehensive and timely, and the Board of Directors has adopted a Public Disclosure Policy and Procedures Statement which includes internal review procedures to ensure that the standards of this policy are satisfied. In accordance with this Policy and Procedures Statement, all information relating to Investcorp that is publicly disclosed is made available on Investcorp's website promptly after such disclosure is made and Investcorp Bank's financial statements for at least the last three years are maintained on the Investcorp website at all times. A copy of the Public Disclosure Policy and Procedures is available on Investcorp's website.

In addition to publishing its annual audited financial statements, Investcorp Bank publishes its unaudited financial statements for the first six months of its financial year (July-December) and shareholder updates for the first three (July-September) and nine months of its financial year (July-March). An annual shareholders meeting, in addition to the Ordinary General Meeting of Shareholders, provides further information and an opportunity for an exchange of opinions and ideas. The Placement and Relationship Management ('PRM') team and several senior members of the management team also periodically meet with shareholders in one-to-one meetings. Clients have direct, on-going access to the PRM team and investment professionals. Clients are provided with a detailed review of each investment in their portfolio every six months, and they regularly meet with PRM team members to discuss their current portfolio and new investment opportunities. Periodically, clients have the opportunity to meet the management teams of their portfolio companies. Lenders receive semi-annual updates on the health of the business and have direct, on-going access to the members of the corporate financial management team, usually through one-to-one communications.

iii. Investcorp's management structure and collective decision-making. Investcorp's senior management team adopts a collective decision-making style, which is reflected by the committees described below.

Investcorp is managed on a day to day basis by and under the direction of Mr. Kirdar, the Executive Chairman and Chief Executive Officer, and five senior executive officers who report directly to Mr. Kirdar. These senior executive officers are: the Chief Financial Officer, the Chief Administrative Officer, the President, Gulf Business, the Chief Executive Officer, North America and the Chief Executive Officer, Europe.

Mr. Kirdar and these five senior executive officers comprise the Coordinators Committee, which meets frequently to discuss Investcorp's operations and performance.

The members of the Coordinators Committee, together with the senior executives in charge of Investcorp's investing lines of business (the 'Investing LOBs') and senior PRM executives who are in charge of the PRM geographical teams that target Investcorp's Gulf markets comprise the Management Committee. The Management Committee is a consultative body for the management of Investcorp.

Each Investing LOB has an Investment Committee that is comprised of senior executives within that LOB and a senior executive from another Investing LOB. Each Investment Committee is responsible for vetting and approving its LOB's potential investment transactions, with a particular focus on the results of due diligence that has been performed regarding any key commercial, financial and/or legal issues that have been identified in the investigation of a potential investment. The Investment Committee also considers potential divestment transactions.

Potential investments that are proposed to be placed with Investcorp's clients in the Gulf are reviewed at an early stage by the Placement Committee, which is comprised of senior PRM executives. The role of the Placement Committee is to assess the attractiveness of a potential investment to Investcorp's Gulf clients, which is relevant to Investcorp's underwriting risk.

Potential investments also are subject to the review and approval of the Risk Committee, the members of which include the Chief Financial Officer, the head of the Risk Management department and the senior executives in charge of the Investing LOBs. The Risk Committee evaluates proposed investments based upon their risk-return profile on a stand-alone basis as well as on a portfolio basis and it receives a report from the Risk Management department on the results of its independent risk analysis of each proposed investment that will be placed with Investcorp's clients in the Gulf. Potential divestments are also subject to the review and approval of the Risk Committee.

Subject to the approval of the Audit Committee and the Board of Directors, the Financial and Risk Management Committee guides and assists with the overall management of Investcorp's risk profile on an enterprise-wide basis. This Committee is comprised of senior management drawn from key areas of Investcorp and includes the head of Treasury and the head of Risk Management.

The final required step in the process of approving proposed investments and divestments is the approval of the Investment Council, which is comprised of senior Bahrain-based executives.

REGULATION

As a Bahrain based bank, Investcorp is licensed by the CBB, and all of Investcorp's activities are subject to comprehensive regulation by the CBB. In addition, Investcorp's Ordinary Shares are listed on the Bahrain Bourse and Investcorp is subject to the regulations of the Bahrain Bourse.

Investcorp Bank has a UK subsidiary that acts as an arranger of corporate finance transactions. This subsidiary is registered with and regulated by the UK Financial Services Authority.

Investcorp Bank has one subsidiary that is registered with and regulated by the US Securities and Exchange Commission (SEC) and the US Financial Industry Regulatory Authority as a broker-dealer. Investcorp also has two subsidiaries that are registered with and regulated by the SEC as investment advisers. One of these subsidiaries is also registered with and regulated by the Cayman Islands Monetary Authority ('CIMA'). Two other Investcorp Bank subsidiaries are registered with and regulated by CIMA in connection with the performance of investment-related services. In addition, many of the funds included in the hedge funds business are registered with and regulated by CIMA and the CBB, and the Gulf Opportunity Funds are registered with the CBB.

Investcorp Saudi Arabia Financial Investments Co. is licensed by the Saudi Arabian Capital Market Authority to market Investcorp's various investment products in Saudi Arabia.

BALANCE SHEET

Investcorp's overall philosophy is to maintain a conservative balance sheet, based on a high level of liquidity with access to medium and long term funding, modest leverage and capital adequacy well in excess of minimum requirement levels. The corporate financial management group has oversight and responsibility for management of the balance sheet structure and implements strategy and policies within a framework set by the Financial and Risk Management Committee (FRMC), under the oversight of the Board of Directors' Audit Committee and the Board of Directors.

This conservative approach to balance sheet management is a deliberate strategy to mitigate the impact of refinancing and liquidity risk on Investcorp's business model of originating and syndicating alternative assets, and its on-going commitment to stakeholder alignment by way of co-investing its balance sheet alongside investors in all its products. It also seeks to immunize the business from market liquidity stresses or forced refinancing of debt facilities during sustained periods of economic difficulty.

Liquid assets are principally composed of 'core' cash liquidity pools and accessible liquidity held in the form of hedge fund co-investments. Total liquidity, with varying risk/return profiles, is structured to have a low correlation with returns on Investcorp's other major asset category, its portfolio of medium-term co-investments in corporate investment and real estate investment. The ability to access a significant part of Investcorp's balance sheet in the short-term also acts as a major counter-balance to the illiquid nature of other assets.

Investcorp's capital adequacy ratio under Basel requirements is targeted to remain well above regulatory minimums and is intended to keep it in the tier of the best-capitalized banks globally.

Ratings

Investcorp aims for an investment-grade BBB equivalent rating over the medium term. Rating agencies and lenders profile Investcorp as non-Gulf based credit risk, given that almost all of the Group's assets are held under Investcorp S.A., a non-Gulf entity. As a matter of course, certain loan covenants require that Investcorp S.A. owns at least 95% of Investcorp's consolidated group assets.

Some of the key themes referred to by the rating agencies in their reports are:

- diversification benefits inherent to the business model from the establishment and growth of new business lines;
- strong client franchise with high degree of brand name recognition and respect in the Gulf region;
- the strength and longevity of tenure of the management team; and
- the conservative balance sheet management approach for liquidity, funding and capital.

The global markets crisis in FY09 impacted Investcorp's investment business and its balance sheet capitalization. Taking this into account and consistent with the broad wave of actions across the financial services industry, the rating agencies downgraded Investcorp's ratings to reflect the tough environment faced by the alternative investments sector at that time and the uncertain macro-economic outlook. Investcorp recognized these challenges by deleveraging and strengthening its balance sheet through risk reduction and capital raising measures in order to support an eventual return to an investment grade credit rating in the future.

Liquidity management

Investcorp targets a high level of accessible liquidity. This is achieved by a combination of on-balance sheet liquidity, held in the form of invested short tenor liquid assets, and off-balance sheet liquidity, in the form of undrawn committed revolving bank facilities. The credit environment and the reliability of interbank markets will dictate the actual mix between off-balance sheet and on-balance sheet liquidity that Investcorp chooses to hold at any particular time.

Investcorp's corporate treasury manages one portion of the liquidity pool through holding government bonds, placements with banks or externally managed cash funds, while the second portion of the liquidity pool is co-invested in Investcorp's hedge funds platform alongside its clients.

Liquid assets provide diversification from the illiquidity risks of Investcorp's second dominant category of balance sheet assets, co-investments in corporate investment and real estate investment. Other than the three months ended November 2008, liquid assets have historically produced a strong stream of recurring asset-based income, providing an offset to interest expense and fixed operating costs.

Investcorp's on-balance sheet liquidity is supplemented by off-balance sheet liquidity in the form of committed medium-term revolving credit facilities provided by close relationship banks. Such facilities are mainly used in the normal course of business for acquisition underwriting of new corporate investment or real estate investment deals prior to placement with clients, which usually takes between four to eight weeks. Bank revolvers, therefore, supplement core liquidity, and together they provide a pool of accessible liquidity to underwrite multiple acquisitions, without having to redeem a portion of the hedge fund co-investment for short-term working capital requirements.

Investcorp stress tests its liquidity on a regular basis to ensure that it has sufficient cash in the near-term to meet unforeseen obligations. This worst-case stress scenario assumes: (i) the disappearance of almost all short-term funding sources; (ii) accelerated repayment of client call deposits; (iii) below par performance of liquidity pools; and (iv) a need to provide additional capital support to portfolio companies. To meet obligations in such a situation, Investcorp would dip into its internally managed cash pool or into the externally managed cash and hedge funds pools. Testing indicates that consequently, even in such a worst-case stress scenario, Investcorp would still have a reasonable level of liquidity to maintain diversification of risks on the balance sheet.

Funding structure

The conservative approach to balance sheet structure is also applied to Investcorp's funding activity. Investcorp's strategy is to maintain strong lender relationships, provide lenders with continual dialogue on business developments and financial results, and to be responsive on issues and questions that arise. A prudent approach to financial management has led to a deliberate strategy to secure long- and medium-term funding from a geographically diverse lender base. Investcorp has a positive structural funding gap where the average maturity of liabilities has consistently been longer than the average maturity of its assets. This has been achieved from the traditional global medium-term club and syndicated bank loan markets, together with capital markets transactions such as private placements with institutional investors.

Refinancing requirements are managed to avoid maturity concentration in any given period, and the Company continually reviews opportunities to access new financing markets or sources with new funding products. In FY10, Investcorp completed a debt financing with core relationship banks that included forward start features on a combination of term loans and revolving credit facilities. As a result of the changes to capital and liquidity proposed under Basel III and the possible impact on relationship bank lending activity, Investcorp will also consider public bond transactions for balance sheet financing in the future.

Investcorp's medium-term funding comprises committed bank facilities (drawn and revolving), capital markets notes and a portion of committed client deposits that are not on call. When the financing environment permits, this pool is targeted to have staggered maturities to reduce repayment or refinancing concentration and to match the medium-term nature of Investcorp's working capital cycle.

Investcorp's long-term funding comprises capital markets financings with original maturities up to 30 years, including private placements with US, Asian and European insurance companies and pension funds.

A combination of high liquidity and committed term funding with actively managed maturities aims to provide adequate coverage, in a worst-case scenario, for all near- and medium-term debt repayments.

Leverage

Consistent with its overall conservative approach to balance sheet management, Investcorp aims to maintain a moderate leverage ratio, using debt where appropriate and ensuring a sufficient amount of accessible liquidity for short-term underwriting of new acquisitions. Although Investcorp has traditionally operated with a leverage of between two and three times, the de-leveraging initiatives of FY09, FY10 and FY11 have reduced leverage to below two times and Investcorp's strategy is for a continuing decline in the leverage ratio over the medium-term.

Investcorp calculates leverage as total liabilities (excluding temporary liabilities that are generally transient deposits with expected maturities of less than three months) divided by the equity capital base. Two event-specific activities temporarily inflate total liabilities. The first is drawdowns on revolving term facilities to fund corporate investment and real estate investment acquisitions before placement with clients. These are self-liquidating on receipt of client funds, generally within one to two months. The second is the receipt of transitory client funds relating to proceeds from deal exits, prior to distribution, and the receipt of client funds pending investment in hedge funds, which are temporarily deposited with Investcorp. These are also self-liquidating.

Investcorp does not count these two temporary liabilities in its leverage calculations, unless they remain on the balance sheet for more than three months.

The notional leverage calculation above reflects a very basic measure of financial risk. It does not give any benefit to the fact that a proportion of borrowed money may be retained in the form of accessible liquidity. Nevertheless, Investcorp is comfortable with its targeted leverage levels, given that a continuous and thorough analysis of risks on the balance sheet is used to determine and ensure capital adequacy under severely stressed scenarios.

While Investcorp does manage its balance sheet with the notional leverage ratio in mind, it also focuses on risk capital, which is, in Investcorp's opinion, a more holistic measure of the risks on the balance sheet and is described in the following section on risk management. Investcorp aims to size its capital base so it can withstand a prolonged stressed environment as well as event risks, while its cash flow and liquidity position can cover interest and debt repayment obligations.

RISK MANAGEMENT

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

The Asset and Liability Council ('ALCO') which is chaired by the CFO and includes the head of Risk Management, head of Treasury and other senior members of the corporate financial management group, assesses and reviews various balance sheet risks arising from treasury activities on an on-going basis and decides on mitigation strategies for these risks. The ALCO is overseen by the FRMC, which is the risk management oversight committee that evaluates all tactical actions proposed and undertaken to manage the balance sheet and attendant risks from the standpoint of Investcorp's business model, funding profile, liquidity position, capital base and on-going operations in line with the Audit Committee and Board-approved risk policies manual. In addition, separate risk review forums are used for each line of business (e.g., investment committee and the risk committee for corporate investment, hedge funds and real estate investment) to determine specific risks surrounding each new investment, and actions to be taken to mitigate these.

TYPES OF RISK

Investcorp groups its predominant risks under the following categories:

- counterparty credit risk Note 22(i)*;
- funding liquidity risk Note 22(ii)*;
- concentration risk Note 22(iii)*;
- foreign currency risk Note 22(iv)(a)*;
- interest rate risk Note 22(iv)(b)*;
- equity price risk Note 22(iv)(c)*; and
- operational risk Note 22(v)*.

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

Interest rate/currency risk management

Assets and liabilities give rise to interest rate risk if changes to the level of interest rates impact the value of future cash flows generated from assets or the value of future cash flows paid in respect of liabilities. The exposure of Investcorp's balance sheet to interest rate risk is frequently measured and monitored using sophisticated risk management tools that provide in-depth analysis across all investment and funding sources. The amount of interest rate sensitivity of the balance sheet at June 30, 2012 is shown in Note 22(iv)(b)* of the financial statements of Investcorp Bank B.S.C.

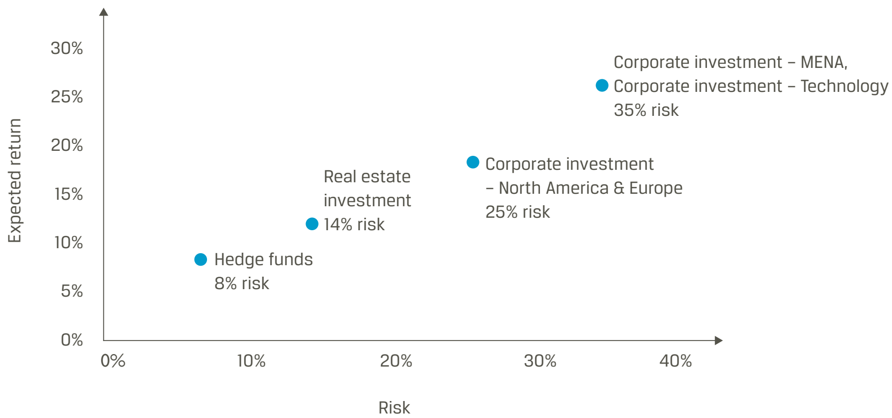
Investcorp's management team maintains a strategic position, unchanged from prior years, that shareholders' equity is best protected from interest rate risk in the long run by maintaining a floating rate funding strategy. This strategy is supported by research of both practitioners and academics. Overlaying this strategy, Investcorp uses a combination of interest rate derivatives in order to protect against large movements in interest rates, while at the same time preserving the benefit of potential lower rates. Investcorp does not take any material foreign exchange positions on its assets and liabilities denominated in currencies other than US dollars. Investcorp systematically hedges significant non-dollar asset and liability exposures in the forward foreign exchange market or by using currency derivatives. The small amount of residual net foreign currency exposure is shown in Note 22(iv)(a)* of the consolidated financial statements of Investcorp Bank B.S.C.

On a related issue, the potential increase in collateral requirement following a credit rating downgrade of Investcorp is assessed by risk management during the quarterly cash flow analysis under normal and stressed conditions.

*References are to footnotes in the fiscal 2012 Investcorp Bank B.S.C. consolidated financial statements.

Line of business investment risks

The following graph summarizes the risk and return profiles of investments within each line of business based on internal analysis. The risk/return statistics are all ex-ante, reflecting the future expected return environment and the specific risks of existing investments. These specific risks are impacted by sector diversification and relative size of investments.



Corporate investment. Corporate investment risk is a significant component of the balance sheet and is, therefore, a key focus of analysis for the risk management team. The investment risk that is particular to the mid-cap corporate investment – North America & Europe business is mitigated by a set of tools that are used at all stages of the investment process. At pre-acquisition, the risk management team works alongside the deal team to implement risk analyses based on the target company's business plan. This enables identification of how the target company might perform under various scenarios, focusing, where appropriate, on specific characteristics of the deal. Sensitivity analysis and risk contribution of identified drivers to the main outcomes (EBITDA, IRR) are essential elements of the risk assessment. The analysis is performed in addition to the extensive due diligence undertaken by the corporate investment team and enables the measurement of the target company's risk compared to previous deals undertaken by Investcorp, as well as the fit of the target company from a client portfolio and balance sheet retention perspective.

Once a company is acquired, Investcorp takes a portfolio approach to evaluate the risk impact of the investment on the balance sheet. The risk management team regularly performs such risk analyses to ascertain how the risks of the portfolio change over time and how it relates to internal limits and guidelines. Individual underwriting and sector exposure limits are imposed in order to manage any concentration risks. Finally, when exiting a portfolio company, hedging strategies may be used to mitigate risks associated with the exit process and to protect the expected realization proceeds from downside risks.

As in Investcorp's corporate investment - North America & Europe business, the goal in technology and MENA investing is to seek returns that justify the risk being taken. The higher risks of technology and MENA investing are alleviated through the following:

- fund approach to investment;
- smaller investment exposures in a broad range of investments;
- seeking out later-stage or pre-IPO investments, rather than providing early-stage seed capital;
- working in conjunction with recognized and proven partners;
- focusing on proven business prospects, rather than concepts;
- taking board-level representation with appropriate minority protections; and
- establishing protection in the financing structure with liquidation preference.

Throughout the investment cycle, there is a strong emphasis on due diligence and proactive post-investment management. In addition to risk-mitigating processes, all investment proposals are scrutinized rigorously by the relevant investment committee and the risk committee prior to final approval.

Hedge funds investment. Investcorp manages its hedge funds portfolio risk both from a market strategy and manager selection perspective. The most prevalent market risks emanate from an unfavorable market environment or from strategy-specific risks such as illiquidity. Manager risks include style drift, underperformance, excessive risk taking, fraud/valuation errors and legal/documentation errors. Investcorp mitigates these risks through manager due diligence and selection, diversification, use of separate accounts, monitoring, stress testing, transparency and control of leverage. The availability of portfolio detail, through the use of separate accounts and pre-negotiated transparency with hedge funds managers, enables a more complete risk analysis, as well as meaningful strategy-specific exposure and profit attribution analyses.

The various risks related to the hedge funds portfolio are monitored and managed through a well-developed process and infrastructure that provides significant mitigants. These include:

- strategic asset allocation – generating a core portfolio range with expected volatility within guidelines for the program; and
- tactical asset allocation – ensuring flexibility to adjust within a range set by the strategic allocation process in light of prevailing macro-economic opportunities.

Investcorp's risk management philosophy is to diversify the hedge funds portfolio across managers and strategies. Allocations to individual managers are capped at less than 10% of the portfolio to protect against manager concentration risks. Manager selection is based on extensive due diligence with an emphasis on investment style, philosophy and risk management discipline. Each manager's track record is analyzed, focusing on performance in periods of market volatility, while the manager's operating infrastructure is also reviewed regularly to ensure the presence of appropriate controls and procedures. Investcorp maintains a 'watch list' for those managers whose risk profiles or performance levels deviate from targeted guidelines, with a view to redeeming the investment with such managers if the deviations are not corrected.

One of Investcorp's competitive strengths is the process by which it increases transparency. For example, it establishes separate accounts with managers, thereby controlling leverage and undesirable exposures. About two-thirds of invested assets are transparent, either by way of separate accounts or position-level details, which are accessible by Investcorp's quality assurance unit. This unit monitors manager adherence to investment guidelines and independently verifies valuations. While investment in hedge funds is designed to have a low level of correlation to various markets, liquidity can temporarily decrease during periods of extreme stress, and correlations between previously independent strategies may increase, as occurred during the last quarter of calendar year 2008 and has occurred to a lesser extent during FY12. The hedge funds team is mindful of these risks and has incorporated specific actions in its asset allocation, monitoring guidelines and separate accounts in order to cushion or mitigate these risks during periods of extreme market volatility and stress.

Real estate investment. Risk management strategies used for corporate investment are also employed to mitigate risks associated with the acquisition and retention of real estate investments. The real estate investment team further mitigates specific risk in three ways:

- concentration on high quality, income producing properties with high occupancy rates;
- establishment of partnerships with regional professionals, enabling access to local knowledge and reputation; and
- use of conservative capital structures aimed at protecting properties against the negative impact of interest rate and/or occupancy fluctuations.

To this end, the team monitors interest rate and occupancy sensitivities on each property, both prior to acquisition and during the ownership phase. This process serves to identify and assess conditions and levels that may cause the property to incur cash flow difficulties.

The team is proactive in managing properties that show signs of potential difficulties. Risk management tools are used at all stages of the real estate investment process from pre-acquisition through to realization. During pre-acquisition, the risk management team works alongside the real estate investment team to implement a detailed risk analysis based on the target investment's financial projections. This allows identification of how the property might perform under various scenarios, focusing, where appropriate, on specific characteristics of the investment. In addition to this analysis, the extensive due diligence undertaken by the real estate team allows Investcorp to gauge the target property's risk compared to previous deals undertaken, as well as to gauge the fit of the target property from both client portfolio and balance sheet retention perspectives.

Once an investment is made, Investcorp takes a portfolio approach to evaluate the risk impact of the investment on the balance sheet. The risk management team regularly performs such risk analyses to ascertain how the risks of the portfolio change over time and how they relate to internal investment exposure limits and guidelines.

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 per cent 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.

ADEQUACY OF ECONOMIC CAPITAL

Investcorp uses an enterprise VaR-like approach to determine economic capital adequacy for the combination of all balance sheet risks, while maintaining sufficient flexibility to facilitate future growth plans and protect against periods of prolonged and extreme stress in the company's operating environment, execution or performance.

Investcorp uses a risk-based capital allocation approach as the main tool to manage internal economic capital. Over the years Investcorp has been continuously assessing its economic capital methodology to take into account any increased risk premium, volatility and correlation for all asset classes. In designing the risk capital methodology, Investcorp maintains a risk capital allocation that is independent of any specific market recovery expectations, accounting rule changes and correlation assumptions. The economic capital charge, which is updated quarterly, is based on market volatility, risk premiums and correlations. Also, Investcorp continues to use the conservative assumption of 100% correlation between asset classes to provide an embedded cushion for protection against model risk inherent in model choice, model parameters estimation and model errors. Most importantly, the correlation constraint allows for an embedded cushion that will be anti-cyclical, since it is set for crisis like situations when asset correlation goes to one. Investcorp also applies the requirement of an explicit equity capital cushion (equal to total book equity capital minus total economic capital charges) that is set and monitored by ALCO and covers new business initiatives, operational risk and market stress events. This equity cushion provides for a buffer against potential exposures, as opposed to existing exposures, under normal and stressed market conditions. The current equity capital cushion methodology will continue to be used to cover the aforementioned risks. However, reviews of said risks and the suitability of the equity cushion are conducted on a regular basis.

This conservative approach to economic capital takes into account the illiquid nature of the underlying portfolios of corporate and real estate co-investments. The economic capital allocation is the linear sum of independently assessed risk capital charges for each business line, non-co-investment assets (loans, advances etc.) and the positive impact of any tail risk hedging strategies executed for the Investcorp balance sheet.

Investcorp uses two complementary approaches to determine economic capital:

- Economic capital over one year: the aggregate Economic Capital requirement over a one-year horizon given by a 99th percentile VaR-like risk approach which is based on multifactor and credit models for corporate investment and real estate investment and a Monte Carlo simulation and bottom-up analysis for hedge funds.
- Long-term economic capital: dynamically modelled by considering organic business objectives and capital requirements to support these. This is based on a Monte Carlo based proprietary long range plan model which estimates the equity cushion at the 99th percentile loss over a five-year horizon across varying economic/operating environments. The model, which incorporates bottom-up input from all businesses regarding base case expectations and variability, is used to project the financial condition of the company at the end of each of the next five years. The Monte Carlo simulations then project several thousand P&L and balance sheet scenarios, with the focus being on the amount of economic capital cushion in the bottom 1% of simulated projections (termed the 'stress-case of the equity cushion'). A stress-case scenario represents multiple and simultaneous stressed conditions across all lines of business over an extended period of time. The objective is to maintain a capital cushion, even in such stress-case scenarios, that will ensure solvency and flexibility for business initiatives. This model has been under review to take into consideration the current market conditions and new balance sheet plans of deleveraging and derisking.

Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2012

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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

NEMIR A. KIRDAR	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.

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2012

$000s	Preference share capital	Ordinary share capital	Reserves: Share premium	Reserves: Statutory reserve	Reserves: General reserve	Reserves: 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**

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.

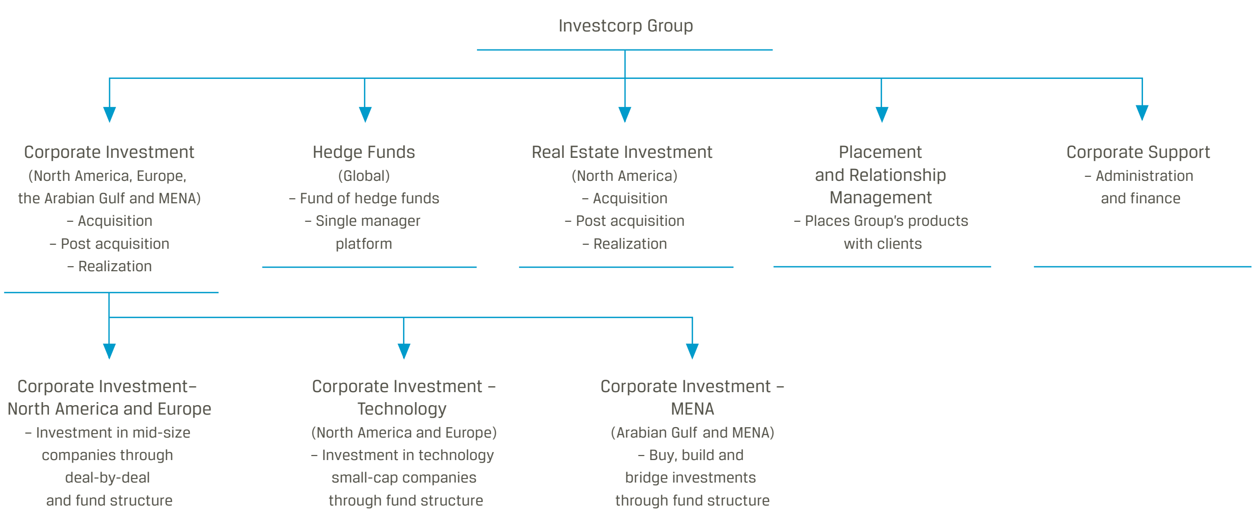
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

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.

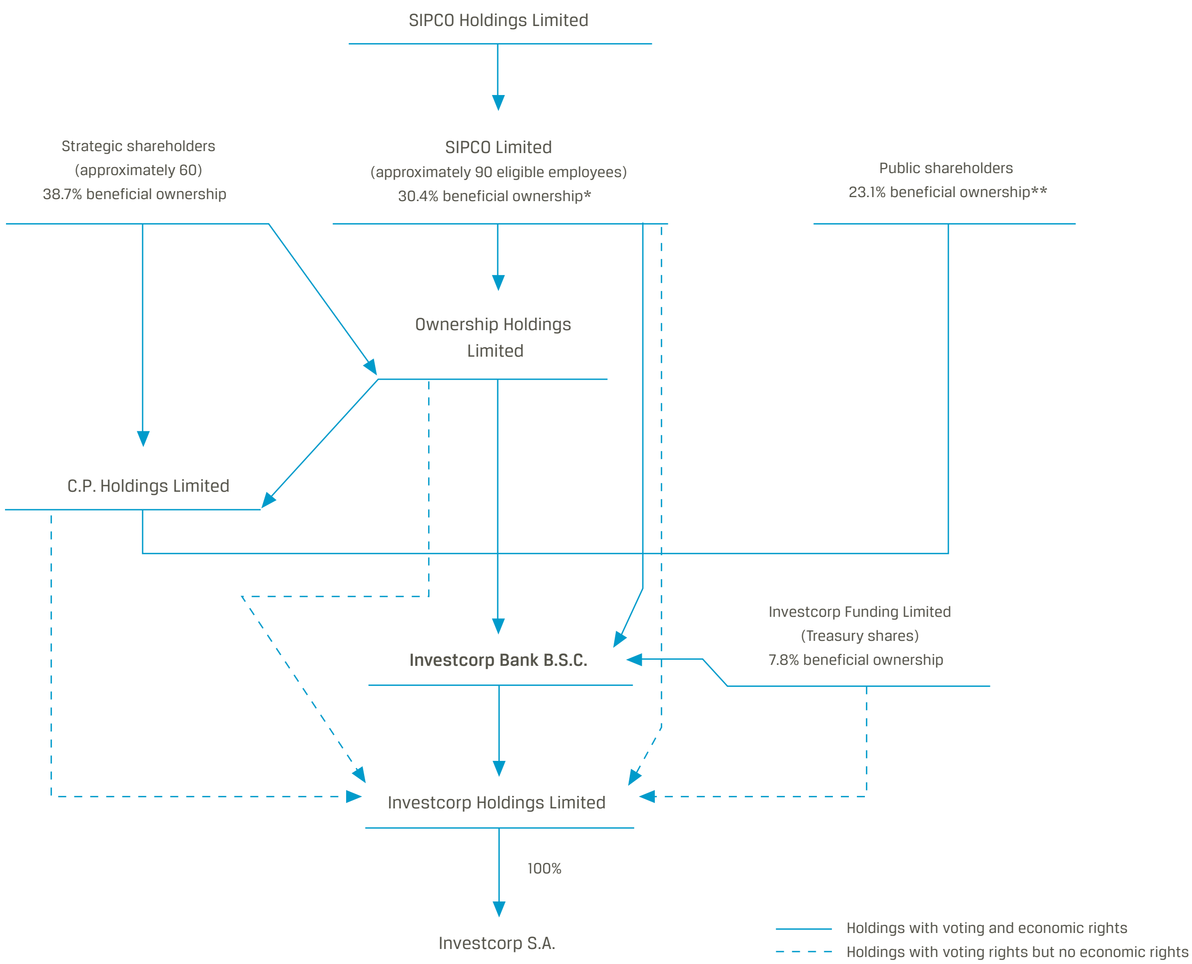
(ii) Activities

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

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

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.

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

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

June 30, 2011

$000s	Neither past due nor impaired (a) – Credit risk rating: 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.

	June 30, 2011							
$000s	Up to 3 months	>3 months up to 1 year	Sub-Total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
ASSETS								
Cash and short-term funds	24,649	–	24,649	–	–	–	–	24,649
Placement with financial institutions and other liquid assets	328,395	10,000	338,395	3,000	–	–	–	341,395
Positive fair value of derivatives	4,211	2,935	7,146	5,333	465	25,924	6,165	45,033
Receivables and prepayments	136,324	95,230	231,554	68,882	–	–	–	300,436
Loans and advances	330	9,741	10,071	158,926	–	835	–	169,832
Co-investments								
Hedge funds	376,423	125,591	502,014	105,384	–	–	–	607,398
Corporate investment	–	32,743	32,743	1,088,992	–	–	–	1,121,735
Real estate investment	–	42,090	42,090	146,748	–	–	–	188,838
Premises, equipment and other assets	166	–	166	18,322	32,531	8,216	–	59,235
Total assets	870,498	318,330	1,188,828	1,595,587	32,996	34,975	6,165	2,858,551
LIABILITIES								
Deposits from financial institutions	–	–	–	–	–	–	–	–
Deposits from clients – short-term	318,028	–	318,028	–	–	–	–	318,028
Negative fair value of derivatives	2,421	5,933	8,354	5,473	–	955	8,022	22,804
Payables and accrued expenses	173,883	15,965	189,848	12,673	–	–	–	202,521
Deposits from clients – medium-term	–	–	–	95,309	–	–	–	95,309
Medium-term debt*	–	68,183	68,183	516,729	–	–	–	584,912
Long-term debt	–	52,828	52,828	46,157	–	434,447	41,208	574,640
Total liabilities	494,332	142,909	637,241	676,341	–	435,402	49,230	1,798,214
Net gap	376,166	175,421	551,587	919,246	32,996	(400,427)	(43,065)	
Cumulative liquidity gap	376,166	551,587	551,587	1,470,833	1,503,829	1,103,402	1,060,337	

* Does not take 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.

$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
	June 30, 2011						
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:

$000s	June 30, 2012 Assets exposed to credit risk	June 30, 2012 Off-balance sheet items exposed to credit risk	June 30, 2012 Total credit risk exposure	June 30, 2011 Assets exposed to credit risk	June 30, 2011 Off-balance sheet items exposed to credit risk	June 30, 2011 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

$000s	June 30, 2012 Assets exposed to credit risk	June 30, 2012 Off-balance sheet items exposed to credit risk	June 30, 2012 Total credit risk exposure	June 30, 2011 Assets exposed to credit risk	June 30, 2011 Off-balance sheet items exposed to credit risk	June 30, 2011 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 Increase	Projected balance sheet exposure Decrease	Impact on income Increase	Impact on income 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 Increase	Projected balance sheet exposure Decrease	Impact on income Increase	Impact on income 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.

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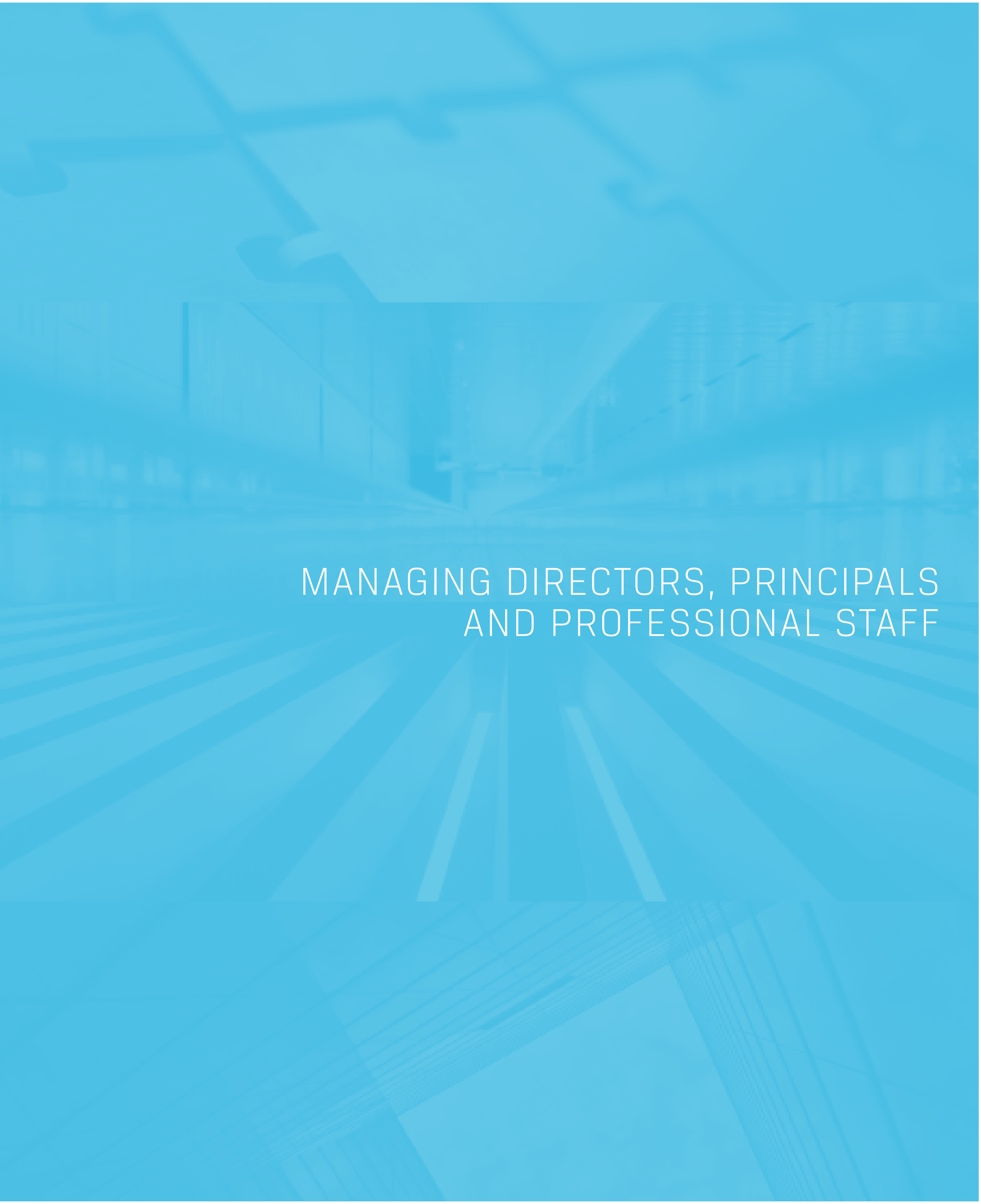

MANAGING DIRECTORS, PRINCIPALS AND PROFESSIONAL STAFF

MANAGING DIRECTORS

Ramzi AbdelJaber
Corporate Development
Joined Investcorp: 2004
Prior experience: The Middle East North Africa Financial Network (4), McKinsey & Co. (2), Integrated Business Solutions (1), Andersen Consulting (1)

Firas El-Amine
Corporate Communications
Joined Investcorp: 2007
Prior experience: Dubai Holding (3), Alsalam Holding (2), Impact & Echo (2)

Mark I. Bandak
Corporate Investment — MENA
Joined Investcorp: 2011
Prior experience: The Blackstone Group (13), Millbrook Capital (2), Economic Development Corporation (2), Smith Barney Inc. (2)

Hazem Ben-Gacem
Corporate Investment — Technology
Joined Investcorp: 1994
Prior experience: Credit Suisse First Boston (2)

Stephanie R. Bess
Legal and Compliance
Joined Investcorp: 2005
Prior experience: Gibson, Dunn & Crutcher (8), Dechert (19)

Deborah J. Botwood Smith
Corporate Communications
Joined Investcorp: 1999
Prior experience: Coutts NatWest Group (3), Visa International (6)

Tristan de Boysson
Corporate Investment — MENA
Joined Investcorp: 1998
Prior experience: McKinsey & Co. (7), Rhône-Poulenc (6)

N. David Bruce
Hedge Funds
Joined Investcorp: 2010
Prior experience: Barclays Global Investors (12), California Federal Bank (5), Barnett Bank (1)

Hassan Chehime
Risk Management
Joined Investcorp: 2007
Prior experience: Millennium Partners (1.5), Société Générale (3), Merrill Lynch (3.5)

David Cranston
Hedge Funds
Joined Investcorp: 2012
Prior experience: North Creek Advisors (1), Investcorp (5), Channel Capital Group (3), Lehman Brothers (2), Barclays Capital (3), JPMorgan (2)

F. Jonathan Dracos
Real Estate Investment
Joined Investcorp: 1995
Prior experience: George Soros Realty Fund (1), Jones Lang Wootton Realty Advisors (5), Chemical Bank (3)

Dominic Elias
Human Resources & Compensation Administration
Joined Investcorp: 2010
Prior experience: The Blackstone Group (0.5), Towers Perrin (1.5), Morgan Stanley (11)

Scott J. Freidheim
Chief Executive Officer, Europe
Joined Investcorp: 2011
Prior experience: Sears Holding Corporation (3), Lehman Brothers (17)

Deepak B. Gurnani
Hedge Funds
Joined Investcorp: 1993
Prior experience: Citicorp (6)

J. Christopher Hoeffel
Real Estate Investment
Joined Investcorp: 2008
Prior experience: JPMorgan/Bear Stearns (15), Eastdil Realty (3), Walker & Dunlop (5)

Grahame Ivey
Finance Business Support & Investment Administration
Joined Investcorp: 1988
Prior experience: Touche Ross (7), John Laing Developments (2)

Rishi Kapoor
Chief Financial Officer
Joined Investcorp: 1992
Prior experience: Citicorp (4)

Richard Kramer
Strategy Development
Joined Investcorp: 2011
Prior experience: Credit Suisse (14), Robert Fleming (2)

Prashant S. Kolluri
Hedge Funds
Joined Investcorp: 1998
Prior experience: Citibank (3.5), Nikko Investment Bank (0.5), American Express International (2)

Numbers in brackets indicate years of experience.
List reflects staff employed at August 31, 2012.

MANAGING DIRECTORS *(continued)*

Daniel Lopez-Cruz
Corporate Investment — North America & Europe
Joined Investcorp: 2005
Prior experience: Morgan Stanley (7), UBS (3), The Prudential Insurance Company of America (3), Arthur Andersen (1)

James B. Mahoney
Corporate Investment — North America & Europe
Joined Investcorp: 1997
Prior experience: Credit Suisse First Boston (2)

Walid Majdalani
Corporate Investment — MENA
Joined Investcorp: 2007
Prior experience: ABN AMRO (10), Oracle Corporation (5)

Timothy A. Mattar
Placement and Relationship Management
Joined Investcorp: 1995
Prior experience: Banque Indosuez (5), Arthur Andersen (2), Grant Thornton (5)

W. Christian McCollum
Corporate Investment — North America & Europe
Joined Investcorp: 1996
Prior experience: Chase Securities Inc. (3)

Michael L. Merritt
Chief Administrative Officer
Joined Investcorp: 2011
Prior experience: Self-directed financial futures trader (15), Investcorp (15), Chase Manhattan Bank (13)

Jonathan Minor
Financial Management
Joined Investcorp: 2005
Prior experience: Daiwa Securities SMBC Europe (4), Westpac Banking Corporation (6), State Bank South Australia/Bank SA (6), AE plc (5), Thornton Baker (5)

Fahad H. Murad
Placement and Relationship Management
Joined Investcorp: 1996
Prior experience: Chase Manhattan Bank (12)

H. Herbert Myers
Real Estate Investment
Joined Investcorp: 2000
Prior experience: JPMorgan Asset Management (4), Peter R Freidman (4)

Kevin Nickelberry
Corporate Investment — North America & Europe
Joined Investcorp: 2003
Prior experience: JPMorgan (4.5), Goldman Sachs (3)

Michael O'Brien
Real Estate Investment
Joined Investcorp: 2007
Prior experience: ING Clarion Partners (12), Reichmann International / Quantum Realty Fund (1), Equitable Real Estate (2)

Steven G. Puccinelli
Corporate Investment — North America & Europe
Joined Investcorp: 2000
Prior experience: Donaldson, Lufkin & Jenrette (15)

Khalid Al-Rumaihi
Placement and Relationship Management
Joined Investcorp: 2002
Prior experience: JPMorgan Chase (9)

Mohamed Sammakia
Placement and Relationship Management
Joined Investcorp: 2012
Prior experience: UBS (14), SBC (2), Greenwich Capital (2), SBC (3), Citibank (13)

Harsh Shethia
Placement and Relationship Management
Joined Investcorp: 2002
Prior experience: Goldman Sachs (2), Deloitte Consulting (4), Tata Consulting Services (2)

Mohammed E. Al-Shroogi
President, Gulf Business
Joined Investcorp: 2009
Prior experience: Citigroup (33)

James Tanner
Corporate Investment — MENA
Joined Investcorp: 2008
Prior experience: Aviva Investors (3), HSBC (2), Morgan Stanley (19)

Savio W. Tung
Chief Executive Officer, North America
Joined Investcorp: 1984
Prior experience: Chase Manhattan Bank (9)

Nick Vamvakas
Hedge Funds
Joined Investcorp: 2010
Prior experience: Société Générale (6), Lyxor Asset Management (5), BAREP Asset Management (6), Société Générale Alternative Investment (5), Rodman & Renshaw (2)

Yusef Al Yusef
Placement and Relationship Management
Joined Investcorp: 2005
Prior experience: Arcapita Bank (4), Ahli United Bank (0.5), National Bank of Bahrain (4), Unilever (2)

Numbers in brackets indicate years of experience.
List reflects staff employed at August 31, 2012.

PRINCIPALS

Mohammed Aamer
Placement and Relationship Management

Ghassan G. Abdulaal
Placement and Relationship Management

Loai Al-Arayedh
Placement and Relationship Management

Ayman Al-Arrayed
Operations and Internal Controls

James A. Baker
Corporate Investment – North America & Europe

Yasser Bajsair
Placement and Relationship Management

Sunil Bhilotra
Corporate Investment – MENA

Craig W. Bottger
Finance Business Support & Investment Administration

Timothy Boynton
Hedge Funds

Maud Brown
Corporate Investment – North America & Europe

James P. Christopoulos
Corporate Investment – North America & Europe

Dean Clinton
Hedge Funds

William de Cordova
Hedge Funds

Andrew Crane
Hedge Funds

David L. Cvengros
Hedge Funds

Matthew Dadaian
Hedge Funds

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List reflects staff employed at August 31, 2012.

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List reflects staff employed at August 31, 2012.

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