INVESTCORP

Investcorp is proud of its 25 year record of consistent annual profitability and of the powerful reputation and distinction it has earned in that time. Fiscal Year 2009, however, has been the most challenging year since the formation of the Firm and has seen Investcorp's first ever loss amidst the worst period of sustained stress to financial markets in living memory. We have met the challenges head on, taking decisive action to prepare the Firm for the future and for the opportunities that will present themselves with the recovery. We will restore our position of strength and drive the performance of our business to its fullest potential.

2009 ANNUAL REPORT


INTEGRITY
SERVICE
EXCELLENCE
PROFESSIONALISM

Our real capital is our people. They are the engine that drives our business.

CONTENTS

Mission

Investcorp's mission is to be our clients' preferred choice in meeting their needs for alternative investment products: **PRIVATE EQUITY, HEDGE FUNDS, REAL ESTATE, TECHNOLOGY INVESTMENT** and **GULF GROWTH CAPITAL**. 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 internationally 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 five of 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. Gradually, we will also expand our focus and become more international in our ownership and client base. 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 has submitted the consolidated audited financial statements for Investcorp's 26th fiscal period ended June 30, 2009.

This fiscal year has seen the worst period of sustained stress to the world economy and financial markets in living memory, and this has had a severe impact on Investcorp and its clients, as it has on financial institutions and investors worldwide. It has been the most challenging year since our formation in 1982. Management has dealt with the challenges head on. We have continued open and constructive dialog with our clients, and we have pursued appropriate opportunistic investments to take advantage of current price dislocations. Crucially, we have protected the balance sheet by raising capital, reducing investment risk and mitigating re-financing risk by holding high levels of cash liquidity while, at the same time, de-leveraging the balance sheet. Our successful capital raise of over $500 million in this environment is clear evidence of the confidence of the market, of our shareholders and of our investors in the Firm.

Our Tier 1 capital adequacy ratio now stands at 20% (compared to 18% last year), which is 250% of the BIS capital adequacy guideline of 8% and 167% of the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the strongest capitalized banks globally, providing an ideal platform to benefit from an anticipated recovery in global economies and markets.

The systemic shock to the financial system that occurred from September 2008 has impacted financial performance in two ways: reducing fee income and lowering the book value of balance sheet co-investments, largely due to unrealized mark-to-market valuation declines.

Fiscal year 2009 (FY09) has therefore seen Investcorp's first ever loss. Prior to this, we had demonstrated a consistent record of profitability for over a quarter of a century. Gross operating loss for the year was $89.0 million, prior to provisions and expenses. After deducting provisions of $22.2 million, interest expense of $115.0 million and operating expenses of $206.3 million, the net operating loss was $432.5 million.

In addition, in light of continued uncertainty surrounding the global economy and its emergence from the current recessionary environment, Investcorp took a conservative view towards marking-to-market its portfolio of private equity and real estate co-investments, recording a further reduction of $348.1 million in unrealized fair value changes on its private equity ($241.8 million) and real estate ($106.3 million) co-investments. Total net loss for FY09 (12 months from July 2008 to June 2009) is therefore $780.6 million, of which $511.1 million was recorded in the first half of the fiscal year between July and December 2008, during the peak of the global financial crisis.

Encouragingly, the second half of the fiscal year (January to June 2009) has witnessed a strong turnaround, with a significantly reduced net loss of $269.5 million driven by strong returns in hedge funds that were offset by the mark-to-market declines in private equity and real estate valuations.

Fee income for the full fiscal year was $129.4 million, compared to $382.9 million in the previous year, reflecting an unprecedented low level of investment acquisition and deal-by-deal placement that substantially affected activity fees. A fall in client assets under management, mainly due to redemptions from hedge funds, also reduced management fee income.

Asset based income excluding unrealized fair value changes was a net loss of $218.4 million, primarily as a result of net asset value (NAV) declines on Investcorp's hedge fund co-investments during the three months from September to November 2008. The economic crisis of calendar year 2008 resulted in Investcorp's first ever year of negative returns in ten years on its co-investment in hedge funds. However, in the second half of FY09 (first half of calendar year 2009) performance was strongly positive, generating non-dollar weighted returns of 12.3% as a result of lower systemic risk, increased market liquidity and tactical portfolio positioning. Investcorp believes that the crisis will result in a trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative risk management. These are areas of historic strength for Investcorp's hedge fund program. Investcorp's gross co-investment exposure to hedge funds at year end was $845 million, consisting of $457 million invested in diversified fund of funds and $388 million invested across seven single managers. As part of its ongoing balance sheet and liquidity management objectives, Investcorp plans to retain hedge fund risk assets at no more than $1 billion.

At the end of FY09, Investcorp's Executive Chairman & CEO, Nemir A. Kirdar, took on significantly more direct involvement in the day to day management of the Firm, and assumed direct responsibility for those business areas that had previously reported to him through a Chief Operating Officer. There have been two new senior appointments and the leadership team now comprises five senior partners: Nemir A. Kirdar; Mohammed Al-Shroogi, President, Gulf business; Rishi Kapoor, Chief Financial Officer; Christopher O'Brien, President, US and European business; and Mark Slaughter, Chief Administrative Officer.

Private clients in the Gulf have seen substantial value declines across their asset portfolios, the bursting of the regional real estate bubble and the drying up of liquidity markets. This has significantly reduced their appetite for investment activity in the near term and they are expected to remain risk averse until markets stabilize and liquidity improves. Sovereign Wealth Funds and other institutional investors continue to be active long-term international investors but their activity has been somewhat tempered by liquidity and financing constraints. Total GCC and international placement and fund-raising activities in FY09, including the capital proceeds from preference shares, was $1.6 billion. Client assets under management declined to $8.9 billion from $12.8 billion at the end of FY08.

The Investcorp Private Equity 2007 Fund and Gulf Opportunity Fund I were closed during the year and Real Estate Mezzanine Fund II was launched. Investcorp also moved ahead with the MENA mezzanine debt financing business that will complement its existing private equity investment business in the region.

In the private equity buyout area, Investcorp's priority has been to ensure that its portfolio companies weather the economic crisis by focusing on operations and debt management. During the year, Investcorp acquired N&W Global Vending for an aggregate equity investment of €170 million, and several portfolio companies made add-on acquisitions funded through their own cash resources. One portfolio company, Autodistribution, was restructured during FY09 and Investcorp reinvested €24 million, which was placed with our clients. Two other companies in the portfolio, TimePartner and EnviroSolutions, required attention to address covenant and liquidity pressures. Technology small-cap investment activity has slowed significantly but the mid-market sector in which Investcorp operates continues to be relatively active. Our third technology fund, Investcorp Technology Ventures III, made two new investments in FY09, a $40 million investment in FleetMatics, and a $43 million investment in TDX Group. The Gulf Opportunity Fund I completed its first two investments in Redington Gulf and L'azurde for a combined equity value of $228 million. There were no exits during the fiscal year.

US real estate market activity and performance continues to be depressed due to the dislocation in financing markets. The negative impact of the economic crisis on the US commercial real estate market accelerated during FY09. Lower consumer spending and high unemployment led to a sharp drop in hotel revenue, higher retail and office vacancy rates and declining leasing rates across the commercial sector. Investcorp has therefore focused on income producing real estate debt investments where there continue to be opportunities in distress and recapitalization situations. In FY09, the real estate business deployed $111.4 million of capital into debt investments including transactions that were originated by its two real estate debt funds.

Given our financial results for FY09 and prevailing market conditions, for the first time in our history, we think it prudent not to pay a dividend on our ordinary shares.

Although the length and depth of the global recession is still uncertain, management believes that decisive action taken during this fiscal year has strengthened Investcorp to enable it to focus on the future and the business opportunities that now present themselves. We are committed to moving forward energetically.

In this year of extraordinary challenges, we pay tribute to the exceptional commitment, skill and professionalism of Investcorp's people, to the guidance of our Strategic Partnership Group in the Gulf and to the support of our shareholders and clients. The Board records its thanks to you all. As always, we are pleased to mark our appreciation of the longstanding support given to this Firm by 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

Financial Review

EXECUTIVE SUMMARY

During its fiscal year ended June 30, 2009 (FY09), Investcorp has witnessed what has been, arguably, the worst period of sustained stress to world economies and financial markets in living memory. The environment has had a severe impact on Investcorp across both its client and its investment businesses, and it has been the most challenging year for Investcorp since its formation in 1982.

The management team has focused on dealing with these challenges head on. It has maintained an active and open dialog with clients throughout the year and has protected the balance sheet by raising capital, reducing investment risk and mitigating re-financing risk by holding high levels of cash liquidity while de-leveraging the balance sheet at the same time.

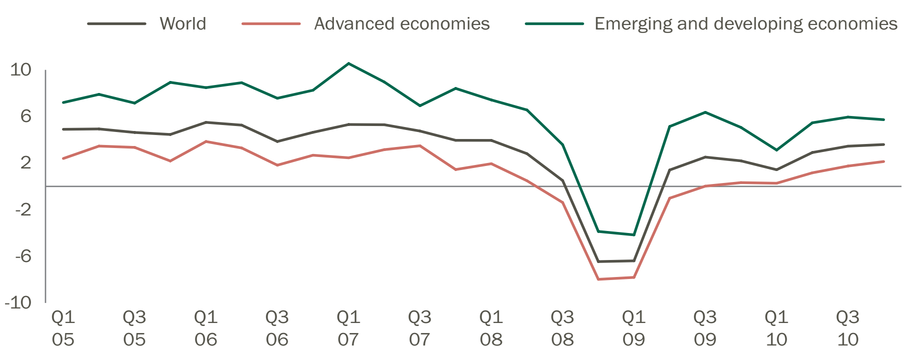
The successful completion of a preference share issue in excess of $500 million, more than double the stated minimum target, in such a difficult environment is clear evidence of confidence in Investcorp's business model and management team. Although the length and depth of the global recession is still uncertain, management believes that the firm action taken during the fiscal year will enable Investcorp to move forward and focus on the attractive business opportunities that now present themselves.

BUSINESS ENVIRONMENT

The sub-prime housing crisis that started in the United States in 2007 developed in late calendar year 2008 into a major systemic financial crisis, sending economic activity in the developed world into a synchronized downward spiral. This has led the IMF to make continual downward revisions to its estimate for global growth in calendar years 2009 and 2010. Output in 2009 is expected to contract by 1.4% globally, by 2.6% in the US and by 4.8% in Europe. World trade is likely to fall by 10%, and private capital flows are likely to decline by almost 50%.

Global GDP growth

(%, quarter over quarter, annualized)



Source: IMF WEO July Update (shown in calendar year)

The countries of the GCC and the wider MENA region have not been immune to the events in global markets. Regional financial markets have suffered and lower energy prices have dampened near-term economic growth. Significant financial surpluses created in recent years, as well as the natural resources available in the Middle East, are, however, expected to support GDP growth in the region. This is forecast to grow at 2.0% for 2009 and at 3.7% in calendar year 2010, a rate higher than the world average.

The scale of financial market dislocation and distress has been unprecedented, leading to a virtual freeze in liquidity and capital markets. Financial institutions, primarily in the US and Europe, have already reported losses of almost $1.5 trillion, and have raised almost $1 trillion of new capital, primarily from the public sector.

Expected total losses across debt assets may rise to more than $2.5 trillion, putting further pressure on international bank capital ratios and making it necessary to raise additional capital and continue to reduce balance sheet size and risk appetite. The cost of capital for all businesses has re-priced dramatically in a short period of time, and this will continue to affect the ability of the corporate sector to drive investment and employment activity, and to pull out of recession.

Governments all over the world have been forced to bail out financial institutions and to introduce large fiscal stimulus packages to combat the contraction of consumption. Actions to stimulate their economies have also been taken by the governments within the GCC and the biggest Gulf banks are now generally better capitalized than their emerging markets peers. The Gulf region will continue to benefit from hydrocarbon wealth and a gradual opening up of credit markets.

The freeze on new lending in the US and Europe has brought private equity and real estate deal activity to a virtual halt, impeding Investcorp's efforts in deploying new investment capital.

Broad political mandates for international regulation to address the causes of the financial crisis have been set out in both developed and emerging countries. These mandates include enhancing the Basel II framework for bank capital adequacy as well as establishing minimum standards for liquidity risk management and for determination of the fair value of financial assets and liabilities in stressed markets.

Private clients in the Gulf, like their peers across the globe, were initially shocked by substantial value declines across their asset portfolios, by the bursting of the regional real estate bubble and by the drying up of liquidity markets. Their need to de-lever and reduce risk assets significantly reduced appetite for investment activity in the near term. Confidence was also affected by severe liquidity issues faced by a few prominent GCC-based families and institutions.

Towards the end of Investcorp's fiscal year, there were some indications that government spending initiatives and support of the financial system has made a positive impact and that the global economy is reaching a turning point. Equity and commodity markets have recovered, and the corporate sector is now able to access debt capital markets. However, while the US Federal Reserve now expects US GDP to grow above trend in 2010, there are many factors that suggest it is prudent to maintain a cautious outlook for the next 12 months. These factors include the effects of higher private saving and lower consumption and of falling wage growth and employment, the fading impact of government stimulus and the possibility of further financial market shocks.

FINANCIAL PERFORMANCE

Impact of environment on earnings

The series of events that occurred after the collapse of Lehman Brothers in September 2008 resulted in all asset classes becoming highly correlated. The resultant systemic shock to the financial system and its impact on market liquidity forced sharp downward price movements across equities, fixed income and alternative assets in the second half of the 2008 calendar year. It also dramatically reduced investors' immediate appetite for risk assets. This had an impact on Investcorp's FY09 financial performance across its fee income business and, more significantly, resulted in book losses across its portfolio of balance sheet co-investments, largely due to unrealized valuation declines.

For FY09 Investcorp has shown a gross operating loss of $89.0 million before provisions and expenses. After deducting provisions of $22.2 million, interest expense of $115.0 million and operating expenses of $206.3 million, the net operating loss was $432.5 million.

In addition, in light of continued uncertainty surrounding the global economy and its emergence from the current recessionary environment, Investcorp took a conservative view towards marking-to-market its portfolio of private equity and real estate co-investments, recording a further reduction of $348.1 million in unrealized fair value changes on its private equity ($241.8 million) and real estate ($106.3 million) co-investments. These are unrealized adjustments that, in addition to reflecting the challenging environment in which companies are currently operating, also incorporate the uncertain near-term outlook for earnings and property cash flows.

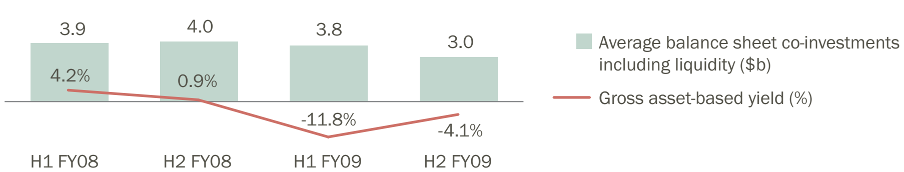
Total net loss for fiscal year 2009 (12 months from July 2008 to June 2009) is thereby $780.6 million, of which $511.1 million was recorded in the first half of the fiscal year between July to December 2008, during the peak of the global financial crisis. Encouragingly, the second half of the fiscal year (January to June 2009) has witnessed a strong turnaround, with a significantly reduced net loss of $269.5 million driven by strong returns in hedge funds that were offset by the mark-to-market declines in private equity and real estate valuations.

Fee income for the full year was $129.4 million, compared to $382.9 million in FY08, reflecting an unprecedented low level of investment acquisition and deal-by-deal placement that has substantially affected activity fees. A fall in average client AUM, mainly due to redemptions from hedge funds, has also reduced management fee income.

Asset-based income excluding unrealized fair value changes was a net loss of $218.4 million, primarily as a result of net asset value (NAV) declines on Investcorp's hedge fund co-investments during the three months from September to November 2008. The economic crisis of calendar year 2008 resulted in Investcorp's first ever year of negative returns in ten years on its co-investment in hedge funds. However, in the second half of FY09 (first half of calendar year 2009) performance was strongly positive, generating non-dollar weighted returns of 12.3% as a result of lower systemic risk, increased market liquidity and tactical portfolio positioning. Investcorp believes that the crisis will result in a trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative risk management. These are areas of historic strength for Investcorp's hedge fund program. Investcorp's gross exposure to hedge funds at year end was $845 million, consisting of $457 million invested in diversified fund of funds and $388 million invested across seven single managers. As part of its ongoing balance sheet and liquidity management objectives, Investcorp plans to retain hedge fund risk assets at no more than $1 billion.

The average yield on balance sheet investments reflects the current recessionary cycle that began in the second half of Investcorp's FY08 and continued throughout FY09. However, assuming the absence of a second major systemic crisis or financial market collapse, Investcorp expects a gradual upturn in average asset-based yields into FY10.

Average yield on balance sheet assets



As a prudent response to the losses incurred in FY09, and the subsequent decline in ordinary shareholders' equity, the Board of Directors has proposed that no ordinary dividends be paid for FY09.

MANAGEMENT ACTIONS

Management has focused on the following key issues during FY09 in order to meet the challenges of the current environment and to emerge into FY10 as an institution of strength:

- De-leveraging and de-risking the balance sheet by raising capital, retaining high levels of cash liquidity and reducing balance sheet co-investment exposures
- Right-sizing the expense base of the company by reducing costs in sync with expected near-medium term revenue generation capability
- Continuing a critical dialog with clients to reassure them that the investment teams are focusing on the management of their investments and on developing suitable new products to meet their needs in the current environment
- Pursuing appropriate and appealing opportunistic investments that take advantage of current price dislocations

Deleveraging: raising capital

Investcorp raised over $500 million in preference share capital from institutional and private investors across the GCC countries. This amount is significantly more than the minimum target of $250 million that was publicly announced by Investcorp at the half year. The strong support shown by the large institutional investors participating in the issue, who made their investments following significant and detailed due diligence, is a sign of confidence in Investcorp's business model, management and core strategy.

This new preference share capital has boosted Investcorp's economic capital base, helping meet Investcorp's deleveraging objectives and supporting deal underwriting and new business growth initiatives.

Total shareholders' equity fell from $1,237 million to $895 million, with net book value per ordinary share decreasing from $1,673 to $523. At June 2009, the ordinary shareholder base of Investcorp comprised 38.7% public shareholders, 33.6% strategic shareholders and 19.1% management. Public shareholders held 18.4% in ordinary shares listed on the Bahrain Stock Exchange and 20.3% in GDRs listed on the London Stock Exchange. The balance of 8.6% is held by Investcorp in the form of Treasury shares and shares set aside for future sale to management.

Investcorp's Tier 1 capital adequacy ratio now stands at 20.0% (compared to 18.4% last year), which is 250% of the BIS capital adequacy guideline of 8% and 167% of the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the strongest capitalized banks globally, providing an ideal platform to benefit from an anticipated recovery in global economies and markets.

During FY09, Investcorp also completed the formal, independent, CBB-mandated risk assessment review, and no significant issues were highlighted. This detailed review of Investcorp's risk management and business support areas highlights Investcorp's strong risk infrastructure. This should serve as a strong platform to support a regulatory minimum capital adequacy ratio of no greater than the current 12% when the CBB progresses with its plan to determine specific risk-based minimum CAR targets for those financial institutions which have successfully completed the risk assessment.

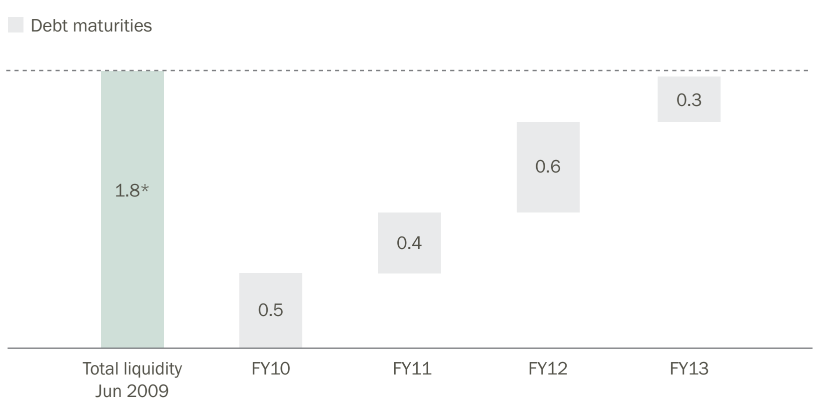
Deleveraging: reducing size of balance sheet and outstanding debt and increasing cash liquidity

Total assets decreased by 24% to $3.6 billion. This reflects actions taken to collect client receivable balances, reduce working capital, reduce hedge fund co-investments and increase levels of cash liquidity. Total co-investments in hedge funds, private equity and real estate fell by almost half from $3.4 billion to $1.8 billion and, at June 30, 2009, represented a 2.0x (FY08: 2.7x) multiple of the total capital base. Despite this decrease in balance sheet co-investment levels, Investcorp remains the most significant investor across its business products, holding 19% of total AUM.

Total liquidity as at June 30, 2009 including proceeds from the $500 million preference share capital raise is $1.8 billion, of which $1.1 billion is held in cash or cash equivalents. Total liquidity is sufficient to cover all debt maturities beyond the next four fiscal years until at least March 2014.

Liquidity/debt maturity cover

($ billions)



* Includes $110m of preference share capital shown as a receivable at balance sheet date

Debt management

Liquidity generated from the reduction in balance sheet assets and a draw down of medium-term revolvers has been used to pay down short tenor debt, reduce near-term refinancing risk and maintain a five-year weighted average residual maturity of debt. Investcorp extended $120 million of a loan facility due in July 2009 out to December 2009, and, in H1 FY10, it plans to complete a comprehensive forward re-financing of loans that mature over the following two years.

Financial leverage (liabilities/equity), adjusted for transitory balances, has fallen to 1.8x from 2.5x at June 2008. This is well below the tightest long-term debt covenant cap of 3.55x.

Investcorp's current credit ratings are Ba1 (Moody's), BB+ (Fitch) and BBB+ (Capital Intelligence). Credit downgrades by the rating agencies in FY09 reflected the difficult business environment, with rating agencies echoing Investcorp's plans to de-lever its balance sheet. The downgrades did not trigger either early prepayments of debt or any material increase in the cost of debt. The rating agencies are expected to complete a review of their rating outlook position early in FY10, taking into account the successful completion of the preference share capital raise.

Cost management

In December 2008 Investcorp implemented reductions in fixed operating expenses by 25%, equivalent to approximately $50 million on an annualized basis. The number of full time employees has been reduced by 22%. Total FY09 operating expenses, including incentive compensation, were $206.3 million, 22% lower than in FY08. Headcount reductions have been implemented with no impact on client-facing roles or new and growing areas of investment business.

Interest expense fell by $44.9 million to $115.0 million, reflecting the benefit of significantly lower US$ benchmark rates, offset, to a certain extent, by higher average debt margins arising from the lengthening of average residual debt tenor.

A more detailed analysis of the H1 FY09 fiscal results is provided in the discussion of results section.

Senior management changes

At the end of FY09, Investcorp's CEO, Nemir A. Kirdar, took on significantly more direct involvement in the day-to-day management of the Firm, and assumed direct responsibility for those business areas that had previously reported to him through a Chief Operating Officer (COO). While a CEO/COO structure had served Investcorp well for many years, it was felt that the current industry challenges and the strategic direction of the Firm would benefit from the CEO being closer to the lines of business. The existing heads of Investcorp's lines of business, all of whom have many years of experience with Investcorp, continue to run these business lines.

There have been two new senior additions to the management team. Mohammed Al-Shroogi joins Investcorp as President of Gulf business and Mark Slaughter as Chief Administrative Officer. Mr. Al-Shroogi previously headed Citibank International in the Middle East and has over 30 years of experience in the banking industry in the Gulf region. Mr. Slaughter has international banking experience acquired during a career of senior leadership roles at Goldman Sachs and Citigroup in London and New York. He was most recently Chief Operating Officer, global banking, at Citigroup.

The leadership team now comprises five senior partners: Nemir A. Kirdar, Executive Chairman & CEO; Mohammed Al-Shroogi, President, Gulf business; Christopher O'Brien, President, US and European business; Rishi Kapoor, Chief Financial Officer; and Mark Slaughter, Chief Administrative Officer.

This new leadership team has the blend of skills and experience that will enable the Firm to leverage its strong franchise and brand in the Gulf, provide best-in-class service and products to clients and deliver value to shareholders.

CLIENT BUSINESS

The Gulf has not been immune from the financial stress in the West and in particular the more muted outlook for economic growth and wealth creation resulting from the sharp decline in oil prices. Much lower international capital inflows into the region, as well as an abrupt fall in cross-border lending within the region, have exacerbated liquidity issues, forcing personal and corporate de-leveraging. The subsequent response by GCC governments in the form of capital and liquidity injections into the banking sector is, however, beginning to deal with some of these issues.

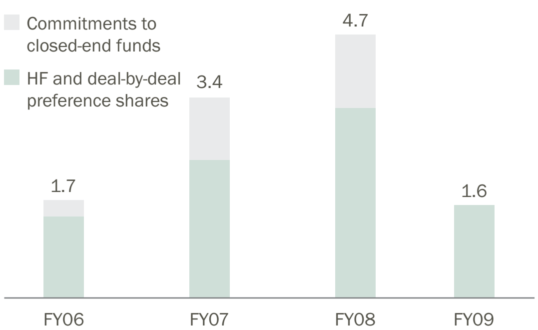
HNWI wealth in the Middle East is estimated to have fallen by 16.2% in 2008, and the sub-group of Ultra-HNWI has suffered the worst losses. However, as the world economy emerges from recession, the revised expectations for GDP growth and hydrocarbon revenues continue to support further wealth accumulation. HNWI financial wealth in the region is forecast to increase by $500 billion over the next five years.

The decline in asset values and invested wealth has sidelined private client investors from making new investment decisions, and they are expected to remain risk averse until markets stabilize and liquidity improves. Sovereign Wealth Funds and other institutional investors continue to be active long-term international investors but their activity has been somewhat tempered by liquidity and financing constraints plus the desire to divert more of their focus inwardly towards the GCC.

Given the very low level of new investment activity during FY09, deal-by-deal placement activity for private equity and real estate product has been very low. Investcorp's Placement and Relationship Management team focused on two areas during the year. First, they have intensified the frequency of client meetings to review portfolio performance and discuss asset allocation. Second, they were involved in Investcorp's private placement of preference shares.

Placement and fundraising activities

($ billions)



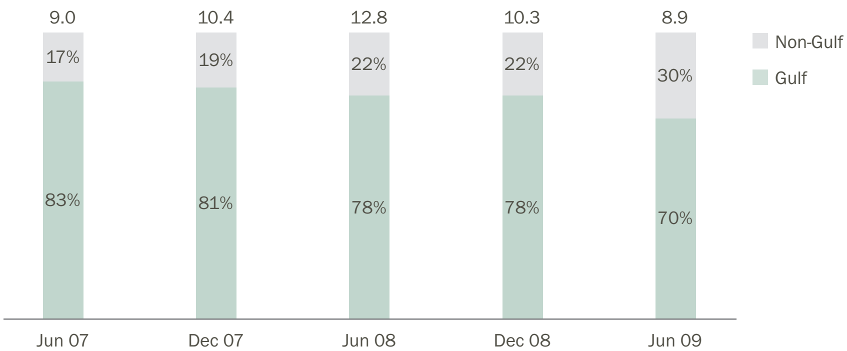
Total GCC and international placement and fundraising activities in FY09, including proceeds from the private placement of preference shares, was $1.6 billion. Actual cash collected from Gulf clients in FY09 including receivables, preference shares and deal product totaled over $1 billion, only slightly less than the amount of cash raised from Gulf clients in FY08.

The final closings of the Investcorp Private Equity 2007 Fund and of the Gulf Opportunity Fund I closed-end funds were completed during the year and a new real estate Mezzanine Fund II was launched, with a target of $250 million. Investcorp also has moved ahead with the planned launch of its new business initiative for mezzanine debt financing in MENA, a product that will complement the existing private equity investment business in the region.

Client AUM declined by 31% to $8.9 billion, from $12.8 billion in FY08, mainly due to redemptions from hedge funds.

Client assets under management

($ billions)



Consistent with the pattern across the hedge fund industry, client hedge fund AUM decreased by 44% from $5.5 billion to $3.1 billion in FY09. This was as a result of a combination of deleveraging within structured product offerings, negative performance and net redemptions. Most of the redemption activity occurred in late calendar year 2008. Significant new subscriptions in the second quarter of calendar year 2009 reflect continued interest in hedge funds by sophisticated investors and a passing of the redemption pressures that followed the negative returns in late calendar year 2008.

Unlike a large number of funds of hedge funds, Investcorp's funds did not put up any liquidity gates on clients during the height of redemption activity. This is expected to support the capture of private flows back into the asset class in the near-term. In the long-term, Investcorp believes that the factors affecting hedge fund performance in 2008 have been transient and that there are attractive opportunities in several strategies that are expected to achieve strong risk-adjusted returns post crisis.

As a result of the significant hedge fund redemption activity in FY09, more than half of Investcorp's client AUM is now held in private equity. Non-Gulf client AUM at June 2009 represents $2.6 billion (30%) of total client AUM, compared to $2.9 billion (22%) at June 2008.

Alternative assets have outperformed conventional markets not only through the very challenging return environment of calendar year 2008 but over the medium-term since 2000. Investcorp believes that sophisticated private and institutional clients will continue to have an appetite for alternatives and that this will support a return to growth in Investcorp's client assets under management.

Client activity in FY09 is more fully discussed in the client business review section.

INVESTMENT BUSINESS

Private equity — US and European buyouts

Private equity activity has largely been at a standstill and, with a global recession that is likely to last into 2010, visibility is low. Private equity backed companies in general are under a severe liquidity strain, with industry write-downs and defaults expected to accelerate.

In FY09 Investcorp's priority has been to ensure that its existing portfolio companies are in strong positions to weather this economic crisis. Investcorp's long-standing private equity model, which has always focused on operational improvements, is well suited to this environment. The limited availability and higher cost of debt financing has put even more emphasis on private equity firms delivering added value through improving operations. The private equity team has closely focused on debt management for the companies in its portfolio in order to optimize capital structures, address potential covenant and debt refinancing issues and protect EBITDA. Portfolio EBITDA increased marginally by 1% in 2008 and EBITDA is forecast to be 12% lower in 2009. Annualized cost savings of $500 million across the portfolio, and $225 million of cash savings from working capital and capex management, are expected to provide a significant offset to lower top-line cash flows.

The downturn in transatlantic buyout investment activity has been deeper and may last longer than originally predicted, reducing the universe of opportunities for Investcorp's transactional deal-by-deal business. The buyouts team has been cautious on making new investments and in the level of leverage used for new deals, which are now more likely to involve more all-equity transactions, smaller middle-market companies or small add-on acquisitions. However, there are some recent signs that private equity activity is starting to recover, as the leveraged loan and IPO markets have recently shown some signs of activity.

During FY09, Investcorp acquired N&W Global Vending for an aggregate equity investment of €170 million, and various portfolio companies made add-on acquisitions funded through their own cash resources.

One portfolio company, Autodistribution, was restructured during FY09 and Investcorp reinvested €24 million, which was placed with Gulf clients. Two other companies in the portfolio, TimePartner and EnviroSolutions, have required attention to address covenant and liquidity pressures. Investcorp estimates that $55–130 million of additional support capital to portfolio companies may be required over the next 18 months, which equates on aggregate to about 5% of the $4.4 billion in initial equity invested by Investcorp and its clients.

There were no exits from the portfolio during the fiscal year.

The carrying value of Investcorp's co-investment across 23 companies at June 2009 is $769 million as compared to $922 million at June 2008. The five largest investments represent 56% of the total buyouts portfolio and 48% of total shareholders' equity.

Private equity — technology small-cap

Technology investment has slowed significantly but it remains the strongest sector by number of deals, and the mid-market sector in which Investcorp operates continues to be strong. Technology is seen as a major growth and productivity driver across all industries, and it has benefited from a renewed federal and corporate focus.

The technology Fund I is fully invested and Fund II made a number of add-on acquisitions totaling $29.9 million during the year. Fund III, which closed in January 2008 at $500 million, made two new investments in FY09. These were a $40 million investment in FleetMatics, a leading US-based telematics software solutions provider and a 40% equity stake in UK-based TDX Group for £28 million ($43 million). TDX provides analytics for defaulted consumer debt recovery, and is the largest, fastest growing player in this sector in the UK market.

There were no exits from the portfolio during the fiscal year.

The carrying value of Investcorp's balance sheet co-investment exposure in technology investments at June 30, 2009 is $46 million.

Private equity — Gulf growth capital (GGC)

The global economic crisis has had negative impacts on Gulf financial markets, energy prices and near-term economic growth. Nevertheless, significant financial surpluses created in recent years and the region's natural resources, will continue to drive investment in local GDP growth at levels much higher than the world average.

Lower public equity valuations have created more attractive opportunities for growth capital investors, and business and family owners are now more open to financial sponsors. GGC's first fund, the Gulf Opportunity Fund I, completed its first two investments in FY09 for a combined equity value of $228 million. The first investment was a 36% minority interest in Redington Gulf, the leading IT master distributor in the Middle East and Africa, completed in November 2008. The second investment was as lead investor in a consortium that acquired a 70% stake in L'azurde, based in Riyadh, Kingdom of Saudi Arabia. L'azurde is the leading manufacturer and wholesaler of gold jewelry in the MENA region.

Hedge funds

In 2008 the hedge fund industry faced a 'perfect storm' of systemic events and the near collapse of the global financial system. Following the Lehman Brothers bankruptcy, banks halted market-making activities and drained liquidity in order to de-lever their balance sheets. This forced hedge funds to cover positions and realize losses. The HFR Fund of Hedge Fund Composite index fell 15.9% between September and December 2008, although this was significantly less than the drop in the S&P 500, which fell 28.9% over the same period. Investors made hedge fund redemptions on an unmatched scale and industry assets have fallen by almost 50% from their peak of $1.9 trillion to $1 trillion.

Investcorp expects that actions taken by governments around the world have reduced the likelihood of a large systemic banking shock, but that the crisis will increase the trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative risk management. These are areas of historic strength for Investcorp's hedge fund program.

Investcorp's losses on its co-investment in hedge funds in 2008 were its first ever year of negative returns in over ten years. The second half of FY09 (first half of calendar year 2009) performance was strongly positive, generating returns of 12.3% on a non-dollar weighted basis, reflecting lower systemic risk, increased market liquidity and tactical portfolio positioning. Despite the fact that $1.1 billion of cash was taken out of hedge fund co-investments in FY09, the portfolio has retained high levels of liquidity. At June 30, 2009, 72% of Investcorp's co-investment of $614 million is accessible within six months.

Gross exposure at year end was $845 million, consisting of $457 million invested in diversified fund of funds and $388 million invested across seven single managers. As part of its ongoing balance sheet and liquidity management objectives, Investcorp plans to retain hedge fund risk assets at no more than $1 billion.

Real estate

US real estate market activity and performance continues to be depressed due to the ongoing dislocation in financing markets. The negative impact of the credit crunch on the commercial real estate market has accelerated in FY09. Lower consumer spending and high unemployment have led to a sharp drop in hotel revenue, higher retail and office vacancy rates and declining leasing rates across the commercial sector.

Investcorp has therefore focused on income-producing real estate debt investments where there continue to be growing opportunities across distress and recapitalization situations. In FY09, the real estate business deployed $111.4 million of capital into debt investments including transactions that were originated by Investcorp's two closed-end debt funds.

At June 2009, Investcorp's real estate balance sheet co-investment portfolio totaled $283.2 million.

Investment activity in FY09 is more fully discussed in the investment business review section.

DISCUSSION OF RESULTS

Net income

Revenues consist of (i) **fee income** generated from transactional activity and managing client AUM; (ii) realized **asset-based income** earned in cash or pay-in-kind on Investcorp's private equity and real estate co-investments and invested liquidity plus the value change in Investcorp's co-investment in hedge funds; and (iii) the impact of **unrealized fair value adjustments** on private equity and real estate co-investments.

Net (loss) income ($ millions)	FY09	FY08	% Change B/(W)
Fee income	129.4	382.9	(66%)
Asset-based income	(218.4)	222.2	>(100%)
Gross operating (loss) income	**(89.0)**	605.1	>(100%)
Provisions	(22.2)	(5.4)	>(100%)
Interest expense	(115.0)	(159.9)	28%
Operating expenses	(206.3)	(266.1)	22%
Net operating (loss) income	**(432.5)**	173.8	>(100%)
Unrealized FV adjustments	(348.1)	(22.7)	>(100%)
Net (loss) income	**(780.6)**	151.1	>(100%)
Total revenue	**(437.1)**	582.4	>(100%)

Gross operating losses in FY09 were $89.0 million (FY08: $605.1 million income) reflecting the severely adverse return and operating environment. Fee income has been negatively impacted by a significant reduction in transactional activity. Asset-based losses stem from negative hedge fund returns during the months of systemic financial crisis that resulted from the collapse of Lehman Brothers in September 2008.

Downward mark-to-market adjustments in the fair values of private equity and real estate co-investments reflect a conservative view and recognize the uncertain outlook for private equity portfolio company earnings and prospect of increasing capitalization rates in the US real estate market. These fair value adjustments are unrealized and there is no near-term pressure to sell any of the underlying assets at current depressed values. Hence, the ultimate realized returns on these investments could differ significantly from current valuations. This element is therefore stated separately in the income statement.

Operating expenses were 22% lower at $206.3 million (FY08: $266.1 million), reflecting a realignment of the business cost structure that was implemented in December 2008 to ensure that costs stayed in sync with lowered expectations for revenues in the near-term. The full annual impact of the cost reduction program, which included a 22% reduction in global headcount, will be evident in FY10.

Interest expense fell by $44.9 million, or 28%, as a result of further sharp policy easing actions by the US Federal Reserve. To some extent this flowed through to short-term LIBOR rates which are the base for Investcorp's cost of funding.

The overall net loss in FY09 was $780.6 million and is substantially due to the negative realized and unrealized returns on Investcorp's proprietary investments and the interest cost of funding those assets.

Fee income

Gross fee income earned in FY09 was $129.4 million, substantially lower than the $382.9 million reported for FY08. In the worst operating environment in Investcorp's 26-year history, activity fees fell 90% to $21.7 million, reflecting the very low level of both new acquisition activity and placement. Management fee income fell by 21% to $107.4 million, primarily as a result of a fall in hedge fund client AUM in the last quarter of calendar 2008 as investors rushed to access liquidity from whichever source was available. Minimal performance fees were booked in the year due to the paucity of exit activity and a small claw-back in hedge fund fees, although some performance fees were earned on distributions made by the new debt-based real estate funds.

A more detailed analysis of segmental income by asset class is shown at the end of this section.

Expenses attributable to fee income fell by 24% to $169.4 million (FY08: $223.4 million) due to lower incentive compensation and the reduction in headcount across Investcorp. However, due to the significant drop in total fee income, net fee income for the year was a loss of $40.0 million compared to positive net fee income in FY08 of $159.5 million.

Summary of fees ($ millions)	FY09	FY08	% Change B/(W)
Management fees	107.4	136.5	(21%)
Activity fees	21.7	221.5	(90%)
Performance fees	0.3	25.0	(99%)
Fee income	129.4	382.9	(66%)
Expenses and taxes attributable to fee income	(169.4)	(223.4)	24%
Net fee income	(40.0)	159.5	>(100%)

Operating expenses associated with fee generation activities are equal to total operating costs less the operating expenses attributable to proprietary co-investment activities that are calculated in a formulaic manner.

Asset-based income

Gross asset-based losses, excluding the impact of fair value adjustments on private equity and real estate co-investments, were $218.4 million (FY08: $222.2 million income).

The dramatic decline in gross asset-based income in FY09 was primarily due to negative returns on hedge fund co-investments in the first half of the fiscal year. Although there was a strong turn-around in hedge fund returns during the second half, with solid positive returns in every month yielding non-dollar weighted returns of 12.3%, the year-on-year drop in hedge fund asset-based income was $424.3 million.

Treasury income includes interest income earned on the high levels of invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk on long-term liabilities.

Asset-based income ($ millions)	FY09	FY08	% Change B/(W)
Private equity	12.4	20.6	(40%)
Hedge funds	(323.8)	100.5	>(100%)
Real estate	20.2	26.3	(23%)
Treasury and liquidity income	72.9	74.9	(3%)
Gross asset-based income	(218.4)	222.2	>(100%)
Expenses attributable to asset-based income	(37.0)	(42.7)	13%
Interest expense	(115.0)	(159.9)	28%
Provisions	(22.2)	(5.4)	>(100%)
Net asset-based income	(392.5)	14.3	>(100%)

Operating expenses attributable to asset-based income declined by 13% to $37.0 million (FY08: $42.7 million), reflecting the lower level of co-investments and the absence of any carry payable on the co-investment returns based on the formulaic calculation described below. Interest expense is discussed later in this section.

Overall, the net asset-based loss for FY09, excluding the impact of unrealized fair value adjustments, was $392.5 million compared to asset-based income of $14.2 million in fiscal 2008.

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

- A fixed management fee charge calculated at 1.2% of average proprietary invested assets. Invested assets comprise proprietary co-investments in each of the lines of business, placements with banks and other financial institutions, and government securities reported in the Group's balance sheet.
- Plus a 20% carry on gains on aggregate asset-based income in excess of interest expense and the 1.2% charge described above.

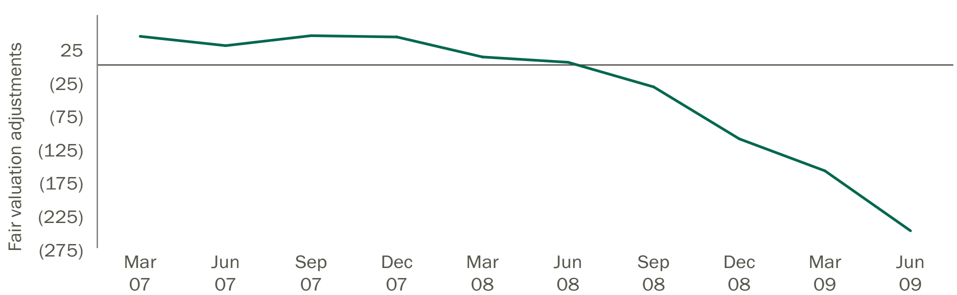
Unrealized fair value adjustments

The negative impact of the current economic environment on private equity EBITDA levels and real estate capitalization rates has led to large unrealized downward fair value adjustments on Investcorp's balance sheet co-investments. In FY09 the carrying values for private equity co-investments have been reduced by $241.8 million (FY08: $15.6 million) and the carrying values for real estate property portfolios have been reduced by $106.3 million (FY08: $7.1 million).

For private equity buyout valuations the dislocation in public equity markets and the lack of recent comparable M&A transactions has placed greater emphasis on DCF-implied multiples, which take into account an expected difficult operating environment over the next 12 to 18 months. The cumulative unrealized fair value adjustments as at June 30, 2009 represents a 22% net decline from the original aggregate cost of the buyout portfolio and a 34% peak-to-trough decline, largely in line with public market indices and consistent with numbers reported by other private equity industry participants. Peak-to-trough valuation declines are reflected in the chart below, which shows that overall, the PE buyout co-investment portfolio has experienced a decline in value of more than $300 million since December 2006.

Cumulative fair valuation adjustments since Dec 06

($ millions)



Significant downward fair value adjustments have also been made to opportunistic real estate portfolios and office properties based in New York. The cumulative unrealized fair value adjustments at June 30, 2009 for real estate represent a 33% net decline from the original cost of the portfolio.

The table below shows the average balance sheet asset yield for each of the last six half years, computed by comparing realized asset-based income and unrealized fair value adjustments to average assets. The negative environment for asset valuations began in the second half of calendar 2007 (H1 FY08) and has increasingly impacted balance sheet returns adversely over the past 18 months.

Asset yields	H1 FY07	H2 FY07	H1 FY08	H2 FY08	H1 FY09	H2 FY09
Private equity	2.2%	6.8%	2.9%	(2.2%)	**(11.1%)**	**(16.2%)**
Real estate	3.9%	6.6%	2.9%	1.9%	**(3.8%)**	**(20.7%)**
Hedge funds*	6.5%	10.4%	6.7%	(0.9%)	**(20.4%)**	**12.3%**
Corporate	1.9%	2.6%	3.1%	7.2%	**8.3%**	**1.0%**
Total	4.2%	7.4%	4.2%	0.9%	**(11.8%)**	**(4.1%)**

*Non $ weighted returns

Downward adjustments to private equity and real estate valuations in the second half of FY09 were mitigated by a strong positive performance in hedge funds. Investcorp believes that the gradual improvement in the average overall yield on its balance sheet co-investments should continue into FY10 as the world economy is expected to slowly emerge out of recession.

Asset-based income by asset class

The tables below summarize the primary drivers of asset-based income for private equity, hedge funds and real estate:

PE asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	**12**	21	(40%)
Unrealized FV adjustments	**(242)**	(16)	>(100%)
Average co-investments (excluding u/w)	**841**	859	(2%)
Absolute yield for period	**(27%)**	1%	(28%)

HF asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	**(324)**	101	>(100%)
Average co-investments	**1,341**	1,974	(32%)
Absolute yield for period	**(24%)**	5%	>(100%)
3-month LIBOR	**2%**	4%	(2%)
Spread to 3-month LIBOR	**(26%)**	1%	(27%)
Non $ weighted returns	**(11%)**	6%	>(100%)

RE asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	**20**	26	(23%)
Unrealized FV adjustments	**(106)**	(7)	>(100%)
Average co-investments	**347**	402	(14%)
Absolute yield for period	**(25%)**	5%	(30%)

Interest expense

Total FY09 interest expense of $115.0 million was 28% lower than in FY08. The average level of debt was slightly lower over the year, and the mix between short-term and long-term debt changed significantly. Average short-term debt fell by 47% to $569 million and average medium- and long-term debt increased by $274 million, or 13% to $2,315 million.

Interest expense ($ millions)	FY09	FY08	FY09 vs FY08 H/(L)
Average short-term interest-bearing liabilities	569	1,074	(505)
Average medium- and long-term interest-bearing liabilities	2,315	2,040	274
Average interest-bearing liabilities	2,884	3,115	(231)
Interest expense	115	160	(45)
Average LIBOR rate set (1 month)	1.6%	4.2%	(2.6%)
Spread to LIBOR rate set (1 month)	2.4%	0.9%	1.5%
Cost of funding	3.9%	5.1%	(1.1%)

US$ LIBOR rates fell 2.6% year-on-year. Investcorp maintained a short duration interest rate risk bias throughout FY09 in order to benefit from these low benchmark rates.

The benefit of low absolute rates was somewhat offset by the impact of higher funding margins to LIBOR, which increased to 2.4% in FY09 (FY08: 0.9%). This increase was due to a combination of factors which reflect both the actual re-pricing of interbank credit and the dislocated funding markets that existed for much of the fiscal year. During the last quarter of calendar 2008 and the first quarter of 2009 actual interbank rates used to price transactions in the GCC and European markets were between 50bps and 100bps higher than the LIBOR benchmark rate-set and the LIBOR index was, temporarily, no longer valid as a correct market reference rate. The effect of the LIBOR-related variance was a decrease in interest expense of $78 million, which was partially offset by a $45 million increase in interest expense due to a higher spread to LIBOR.

Interest expense variance ($ millions)	FY09 vs FY08
Balance-related variance	11.9
LIBOR-related variance	77.7
Spread-related variance	(44.6)
Total variance	44.9

Interest expense also reflects the impact of higher cost-of-funding margins from switching to longer tenor liabilities as a result of the change in Investcorp's funding mix.

The credit rating downgrades in FY09 had no significant impact on Investcorp's interest expense, despite triggering contractual coupon step-up obligations contained in some of Investcorp's long-term debt agreements. Interest expense on this portion of debt will increase by approximately $1.1 million in FY10, reflecting the full annual effect.

Operating expense

Cost management initiatives implemented throughout FY09, including headcount reductions announced in December combined with lower incentive compensation, reduced total operating expenses, which fell by 22% to $206.3 million (FY08: $266.1 million).

Staff compensation represented 58% of total operating expenses (FY08: 64%) and compensation costs fell by 29% year-on-year as a result of the headcount reductions and lower incentive compensation.

Other expenses consist of non-compensation personnel costs (including staff training and recruitment), professional fees, travel and business development, and administration and infrastructure costs.

Opex metrics	FY09	FY08
Staff compensation ($ millions)	**120.0**	170.0
Other opex ($ millions)	**86.3**	96.1
Total opex ($ millions)	**206.3**	266.1
Full time employees (FTEs)	**317**	405
Staff compensation per FTE ($ 000s)	**378**	420
Other opex per FTE ($ 000s)	**272**	237
Total staff cost/total opex	**66%**	71%
Fee margin	**(31%)**	42%
Fee opex/fee income	**131%**	58%
Opex/(net income + opex)	**n.m.**	64%

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.

Summary by business units ($ millions)	Fee income			Asset-based income and unrealized FV changes			Total		
	FY09	FY08	Change	FY09	FY08	Change	FY09	FY08	Change
Private equity	**79.1**	247.0	(68%)	**(229.4)**	5.0	>(100%)	**(150.3)**	252.1	>(100%)
Hedge funds	**38.1**	85.7	(55%)	**(323.8)**	100.5	>(100%)	**(285.7)**	186.2	>(100%)
Real estate	**12.1**	50.2	(76%)	**(86.1)**	19.1	>(100%)	**(74.0)**	69.3	>(100%)
Treasury and liquidity	–	–	–	**72.9**	74.9	(3%)	**72.9**	74.9	(3%)
Revenue contribution	**129.4**	382.9	(66%)	**(566.5)**	199.5	>(100%)	**(437.1)**	582.4	>(100%)
Operating expenses	**(169.4)**	(223.4)	24%	**(37.0)**	(42.7)	13%	**(206.3)**	(266.1)	22%
Interest expense	–	–	–	**(115.0)**	(159.9)	28%	**(115.0)**	(159.9)	28%
Provisions	–	–	–	**(22.2)**	(5.4)	>(100%)	**(22.2)**	(5.4)	>(100%)
Net income	**(40.0)**	159.5	>(100%)	**(740.6)**	(8.4)	>(100%)	**(780.6)**	151.1	>(100%)

Revenue contributions across all three business segments were negative in the fiscal year. Low activity fees, and as a result low overall fee income, were further reduced by substantial asset-based losses and mark-to-market valuation declines. Other asset-based income decreased slightly from $74.9 million to $72.9 million.

Balance sheet

The key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY09	FY08
Total assets	**$3.6 billion**	$4.8 billion
Financial leverage*	**1.8x**	2.5x
Liabilities/equity	**3.0x**	2.9x
Shareholders' book equity	**$0.9 billion**	$1.2 billion
Regulatory risk asset ratio (Basel II)	**20.0%**	18.4%
Residual maturity—medium- and long-term facilities	**61 months**	61 months

*Adjusted for transitory balances

Assets

At June 2009, total assets were $3.6 billion, a decrease of $1.2 billion from the previous fiscal year end (FY08: $4.8 billion). The fall in total assets is a result of the initiative to aggressively de-lever the balance sheet. Co-investment assets have fallen by $1.6 billion, primarily by redeeming hedge fund co-investments for cash. Redemption proceeds together with the cash collection of receivables have been used to bolster cash liquidity and pay down short-term maturities of debt so as to mitigate near-term refinancing risk and reduce the overall risk profile of the balance sheet.

Assets ($ millions)	FY09	FY08	% Change H/(L)
Cash and equivalents	**1,129**	452	>100%
HF co-investments	**614**	2,021	(70%)
PE and RE co-investments	**1,187**	1,366	(13%)
Other	**690**	928	(26%)
Total assets	**3,620**	4,766	(24%)
Co-investment assets	**1,801**	3,387	(47%)

Co-investments in private equity, hedge funds and real estate risk assets as a multiple of book equity has therefore fallen from 2.7x to 2.0x. Nevertheless, Investcorp still continues to be a significant co-investor along-side its clients in each of the lines of business, accounting for 19% of total AUM at June 2009 (FY08: 22%).

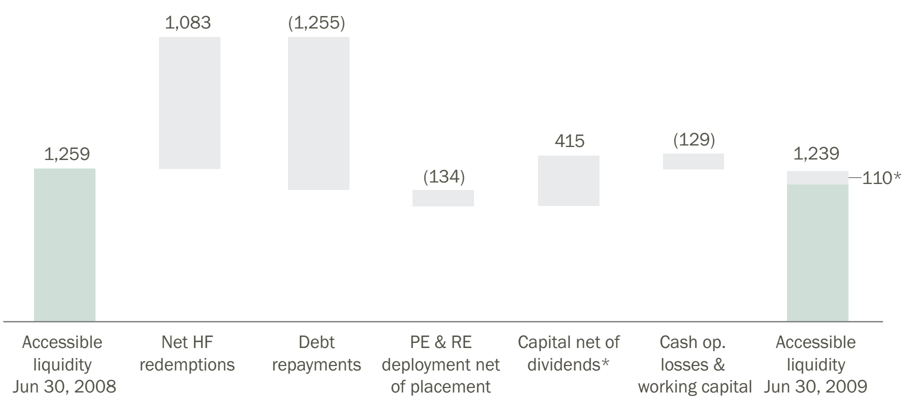
Liquidity

Investcorp has maintained a very conservative approach to liquidity throughout FY09, carrying high levels of immediately accessible cash invested in a combination of short-tenor government treasuries and money market assets. Committed medium-term revolvers were fully drawn down in September 2008 as a defensive measure, to counteract the extreme market conditions and systemic risk that persisted immediately following the Lehman Brothers collapse. The drawn funding, together with proceeds from the redemption of hedge fund co-investments, were used to delever the balance sheet and mitigate near-term financing risk by paying down uncommitted short-term interbank deposits, meeting client requirements for liquidity from their call accounts and repaying and prepaying near-term maturities of medium- and long-term debt.

Accessible liquidity (cash liquidity plus undrawn revolvers) at June 30, 2009 was $1.1 billion (FY08: $1.3 billion). The change in accessible liquidity since June 2008 is shown in the chart below and primarily reflects the repayment and prepayment of debt with cash raised from the issue of preference shares and redemptions from hedge fund co-investments.

Accessible liquidity

($ millions)



* Includes $110m of preference share capital shown as a receivable at balance sheet date

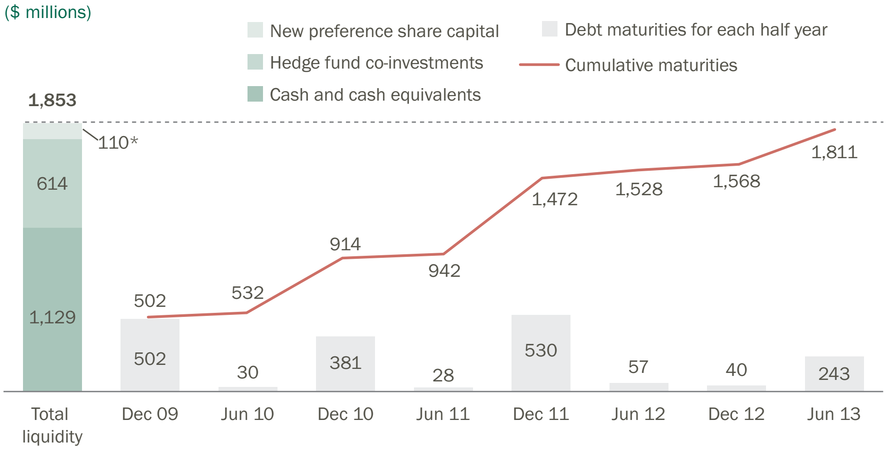
Total liquidity as at June 30, 2009 was $1.7 billion, comprising $1.1 billion held in cash and cash equivalents and $0.6 billion held in hedge fund co-investments. An additional $110 million of liquidity is expected to materialize in the very near-term as the last few remaining subscriptions for the preference shares are funded.

Other than approximately $100 million which is locked up until 2010, the $0.6 billion of hedge fund liquidity can be accessed through a managed redemption process from underlying managers. Of the total amount, $356 million or 57% is contractually available within a three-month period and $459 million or 72% within six months. Investcorp also has the option to accelerate the cash conversion of hedge fund assets by extracting up to $130 million of cash from its fund of hedge fund assets using a committed third party leverage facility (explained more fully below).

Total liquidity remains adequate to cover all debt maturing over the next four years, even assuming the worst case scenario in which re-financing markets remain completely shut until June 2012.

Liquidity cover

($ millions)



*$110m of preference share capital shown as a receivable at balance sheet date

Liabilities

Total liabilities decreased by 23% during FY09 from $3.5 billion at June 2008 to $2.7 billion at June 2009. The amount of $558 million drawn from committed revolvers funded the repayment of $155 million in maturing long-term debt and also the prepayment of $210 million of near-maturity long-term debt. The reduction in short tenor debt and the net increase in medium- and long-term debt has significantly changed the mix of liabilities and reduced refinancing risk. The prepayment and repayment of near-term maturities has maintained a weighted average residual maturity of slightly over five years.

Liabilities ($ millions)	FY09	FY08	% Change H/(L)
Short-term deposits	**305**	824	(63%)
Medium-term debt and deposits	**921**	996	(8%)
Medium-term revolvers—drawn	**798**	240	>100%
Long-term debt	**578**	972	(40%)
Other	**124**	497	(75%)
Total liabilities	**2,726**	3,529	(23%)

During the year, Investcorp entered into an agreement with a third party bank that provides access for Investcorp's balance sheet, at arm's length, to a committed facility. The facility is structured as a deposit agreement for one of Investcorp's multi-strategy Fund of Funds, is committed until March 31, 2012 and allows Investcorp to invest in a 2x leveraged note in this Fund on a non-recourse basis. Although the facility is also available to clients, Investcorp expects to be able to access up to $300 million of aggregate financing, if required. As at June 30, 2009 Investcorp had drawn $170 million under the facility.

Of significant note, Investcorp has re-financed the $142 million medium-term loan facility that became due after the balance sheet date in July 2009. A new short-tenor facility for $120 million was closed with key relationship banks in June 2009 and becomes due early in December 2009. Following the release of FY09 results, Investcorp intends to approach its wider banking relationships to arrange and execute a comprehensive re-financing for loan facilities maturing over the following two years, so as to put in place a stable long-term capital structure that will support Investcorp's business objectives while continuing on the path of de-leveraging and de-risking the balance sheet.

The $340 million reduction in other liabilities is due primarily to the funding, in FY09, of acquisitions contracted in FY08 and a lower incentive compensation.

Financial leverage, defined as liabilities adjusted for transitory balances divided by equity, was 1.8x at June 2009 (FY08: 2.5x) and remains well below external covenant ratios of 3.55x. Continued balance sheet de-leveraging is expected to further reduce leverage over the medium-term.

Credit ratings

Investcorp's credit ratings were downgraded during FY09, as part of a broad wave of financial services companies downgrades, globally and in the Gulf, which have for the present shifted credit perceptions of the market as a whole. The actions also reflect the downward earnings pressure on asset-based income during the year and the generally difficult business environment for the alternative investment industry.

The rating downgrades have no material incremental impact on Investcorp's current cost of funding and are not expected to have any material impact on operations. Investcorp believes that the successful completion of the preference share capital raise should support a stabilization of its current rating position.

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

Agency	Rating grade	Comment
Capital Intelligence	BBB+ Stable outlook	Rating and outlook confirmed in March 2009
Moody's Investors Service	Ba1 Negative outlook	Long- and short-term deposit ratings downgraded in May 2009
Fitch Ratings	BB+ On review	Long- and short-term issuer default ratings downgraded in May 2009

Prior to the completion of the preference share capital raise, Fitch downgraded Investcorp's credit rating because of a negative shift in earnings and the resultant decline in Investcorp's capital ratios. Fitch recognized the strength of Investcorp's Gulf-based franchise, its demonstrated expertise in alternative investments and its diversified funding base and indicated that it expects to resolve the rating watch position after it has visibility on the capital raise and FY09 earnings.

Moody's also downgraded Investcorp's credit rating in light of its more conservative assumptions about the length of the global recession and the strength of the recovery and its more negative view on the operating environment for alternative investment providers. Moody's acknowledged Investcorp's sound liquidity profile and the active management and relative resilience of the PE portfolio. Moody's also stated that the raising of at least $250 million in preference share capital would be seen as a positive influencing factor, among others, in the resolution of its current negative outlook.

Economic capital

Investcorp uses an economic capital allocation approach as the main tool to manage internal capital. Capital requirements are determined by a risk-based capital calculation against balance sheet exposures in an extreme stress scenario and a 100% correlation across asset classes.

The aggregate Economic Capital ('EC') requirement over a one-year horizon is given by a 99% VaR risk approach which is based on a multifactor model for private equity and real estate; and a Monte Carlo simulation for hedge funds. This aggregate capital allocation across all asset classes is taken as a linear sum of the individual capital for each asset class. This conservative allocation of capital reflects a steady state aggregate capital at the stress case assumption of asset-class correlation of 1. In the recent turmoil, aggregate economic capital has been increasing steadily as market volatility, counterparty risk and systemic risk increased throughout 2008. Concurrently, Investcorp assesses its long-term economic capital needs by taking into account both its organic growth objectives and capital requirements to support new businesses. This is accomplished using a Long Range Plan ('LRP') Monte Carlo simulation model which provides a projection of the equity cushion at the 99th percentile loss over a five-year horizon.

Throughout most of this crisis, which started in July 2007, Investcorp has managed to stand strong given its solid capital base and its avoidance of the toxic sub-prime and other structured assets that continue to cause problems to many banks across the globe. Investcorp has survived through a once-in-a-century event without having to scramble for cash or rely on government guarantees due to its conservative risk management based approach.

The balance sheet was always planned to be able to withstand stress scenarios and maintain an equity cushion even in the situation of a 99th percentile loss scenario over a one-year horizon. However, having gone through two years of increasingly stressed conditions, economic capital was impacted by the substantial realized and unrealized declines in asset values. The $1.6 billion reduction in balance sheet co-investments in order to reduce exposure and leverage has released economic capital from the balance sheet. The addition of new preference share capital has restored the equity cushion, helped meet Investcorp's overall deleveraging objectives and provided strong support for underwriting of deals and new business initiatives.

The events of FY09 and the ongoing uncertainty about the future global economic situation have led to an even more conservative risk-based approach to balance sheet management, calling for smaller amounts of co-investment and lower leverage. Investcorp will also continue to plan its economic capital requirements using a conservative 100% asset correlation assumption.

Book capital

Equity ($ millions)	**FY09**	FY08	FY % Change
Ordinary share capital	671	1,219	(45%)
Preference share capital*	500	–	–
Proposed common share dividends	–	63	(100%)
Fair value and revaluation adjustments	(277)	(45)	>(100%)
Net book equity	**895**	1,237	(28%)

*Includes $110m of preference share capital shown as a receivable at balance sheet date

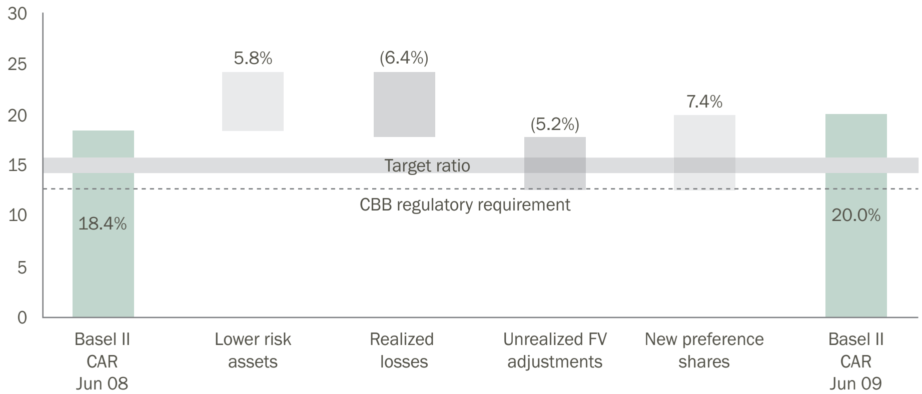
During the year, Investcorp raised $500 million of non-cumulative, non-convertible, non-voting, non-participating perpetual preference shares. The preference shares carry a dividend of 12% per annum for five years and, if not called at the end of five years, 12-months USD LIBOR + 9.75% per annum thereafter. The payment of dividends on the preference shares is subject to recommendation by the Board of Directors and approval by the Central Bank of Bahrain ('CBB') and holders of Investcorp's ordinary shares, but with the proviso that an ordinary dividend can only be paid after paying a preference share dividend. At Investcorp's option, and with CBB prior approval, the preference shares are callable at par at any time after five years.

Net book equity (including fair value adjustments) at June 30, 2009 was $895 million. The decrease from June 30, 2009 reflects the impact of value declines during the fiscal year, including $348 million of unrealized fair value adjustments, offset by the addition of new preference capital.

Regulatory capital under Basel II

The Basel II Capital Adequacy Ratio ('CAR') at June 30, 2009 was 20.0% (FY08: 18.4%), comfortably in excess of the CBB's regulatory minimum requirement of 12% and also in excess of Investcorp's stated target levels for regulatory capital of 14–16%. The increase in the Basel II ratio reflects successful balance sheet deleveraging as a result of the issue of regulatory Tier 1 capital and the managed reduction in risk weighted assets. Together these have more than offset the negative impact of current year losses.

Regulatory CAR



The relevant risk weights across each asset category, applied at June 30, 2009, are summarized below.

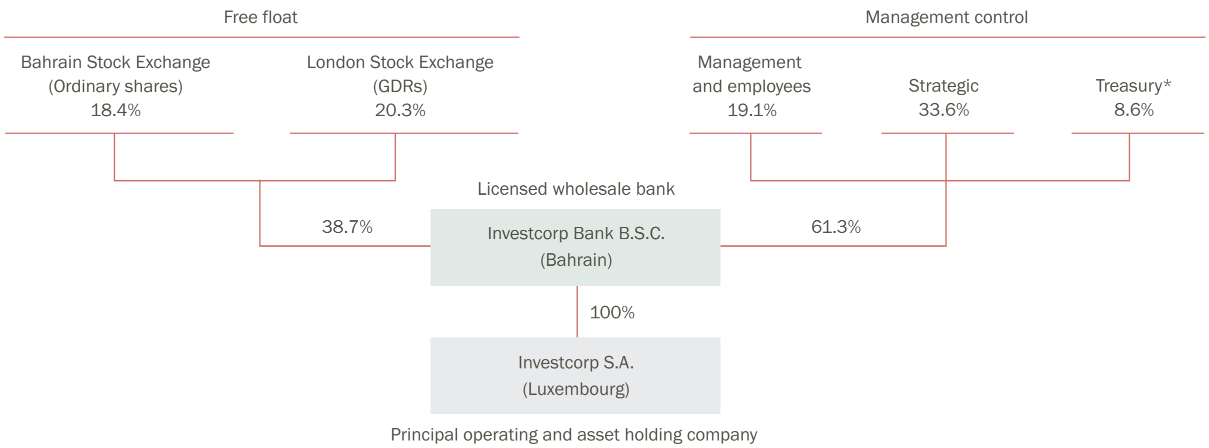
Asset class/segment	Basel II methodology Jun 09	Basel II risk weight FY09	Basel II risk weight FY08
Private equity	Standardized approach ('STA')	**150%**	150%
Real estate	Standardized approach ('STA')	**200%**	200%
Hedge funds	Banking book VaR based risk weight	**150%**	approx 110%*
PE and RE underwriting	Standardized approach ('STA')	**100%**	100%
Operational risk	Basic indicator approach ('BIA')	**15%**	15%

*Hedge funds Basel II methodology for FY08 was 'trading book VaR based risk weight'

During FY09, Investcorp completed the formal, independent, CBB-mandated risk assessment review which represents the Pillar 2 requirement of Basel II. A detailed report, prepared by CBB-appointed independent consultants, was provided to the CBB and no significant issues were highlighted. The final outcome of this assessment process will be subject to further review and comment by the CBB, which has indicated that it plans eventually to determine a specific risk-based minimum CAR target, for successful financial institutions, which may differ from the current 12% minimum requirement.

Shareholder base

Ownership structure



* Treasury shares include a portion that is held for future sale to management under the SIP Plan. The Group has approval from the CBB to hold up to 40% of the shares for the SIP Plan.

> Investcorp S.A. is currently a legal entity incorporated and registered in Luxembourg. Historically, Luxembourg has been an attractive domicile for the principal operating and holding company of the group as it offered favorable tax treatment. However, in 2010, these laws will change and Investcorp S.A. has therefore chosen to move its domicile to the Cayman Islands. Investcorp plans to implement the migration in the second half of 2009, subject to receiving approval from Investcorp S.A.'s lenders.

At June 2009, Investcorp remains a management controlled company, with management controlling the voting of 61.3% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 38.7% is held between owners holding 18.3% in ordinary shares on the Bahrain Stock Exchange, and those holding 20.3% represented by GDRs on the London Stock Exchange. During FY09, there has been a small net migration, equivalent to 0.4% of issued shares, of shareholders from GDRs into ordinary shares.

There were 382 share trades in aggregate on the Bahrain Stock Exchange during FY09 representing $0.9 million in total traded value and a volume weighted average price ('VWAP') of $2,407 or $24.07 GDR equivalent.

The average traded daily volume in FY09 on the London Stock Exchange was 50,702 GDRs which represents an average traded weekly value of approximately $0.9 million and is equivalent to a turnover of 1.6% per week of issued GDRs. The VWAP traded on the London Stock Exchange was $3.64.

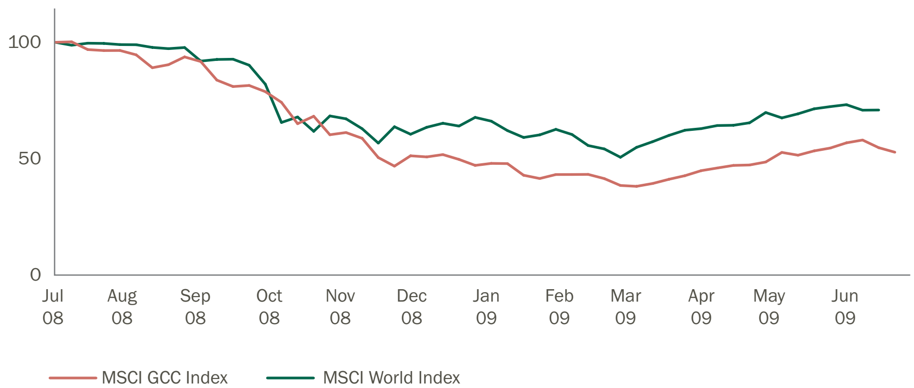
In December 2008, the UK Financial Services Authority (FSA) announced a consultation process for its proposal for restructuring the listing regime in the UK. The FSA is proposing to re-label and reclassify the existing listing segmentation of all securities that it has approved for trading on the financial exchanges in the UK. The new listing segments will be divided into 'Premium' and 'Standard' listings. GDRs will be eligible for Standard listings but not for Premium listings. Under the current proposal GDRs will retain their listed status by virtue of a 'Standard' listing. The FSA has stated that it intends to provide feedback on the results of the consultation process in the near future.

Market environment:

Impact of the credit crunch

During the fiscal year, global economies and markets felt the impact of the financial crisis that began in the US and brought on a swift and severe recessionary environment. Equity markets fell dramatically through March, as uncertainty and fear affected investors worldwide.

MSCI World and GCC indices



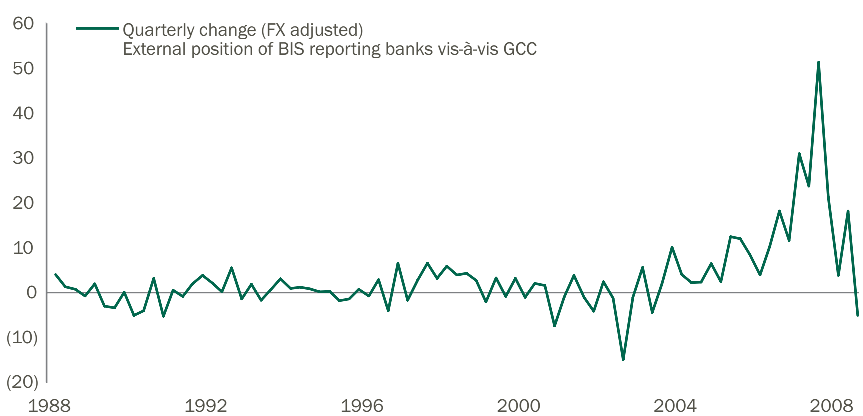
Source: Bloomberg
Both indices are taken at starting point of '100' as of July 2008

The Middle East was not affected by any significant direct exposure to toxic assets and the resultant financial stress in the West. However the region saw a downturn from the sharp decline in oil prices and shrinking revenues for oil exporters. The contraction in global demand and trade-related activity also resulted in lower exports and tourism proceeds. International credit markets and lower investor appetite for risk reduced capital inflows into the region, depressing local asset prices and reducing investment.

The GCC region has also been significantly impacted by the withdrawal of cross-border lending by both local and international banks, with some local institutions and family companies facing major liquidity problems. Instead of extending credit, local banks have been holding cash with their central banks which, in turn, have placed liquidity into foreign assets, mainly US treasuries.

Foreign banks reduce exposure to GCC

($ billions)



Source: BIS

The GCC's $100 billion debt market was practically frozen for six months as bond spreads and credit-default swap levels widened dramatically. GCC governments have responded by providing extraordinary support to their banking and investment sectors and have taken various steps to roll out measures to ease the pressure from the financial crisis.

Crisis response by GCC countries

	Financial sector				Macroeconomic	
	Deposit guarantees	Liquidity support	Capital injections	Equity purchases	Monetary easing	Fiscal stimulus
Bahrain		√			√	
Kuwait	√	√	√	√	√	
Oman		√		√	√	
Qatar		√	√	√	√	
Saudi Arabia	√	√			√	√
UAE	√	√	√		√	

Source: Provided by country authorities & IMF MENA Regional Economic Outlook 2009

More recently, some easing in local credit conditions has been evidenced by the success of sovereign and sovereign-backed benchmark debt issues. These offerings experienced good participation from international fixed income investors.

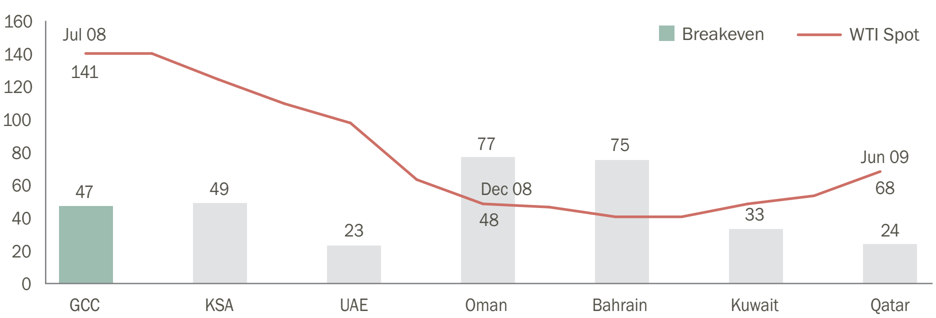
The IMF and the Arab Monetary Fund have also launched the Arab Market Development Initiative to improve the efficiency and functioning of debt markets in Arab countries.

Impact of oil prices

Between 2005 to 2008, with the backdrop of high oil prices and strong global investor interest in the region, the Middle East grew on average by over 5% a year. Record-high export receipts and a burgeoning external current account surplus that averaged over 20% of GDP resulted in the accumulation of an estimated $1.2 trillion in foreign assets and a significant reduction of government external debt.

Oil prices have fallen dramatically since the beginning of FY09 to levels, on average, that are close to the breakeven point for balanced GCC government budgets.

Breakeven oil price vs WTI spot price
($ millions)



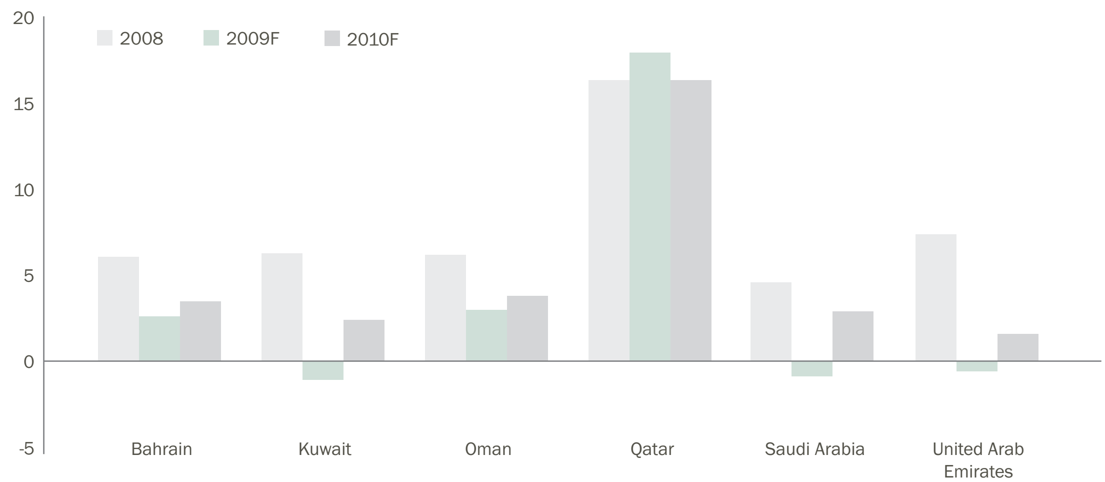
Sources: GIH Research & Bloomberg

OPEC has recently cut its five-year forecast for oil field spending by about a third, as the recession and increased energy efficiency have led to a near-term reduction in projected demand. The International Energy Agency (IEA), which coordinates policies among energy-consuming nations, has however warned that this could lead to a supply crunch by 2013. Both the IEA and OPEC agree that prices could continue rising after pushing up to $70 a barrel recently. This will be tempered by lower demand from developed industrialized countries, reflecting the impact of recession and the introduction of energy-efficiency and clean-energy laws.

According to OPEC, the oil market appears to have entered a new environment. At the beginning of 2009, most institutions were expecting that a continued deterioration in fundamentals and downward revisions to economic growth would exert a downward pressure on prices. Instead, prices have moved higher on the general perception in the market that the worst is over for the world economy.

In spite of the near-term dampening of growth prospects across the GCC, the outlook for hydrocarbon prices still supports projected further accumulation of wealth and growth in real GDP across the GCC region, albeit at lower levels than over the last three years. According to the IMF, the forecasted growth in GDP across the GCC countries for 2009 and 2010 is 2.5% per annum and 3.5% per annum respectively, which still compares favorably to a forecasted decline in the developed countries in 2009 of 3.8% and flat growth in 2010.

Annual change in real GDP in GCC oil export countries (%)



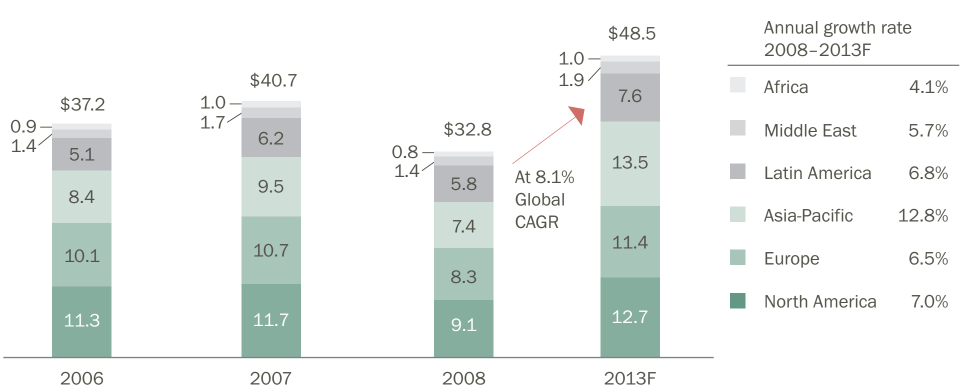
Source: IEA Oil Market Report 2009

Investable wealth in GCC region

The unprecedented declines in asset prices during 2008 wiped out two years of growth in 2006 and 2007, reducing both the world's HNWI population and its wealth to below levels seen at the end of 2005. HNWI wealth in the Middle East is estimated to have fallen by 16.2% in 2008, slightly lower than the average global fall of 19.5%. Ultra-HNWI suffered more extensive losses in financial wealth than the HNWI population (source: Merrill Lynch & Capgemini).

HNWI financial wealth forecast, 2006 – 2013F

($ trillions)



Source: Merrill Lynch and Capgemini World Wealth Report 2009

Looking forward, global HNWI wealth is forecast to grow strongly at an annual rate of 8.1% between 2008 and 2013 as the world economy emerges from recession. Wealth creation rate in the Middle East is projected to be 5.7%, lower than the global average and reflecting the fact that oil is expected to have a smaller impact on the growth of GCC wealth in the future than it has had in the past. At this growth rate, HNWI financial wealth in the Middle East will increase by $500 billion over the five-year period.

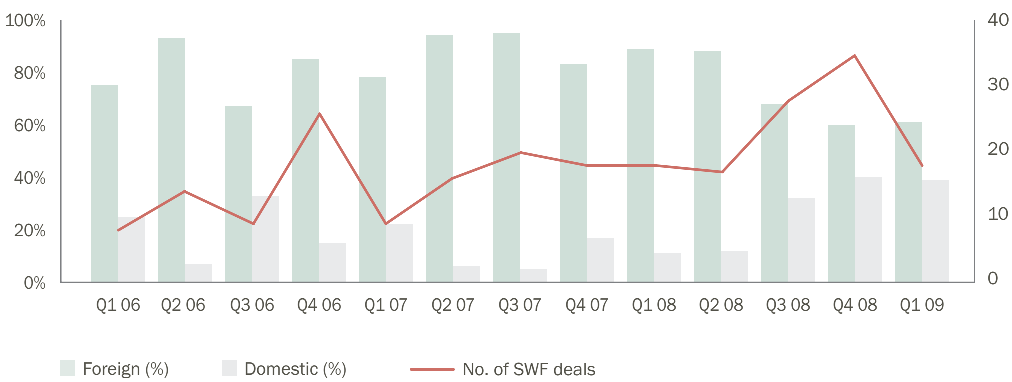
Investor appetite in current market

The steep decline in prices of public equities, a significant correction in some regional real estate markets and the sudden impact on GCC economies from the collapse in oil prices have distracted private clients from making new investment decisions. High levels of leverage have exacerbated investment losses, and the current lack of bank liquidity has forced corporate and personal deleveraging. Clients have moved temporarily into low-yielding cash assets and are expected to remain risk averse until markets stabilize and liquidity improves. Gulf institutional investors who use leverage and are concerned about debt refinancing have also been reluctant to invest.

These factors have impacted Investcorp's placement activity throughout FY09.

Sovereign Wealth Funds (SWFs) are expected to continue to maintain a longer-term investment strategy than other investors and continue to be active international investors. This is despite an increasing focus within the GCC region to invest more in infrastructure and services, where there are over $2 trillion worth of projects currently in various stages of planning or completion.

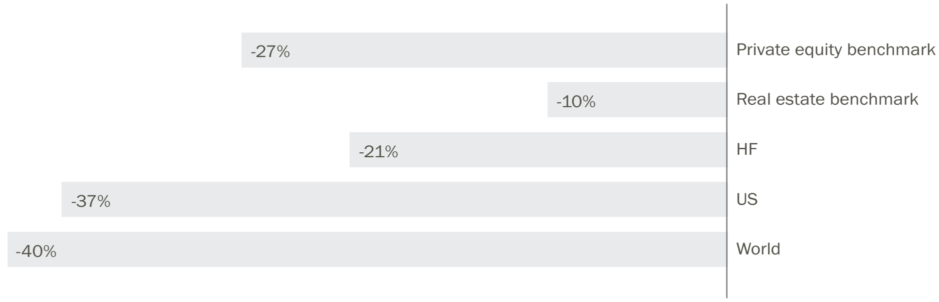
Middle Eastern SWFs investment



Source: Monitor FEEM SWF Transaction Database

The past nine months has seen unprecedented shocks in various markets, and, although the outlook for asset prices is uncertain, as a result of government stimulus programs and monetary easing, the outlook, both in the Gulf and in the West, is less uncertain than it was in the latter half of 2008. Investcorp believes that, with the dislocation in credit and asset prices that have occurred, alternative asset classes remain a value added domain for regional investors.

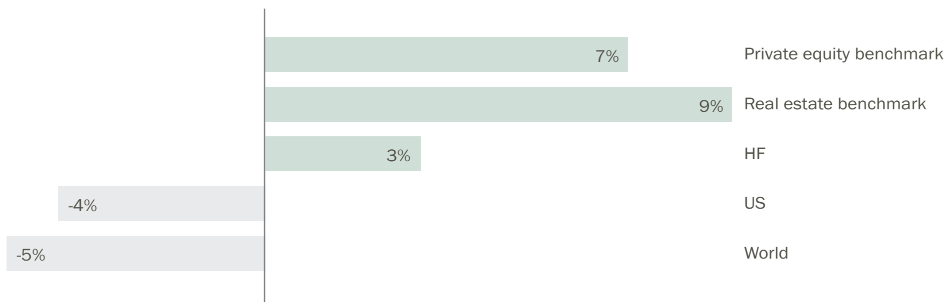
2008 returns



Sources: MSCI World ($ hedged), S&P500, HFR FoF Composite, NAREIT, Thomson Reuters and Investcorp estimates

This asset class has outperformed conventional markets both through the very challenging return environment of calendar year 2008 and over the longer term.

2000 – 2008 annualized returns



Sources: MSCI World ($ hedged), S&P500, HFR FoF Composite, NAREIT, Thomson Reuters and Investcorp estimates

Investcorp believes that, as sophisticated investors, private clients will continue to have an appetite for discretionary opportunistic investments, and will ultimately look to move a portion of their investable wealth out of the current low-yielding cash environment back into alternative assets.

Placement and fundraising

The focus of Investcorp's Placement and Relationship Management ('PRM') team in FY09 has been on client service. The number of face-to-face visits to clients was increased in order to provide up-to-date portfolio valuation and performance reports and to provide advice on asset allocation strategies. As a further part of Investcorp's firm-wide emphasis on transparency and commitment to disclosure best practices, top level senior management from portfolio companies will speak to key Gulf investors at a conference in the first half of FY10, and portfolio company management teams will also participate at an early stage in the placement process.

A good example of this service approach, and of the ability of the PRM and product teams to stay in close contact with clients, was the placement of a follow-on equity investment in Autodistribution, made as part of a restructuring of that company. The placement approach was focused on a five-week period, to ensure a rapid take up of this opportunity prior to the summer. All of the clients who made the original investment received an offering document, and most of them were seen face-to-face. The additional offering was fully taken up by early June and approximately $45 million of older subscription receivables were collected from the same clients in this period. Clients were appreciative that Investcorp had remained involved with the management of Autodistribution and, as a result, created an opportunity for those willing to commit money to safeguard their initial investment.

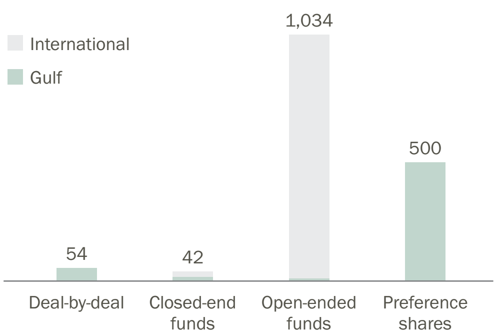
The other major focus of the PRM team has been Investcorp's preference share issue, which was marketed as a private placement with private and institutional clients in the Gulf. There has also been business as usual deal-by-deal placement activity for private equity (for the CEME and N&W investments) and real estate (for the Best Western investment), and the collection of capital calls on several closed-end funds raised over the past two years.

There were no private equity exits and only one real estate exit during FY09. However, there have been continued dividend payments from the income-producing real estate portfolios.

Total GCC and international placement and fundraising in FY09, including proceeds from the preference shares issue, was $1.6 billion compared to $4.7 billion in FY08. Actual cash collected from Gulf clients in FY09, which included the settlement of receivables, capital calls on closed-end funds, preference shares subscriptions and deal-by-deal product placement, came to a total of over $1 billion. This amount was only marginally lower than the cash amount raised from Gulf clients in FY08.

	FY09			FY08			
Fundraising ($ millions)	**Gulf**	**Non-Gulf**	**Total**	Gulf	Non-Gulf	Total	Change
Private equity	**69**	**25**	**94**	1,297	282	1,579	(1,485)
Real estate	**1**	**–**	**1**	1,263	–	1,263	(1,261)
Hedge funds	**12**	**1,022**	**1,034**	786	1,062	1,847	(813)
Preference shares	**500**	**–**	**500**	–	–	–	500
Total	**583**	**1,047**	**1,630**	3,346	1,343	4,689	(3,059)

Fundraising in FY09
($ millions)



Closed-end funds

Two private equity funds completed a final close in FY09. The Investcorp Private Equity 2007 Fund for US/EU buyouts closed at $746 million. Investcorp and affiliates have committed $270 million to that Fund. The fundraising process substantially increased Investcorp's profile with Western institutional investors and, as a result, the private equity team is now in open dialog with many prospective investors for the next buyout fund, contemplated for late 2010 or early 2011. The Gulf growth capital line of business's Gulf Opportunity Fund I was also closed at $951 million. Investcorp and affiliates have committed $76 million to the Fund.

In real estate, Investcorp launched Mezzanine Fund II, targeting $250 million in commitments. This Fund is the third real estate debt fund product from Investcorp, established to purchase and originate commercial real estate debt. Fundraising is in progress and includes the targeting of European institutional investors.

Investcorp is also in the process of launching a new business initiative that will focus on mezzanine debt financing in the MENA region. Mezzanine financing is in a nascent stage of development in MENA. While mezzanine instruments have been increasingly used in countries such as Turkey, and are also currently being considered by some entities in the UAE, they are still relatively unknown in the region. Investcorp believes that an attractive environment exists for significant growth in this type of financing both in the short- and medium-term, which will enable mezzanine financing to develop into an established asset class, as is the case today in developed markets such as the US and the UK and other European countries. The market is expected to benefit from projected solid medium-term economic growth in MENA, the expected continued robust growth in private equity activity in the region following unprecedented levels of fundraising in recent years, the historically limited access to credit which has been exacerbated by recent dislocations in the global credit markets, and the continued demand for growth capital by small- and medium-sized enterprises.

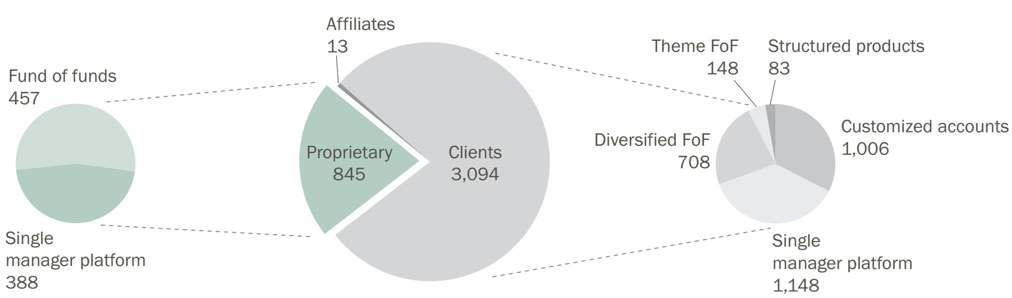
The new initiative will also complement Investcorp's Gulf growth capital business, which makes private equity investments in the MENA region.

The foregoing information about closed-end funds is being provided to satisfy the requirements of the UK Financial Services Authority. 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.

Hedge funds AUM

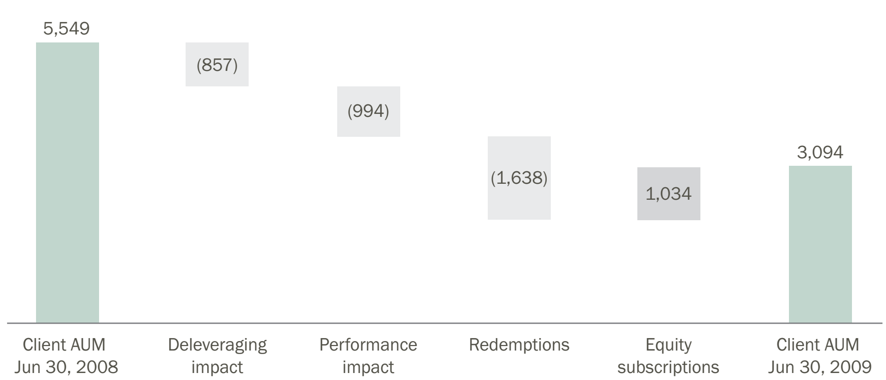
Total hedge funds AUM decreased by 49% over the year from $7.9 billion to $4.0 billion. The reduction in AUM resulted from a combination of structured product deleveraging, negative performance in the second half of calendar 2008, client redemptions and a reduction in Investcorp's proprietary co-investments. Client hedge fund AUM decreased by 44% from $5.5 billion to $3.1 billion. Proprietary co-investments dropped by $1.2 billion. Analysis indicates that this was generally the case in the industry and that other fund of hedge fund providers experienced a similar reduction in their assets under management.

Hedge funds AUM
($ millions)



Most of the reduction in client AUM occurred during the last quarter of 2008 and the first quarter of 2009 as investors rushed to access liquidity from whichever source they could. The volume of redemption activity slowed down substantially in the second quarter of 2009. Concurrently, new hedge fund subscriptions picked up momentum during the first and second quarter of 2009 indicating that the trough in hedge fund AUM has probably passed.

Hedge funds client AUM
($ millions)



This has been evidenced by the fact that Investcorp was awarded several significant new mandates for customized portfolios totaling $800 million in the first half of 2009 by a number of large US institutions. It also has proposals in the pipeline for further mandates exceeding $500 million that are expected to close during the second half of CY09. This is a strong endorsement of Investcorp's hedge fund platform including its institutional quality approach to manager selection, portfolio construction and monitoring, the strength of its proprietary risk management platform and the value-added services it provides. The new mandates include investments in Investcorp's 'portable alpha' structure, custom global macro as well as fixed income portfolios and investments into the single manager platform.

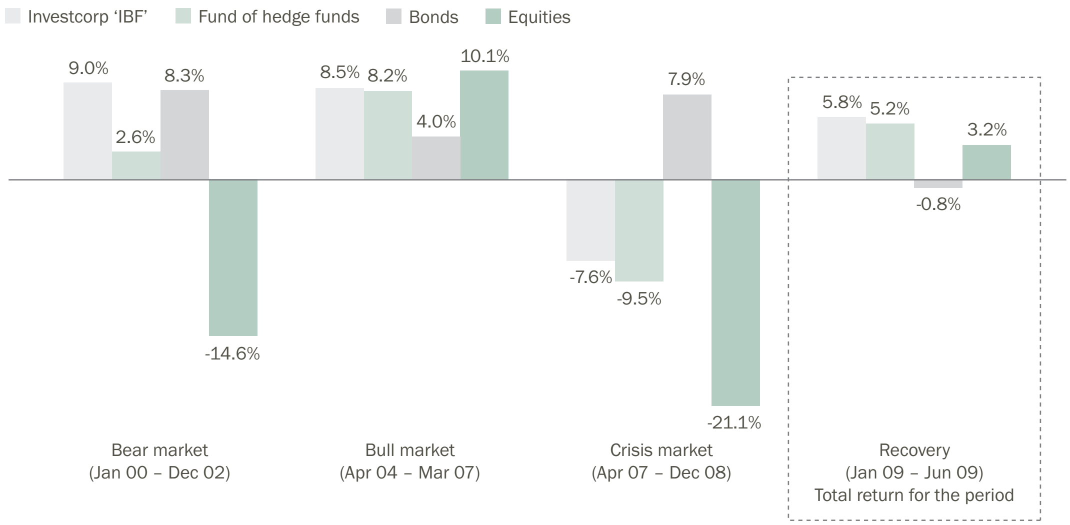
Critically, Investcorp's hedge funds investment team managed fund liquidity during the crisis period to accommodate redemption requests and deleveraging pressures. Unlike a large number of funds of hedge funds, Investcorp's funds did not put up any redemption gates. Even during this period, the portfolios were constructed in a well diversified and balanced fashion, and portfolio allocations were consistent with the opportunity set. These steps helped Investcorp's flagship funds and large customized accounts to generate returns of between 5% and 16% during the first six months of 2009, in spite of the impact of heavy redemptions at the end of 2008.

According to a new survey by The Bank of New York Mellon and consultants Casey Quirk, Middle East investors' share of global hedge fund assets will rise by almost 30% to $194 billion by the end of 2013. The survey concluded that this group of investors will account for about 7.5% of total global hedge fund assets in 2013, almost 30% higher than in 2007. Investcorp's ability to meet client redemption requests during the global financial crisis is a differentiating factor for the Firm and, together with the recent positive return environment for clients, should help in capturing private flows back into the hedge fund asset class in the future.

The fiscal year ended with a diversified AUM profile across product types and client geography. Assets under management on the single manager platform now represent 39% of the total hedge fund AUM (FY08: 28%). Clients outside of the Gulf now represent 58% of the total hedge fund client AUM (FY08: 36%). Institutional clients represent more than 80% of the client base and are well diversified across financial institutions, insurance companies, pension funds, fund of funds, endowments and foundations, governments and agencies, family offices and trusts.

Following the most difficult year yet in the hedge fund industry it is natural for investors to question their assumptions about hedge funds. Investcorp believes that the factors that impacted hedge fund performance in 2008 are transient and are not likely to have a lasting impact on the viability of hedge fund strategies. Indeed, hedge funds continue to be a platform that attracts the most talented investment managers and provides them with the incentives to generate solid returns for their investors.

Diversification



Sources: Bloomberg & HFRI
Equities: S&P 500; Bonds: Citigroup WGBI; Fund of Hedge Funds: HFRI Fund of Funds Composite Index

The hedge funds team believes that investment opportunities are extremely compelling in several strategies. The post-crisis era is expected to provide attractive opportunities in strategies such as fixed income relative value, convertible arbitrage and equity market neutral. The team also sees future opportunities in distressed debt.

Strong managers who are mitigating near-term risks and preparing to take advantage of the environment as it changes are leading the way. Investcorp's intensive manager identification and due diligence processes have identified new investment opportunities and managers. Investcorp believes that its hedge funds are well positioned to exploit these opportunities through such managers.

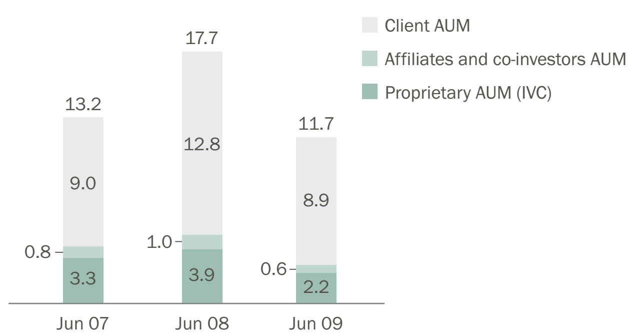
The crisis of 2008 has reinforced the importance of quality infrastructure, co-investment and institutional oversight, principles that underpin Investcorp's approach to hedge fund investing. The future environment is expected to validate Investcorp's enhanced investment process and the systems in place to achieve strong risk-adjusted returns.

Assets under management

Total AUM including proprietary co-investments has decreased in FY09 from $17.7 billion to $11.7 billion. Proprietary co-investment assets have decreased by $1.6 billion or 41%, reflecting Investcorp's balance sheet deleveraging activity and the impact of performance.

Total assets under management

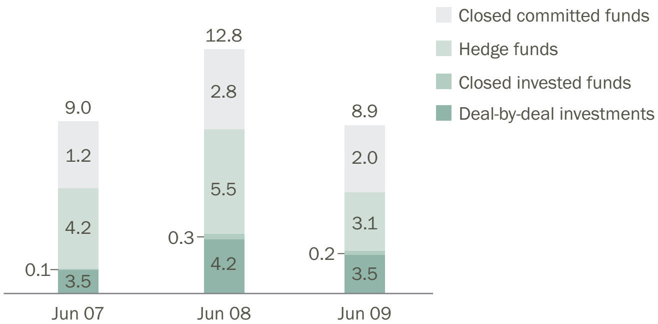
($ billions)



Client AUM declined by 31% to $8.9 billion from $12.8 billion in FY08, primarily across open-ended hedge fund products.

Total client AUM

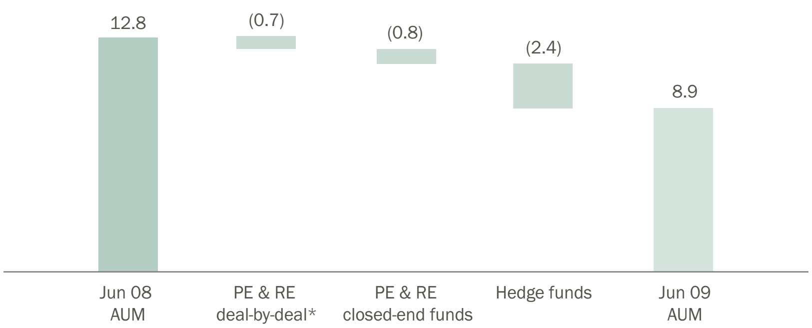
($ billions)



Approximately two-thirds of the decline relates to net client redemptions and deleveraging activity from hedge funds.

Investcorp client AUM changes during FY09

($ billions)

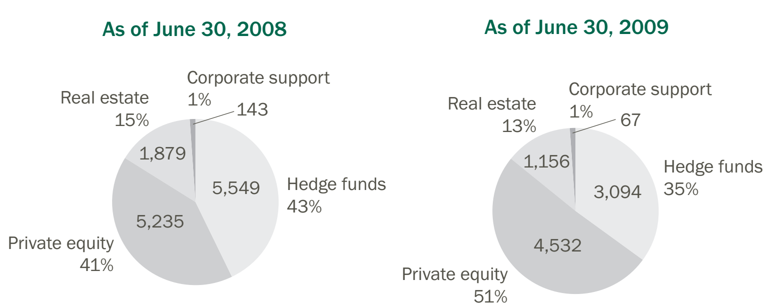


*Includes changes to client call accounts held in trust

There were no portfolio company exits from private equity during FY09 and due to the significant hedge fund redemption activity in H1 FY09, more than half of client assets are now invested in private equity.

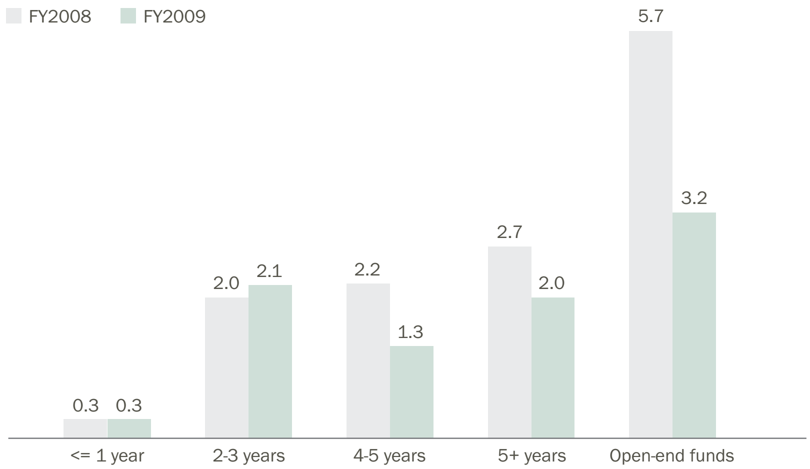
Client AUM

($ millions)



The average tenor of Investcorp's client AUM has changed during FY09, driven primarily by redemptions from open-end hedge fund products in the last quarter of 2008. Investcorp's past experience had been that open-end funds are relatively stable. Following the unprecedented turmoil in global markets in 2008, Investcorp believes that there is now evidence within the hedge fund industry that some stability in AUM levels will return in the second half of 2009.

Client AUM tenor
($ billions)



FY2008 as reported in June 30, 2008

Key AUM and fundraising performance indicators (by asset class)

Private equity:

PE key AUM and fundraising indicators ($ millions)	**FY09**	FY08	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,770**	1,831	(3%)
Deal-by-deal investments	**2,540**	3,148	(19%)
Closed-end invested funds	**223**	255	(13%)
Total client AUM — at period end	**4,532**	5,235	(13%)
Average client AUM	**4,883**	4,742	3%
Equity deployed	**490**	602	(19%)
Buyouts acquisitions deal size*	**540**	1,374	(61%)
Deal-by-deal placement in GCC	**52**	589	(91%)
Management fees/client AUM	**114 bps**	139 bps	(25 bps)
Acquisition fees/deal size	**2.3%**	3.3%	(1.0%)
Placement fees/deal-by-deal placement	**10.0%**	21.5%	(11.5%)

*Excludes portion of deals attributable to co-investors on which no fees are earned by Investcorp

Hedge funds:

HF key AUM and fundraising indicators ($ millions)	**FY09**	FY08	% Change B/(W)
Client AUM			
Fund of funds	**1,946**	3,908	(50%)
Single manager	**1,148**	1,641	(30%)
Total client AUM — at period end	**3,094**	5,549	(44%)
Average total client AUM	**3,907**	4,869	(20%)
Annualized fee yield (management fees)	**99 bps**	126 bps	(27 bps)
Annualized fee yield (performance fees)	**(1 bps)**	50 bps	(52 bps)

Real estate:

RE key AUM and fundraising indicators ($ millions)	FY09	FY08	% Change B/(W)
Client AUM			
End client AUM — closed fund (mezzanine)	**253**	953	(73%)
End client AUM — deal-by-deal	**903**	926	(2%)
Total client AUM — at period end	**1,156**	1,879	(38%)
Average client AUM	**1,167**	855	37%
Debt investments	**111**	122	(8%)
Equity deployed (excluding mezzanine debt)	**–**	391	–
Deal-by-deal placement	**1**	413	(100%)
Management fees/client AUM	**110 bps**	109 bps	2 bps
Acquisition and placement fees/equity deployed	**n.m.**	9.6%	n.m.

INVESTMENT BUSINESS REVIEW

US and European buyouts ('buyouts')

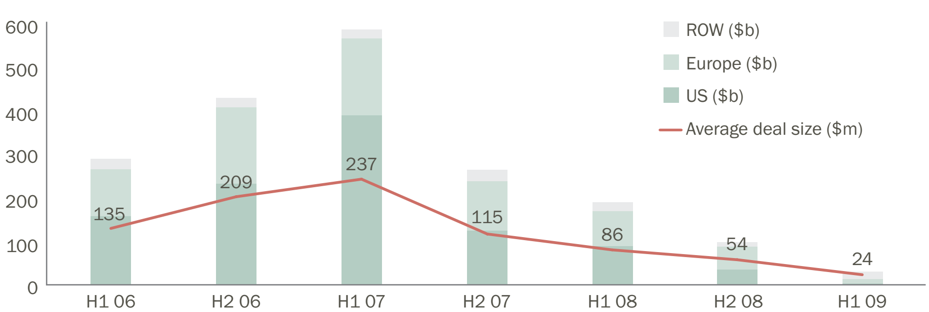
Business environment:

The effects of the continued deleveraging of the global financial system have impacted world markets and economies and the deterioration continued in the first two quarters of 2009, resulting in the worst economic performance in some countries since the Great Depression. Much of the industrialized world is likely to remain in a recession through 2009 although there is some rebound expected in 2010.

Visibility for many businesses is at an all time low. In light of the severely adverse economic environment, Investcorp's number one priority has been to ensure that its existing portfolio companies are in a strong position to weather the crisis. Through the continued and systematic execution of its Value Enhancement Model ('VEM'), Investcorp's private equity team is mobilizing internal and external resources to support portfolio companies that are feeling the effects of the current downturn. The team is also focused on some opportunities that these types of markets create for the portfolio companies.

Given the dramatic events in the financial services industry and the global economy, private equity activity has slowed down to a trickle since the end of the third quarter of 2008, and the value and number of buyout deals has been severely affected. The fact that the decline in the number of deals is not as pronounced as the decline in the value of deals indicates that firms that are active in the highest value transactions, the so-called 'mega deals', have been hardest hit by the credit crunch.

Global private equity deal volume and average deal size

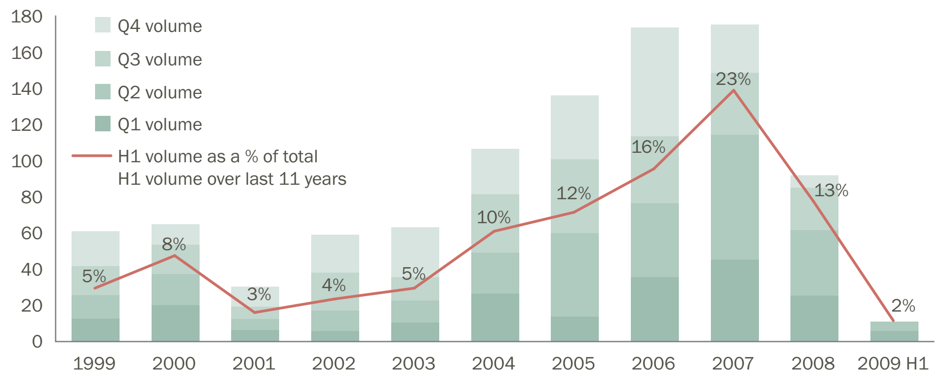


Source: Zephyr published by BvDEP

Investment activity in the US during the first half of 2009 may have marked the slowest six months in the last ten years, but US private equity firms are still doing some deals. In addition to 175 completed transactions in the second quarter of calendar year 2009, another 44 deals were announced (but have yet to close) totaling $6.5 billion. Smaller-sized middle-market deals, where Investcorp has historically been active, are the most frequent, reflecting the fact that more attractively priced investment opportunities can get transacted, albeit with less leverage. In the first half of CY09, mid-market deals accounted for 70% of all investments. Add-on acquisitions are also an area of focus, accounting for almost 30% of the overall deal flow so far in the US in 2009.

US buyside financial sponsor volume

($ billions)

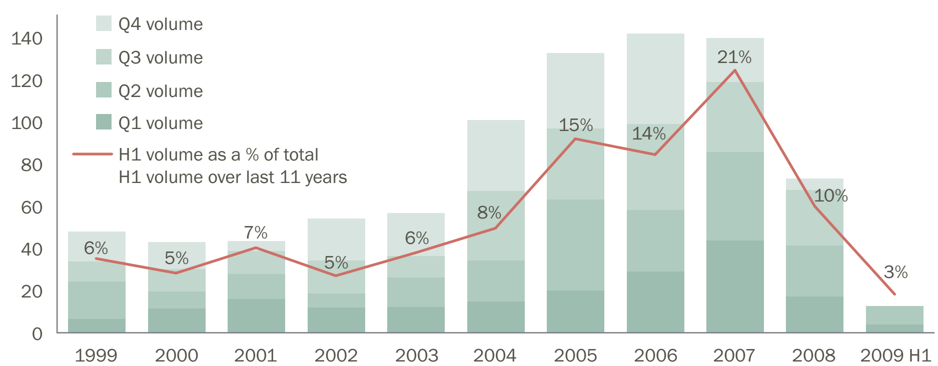


Note: Excludes all buyouts deals with enterprise values above $1.5 billion
Source: Thomson Reuters

Private equity activity in Europe has also showed no sign of improvement in the first half of the 2009 calendar year and was the slowest six-month period of activity in the last ten years with volume and value declining to new lows of 478 deals and $11.6 billion respectively. Only one transaction with a size in excess of $1 billion occurred.

European buyside financial sponsor volume

($ billions)



Note: Excludes all buyouts deals with enterprise values above $1.5 billion
Source: Thomson Reuters

Globally, there have been 178 debt defaults year-to-date, over four times the number of defaults for the same period last year. More than half of the defaulters this year either had, or continue to have, private equity involvement. Leading experts are predicting that one in two companies held by private equity firms globally may default due to the significant leverage used in financing these transactions combined with the weakened operating performance of these companies. More than 60% of private equity firms have portfolio companies with debt trading at distressed levels, and this percentage is expected to grow. According to Standard & Poor's, private equity portfolio companies in the US now account for one in every three companies that is identified as most in danger of debt defaults. With over $1 trillion in buyout related junk bonds coming due by 2014, and many private equity backed companies under a severe cash strain, industry write-downs, bankruptcies and defaults are expected to accelerate.

As a result Investcorp is closely focused on the debt management of its portfolio companies and is working to optimize capital structures, address potential covenant and maturity issues and, where possible and prudent, seek to reduce leverage by retiring debt when it can be purchased at a meaningful discount.

PE-backed bankruptcies have also been on the rise in recent years. In 2007, there were just two PE-backed bankruptcies; in 2008 there were 49 bankruptcy filings. In the first half of calendar year 2009, 49 companies with private equity backers filed for bankruptcy, well ahead of the previous year's pace.

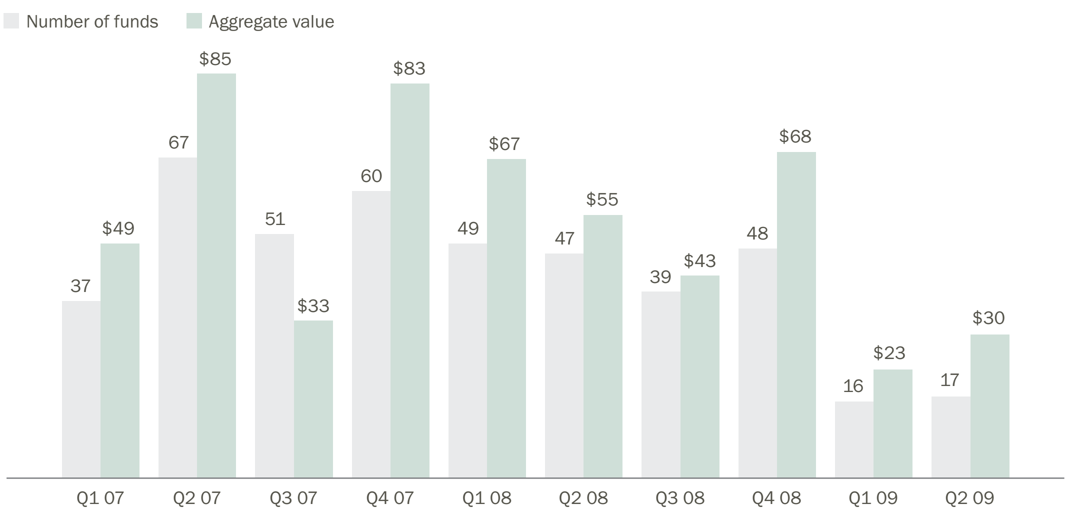
In the first quarter of 2009, private equity fundraising dropped to its lowest level since the beginning of 2006, and the number of buyout firms abandoning plans to raise capital is slowly on the rise. In the second quarter, 17 buyout funds raised a total of $30.1 billion in aggregate commitments, roughly the same number of funds as in the first quarter of the year, but a larger aggregate total.

Specifically, aggregate commitments of $30.1 billion were 11% more than the aggregate raised in Q1 CY09. Nonetheless, the figure is 56% lower than the $68.3 billion raised in the final quarter of 2008. These results show that the pace of recovery is still uncertain and the fundraising market for buyout vehicles continues to be difficult. Funds focused on the US were the most popular in terms of both number and size of funds raised. Investcorp expects the market for fundraising to continue to be difficult as many pension funds and institutional investors have less liquidity and have cut back on the number of firms with which they choose to invest.

However, private equity remains a relatively small asset class at $2.5 trillion of assets under management globally compared to the current $37.7 trillion world public equity market capitalization, and investors are expected to continue to increase demand for this asset class over the long-term.

US and Europe buyout fundraising Q1 2007 – Q1 2009

($ billions)



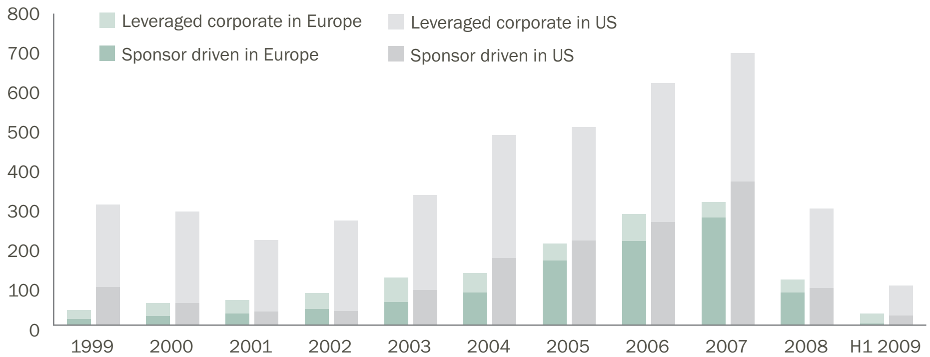
Source: Preqin

In spite of the dramatic events of 2008, and the many challenges that private equity will face over the next few years, Investcorp continues to believe that the private equity model will remain relevant. Private equity, particularly those models with international reach and a focus on operational improvement, is well suited to help companies through this difficult period. The availability of debt financing is expected to continue to be limited, which puts more emphasis on private equity firms being able to deliver value through operational improvement.

Finally, private equity activity is starting to accelerate. The IPO markets have picked up in the first half of calendar year 2009 and new issues by public firms reached a record level reflecting a more relaxed investor sentiment. The leveraged loan market, which was completely frozen at the end of 2008, showed signs of life in the first half of 2009.

Global leveraged deal volume

($ billions)



Sources: Thomson Reuters LPC/DealScan

Dow Jones Private Equity Analyst recently reported signs of an improvement in fundraising as global stock markets showed increased stability in the second quarter and the institutions and firms that invest in private equity funds as limited partners were able to get a better understanding of the state of their own balance sheets.

In terms of results, Investcorp expects that the leading private equity firms will have outperformed the top players in other asset classes during this challenging time period. Historically as shown in the table below, top quartile private equity firms have outperformed public equities and other asset classes even during difficult downturns.

Relative performance of private equity vs other asset classes

Index	5 yrs	10 yrs	15 yrs
United States — private equity buyouts	8.3%	5.8%	8.8%
Western Europe — private equity buyouts	11.8%	11.4%	13.4%
MSCI World (hedged)	(2.3%)	(2.3%)	3.0%
S&P 500	(2.2%)	(1.4%)	6.5%
NASDAQ	(4.7%)	(3.2%)	4.8%
HFR FoF Composite Index	1.9%	5.3%	5.6%

Source: Thomson Venture Expert

Investcorp also believes that top quartile performance in private equity is primarily driven by adding value to the operations of portfolio companies. This investment thesis is widely validated and supported by the investor community. It is a business model that Investcorp has developed and refined over many years and has the necessary infrastructure to support.

The business model:

It is widely expected that many private equity firms will not survive the current crisis and that the industry will see a considerable amount of consolidation over the next few years. Private equity firms with global experience and a proven ability to manage their portfolios actively to create value independent of market cycles are most likely to survive.

Investcorp has a proven strategy of investing in middle-market companies that are market leaders in attractive industries in both the US and Europe, have meaningful performance upside and can benefit from execution of the VEM. The Firm has successfully pursued this strategy since 2001, and its foundations are the focus on active management of the portfolio to achieve operational improvements and an international platform.

Market leaders in attractive industries in the middle market. Investcorp will continue its strategy of investing in middle-market companies with approximately $200 million to $1,000 million in transaction value. A pursuit of market leaders (typically first or second in market share) in attractive and less cyclical industries mitigates inherent risks associated with smaller middle-market businesses, which are sometimes considered more likely to fail than larger businesses. Middle-market businesses typically have more opportunity for operational improvements, and have historically benefited greatly from the VEM. Time has been spent this year capitalizing on the fact that almost every one of Investcorp's current portfolio companies is a market leader in its respective industry and on pursuing add-on acquisitions or other attractive opportunities to position the companies for growth and increased profitability both today and when the economy begins to rebound.

International reach. In an environment of intensifying globalization and competition, it is critical that private equity firms have a deep knowledge of international markets to ensure that portfolio companies remain competitive, and to enable them to evaluate new investments. This is as imperative for middle-market companies as for larger companies. Investcorp has offices in both the US and Europe and 25 years of experience in transatlantic investing and therefore has a particular understanding of the international marketplace. This creates advantages in due diligence, in executing transatlantic transactions, and in identifying value creation initiatives that require an understanding of international markets and business practices. Investcorp's portfolio companies have, and will continue to be, a catalyst for and a beneficiary of economic globalization.

VEM. Value creation plans and active portfolio management are necessary for success and the appropriate skills and resources are required to effectively execute such active portfolio management. Reduced financial leverage and multiple contraction have resulted in portfolio operational improvements becoming crucial to value creation. Investcorp's VEM was launched in 2001 and was the cornerstone of its strategy long before the current financial crisis. Investcorp focuses on both revenue and cost focused initiatives as well as building its portfolio companies. Its private equity professionals bring a high level of operating experience and management resources to middle-market companies. The Managing Directors have an average tenure at Investcorp of ten years.

Acquisition activity:

The downturn in the credit market and slowdown in the economy has resulted in a decline in investment activity during FY09 and this has depressed Investcorp's transactional deal-by-deal business. This downturn has been deeper than many initially predicted, and Investcorp expects it to get worse before it gets better. As a result, there is decreased visibility into future performance and the private equity team has therefore been cautious when approaching potential new investments, particularly over the amount of leverage it is willing to use. In the PE industry as a whole, the PE team is seeing more 'all equity' transactions, more acquisitions of smaller middle-market companies and more add-on acquisitions.

During the year, the PE buyouts team acquired N&W Global Vending ('N&W') for an aggregate equity deployment of €170 million. The company, with headquarters in Italy, is a leading manufacturer of food and beverage vending machines. It is the market leader and only pan-European manufacturer of vending machines and offers a full range of products. It operates in a market otherwise composed of smaller, regional competitors and has a significant global presence with offices in Argentina, Brazil and China. The acquisition was made on a joint basis with Barclays Private Equity, and the deal financing was provided by eight European banks.

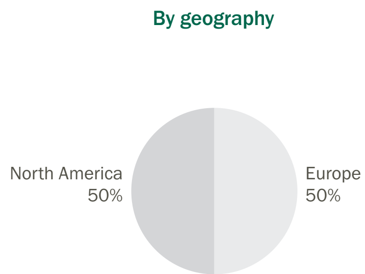
American Tire Distributors ('ATD') acquired Am-Pac Tire in December 2008, one of ATD's largest competitors. This acquisition is expected to yield significant synergies from warehouse consolidations and enable ATD to expand into new markets. Armacell acquired PropaCene, a US environmental-friendly foam technology manufacturer. FleetPride completed two small add-on acquisitions in the second half of 2008: a company based in Oregon (E.H. Burrell) and another in New York (Automotive Brake Co. of Newburgh). During the first half of 2009, it completed a small add-on acquisition in Florida (Multibearings Service Co.) and another based in Texas (Pro Truck & Trailer Supply). As of June 30, the company was close to completing two additional acquisitions located in the southern US. Moody acquired EDN Holdings in March 2009, an Australian based (but geographically diversified) provider of health and safety training and consultancy to the oil and gas industry. Randall-Reilly acquired eVision, a small trucker recruiting website business. SourceMedia's Accuity business acquired CB NET Services Limited, a London-based international payment efficiency company, which will strengthen its European presence. All of these add-on deals were funded through the respective portfolio company's cash resources, required no add-on capital from Investcorp and were acquired at attractive valuation multiples.

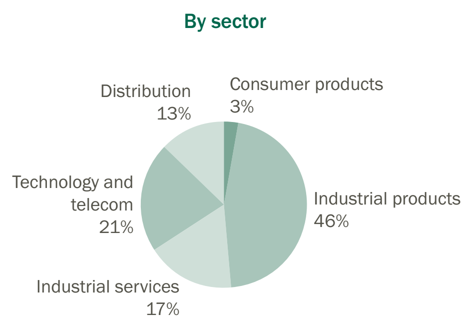
Portfolio performance:

The carrying value of Investcorp's balance sheet co-investment in US and European buyouts at June 2009 was $769 million ($922 million at June 2008) across 23 companies. Please refer to the table in Note 10(a) of the Consolidated Financial Statements of Investcorp Bank BSC, which summarizes the June 30, 2008 and June 30, 2009 carrying values by vintage years.

Investcorp's portfolio is well diversified with relatively low exposure to cyclical industries such as consumer, retail and building products.

Investcorp's buyout portfolio at June 30, 2009





Despite the economic slowdown last year, Investcorp's buyout portfolio EBITDA increased marginally by 1% in 2008, compared to a 15% decline for S&P companies overall. Although portfolio EBITDA for 2009 is forecast to decrease versus 2008, this projected decline would have been significantly larger without several cost savings initiatives implemented by Investcorp's buyouts investment team. The team has targeted $500 million of annualized cost reductions throughout the investment portfolio, which is equivalent to approximately 40% of the forecast 2009 calendar year aggregate EBITDA of approximately $1.2 billion. In addition to cost savings and operational improvements, the private equity buyouts team has worked with portfolio management to focus on reducing capital expenditures; managing working capital; optimizing capital structures; addressing potential covenant issues; and pursuing growth initiatives and highly selective add-on acquisitions. This has resulted in an additional $225 million of cash savings from both working capital and capital expenditure projects.

The five largest PE buyout investments represent 56% of the total portfolio and 48% of total shareholders' equity.

Portfolio company ($ millions)	Carrying value, as at June 30, 2009	% of total	% of total S/H equity
TelePacific	164	21%	18%
N&W	122	16%	14%
Icopal	54	7%	6%
CEME	47	6%	5%
Polyconcept	46	6%	5%
Five biggest co-investments	**433**	**56%**	**48%**
Remaining co-investments	**336**	**44%**	**38%**
Total	**769**	**100%**	**86%**

Restructurings and portfolio support:

In this challenging environment, Investcorp may face the possibility of some portfolio companies entering into bankruptcy and limited exit opportunities for the next 18 months with potential future valuation write-downs. Investcorp is realistic and expects that exits in such difficult market conditions will be a challenge. The team will continue to concentrate on reducing any threat to portfolio company cash, decreasing costs and minimizing risk positions by conducting continuous reviews of the companies and their industries. At this time, the PE buyouts team believes that such actions will be able to contain the adverse impact of the current recessionary environment on the overall portfolio. At present, the average debt across the portfolio is relatively modest at 6.5x EBITDA. Investcorp has had only one bankruptcy in its portfolio since 2007, as a result of having invested in companies with a solid history of steady cash flow.

One portfolio company, Autodistribution, was restructured during FY09. Following a series of exceptionally challenging events including a deep recession in France that led to a sharp deterioration of demand in the automotive aftermarket, Autodistribution breached its loan agreements' covenants. An additional and sudden stress also impacted Autodistribution's balance sheet from new legislation in France, the 'Novelli law' passed in August 2008, which made it illegal for French companies to extend credit terms beyond 60 days. This resulted in the immediate need for an additional €73 million of funding to support working capital. Faced with this deteriorating situation Investcorp worked with another private equity firm, TowerBrook Investors, and found a mutually acceptable solution with Autodistribution's lenders. Investcorp and TowerBrook jointly invested a total of €110 million of new equity into the company. Under this agreement, TowerBrook became the majority shareholder and Investcorp reinvested €24 million in Autodistribution as a minority shareholder, while retaining significant governance rights. The additional equity was offered to Investcorp's original investors and was priced and structured to allow them to potentially fully recoup their initial and additional capital investment.

Two other companies in the portfolio, TimePartner and EnviroSolutions, have also required attention. TimePartner has breached a financial covenant due to the deteriorating German economy. During the last six months of 2008 the German temporary staffing industry collapsed, leading to a drop of over 40% in the number of people employed in this sector. As a result, progressively weakening sales across a relatively high fixed cost branch network led to rapid deterioration in the earnings of the company. Investcorp has been working with lenders to restructure TimePartner's balance sheet. EnviroSolutions' operating environment continues to be challenging and the buyouts team is working with management to address covenant and potential liquidity pressures.

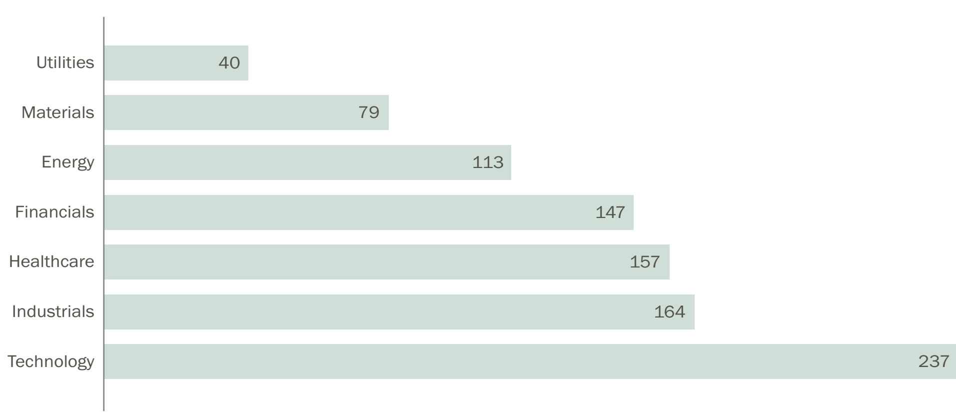
Investcorp estimates that it will use between 3% and 5% of the $4.4 billion of total equity originally invested in its existing portfolio in the form of support capital during this recession. Approximately half of that is already invested and the other half is expected to be needed over the next 18 months. Some portfolio companies may also require growth capital funding of a further 3% of initial equity invested.

Technology small-cap ('TSI')

Business environment:

Leading technology firms in all developed economies are feeling the impact of the global economic recession and, as a result, are making significant cuts to their revenue forecasts. Enterprise technology users are also tightening their capital budgets and delaying major software purchases. While technology M&A deals have slowed significantly, it remains the strongest sector by number of deals.

US M&A deals by industry type

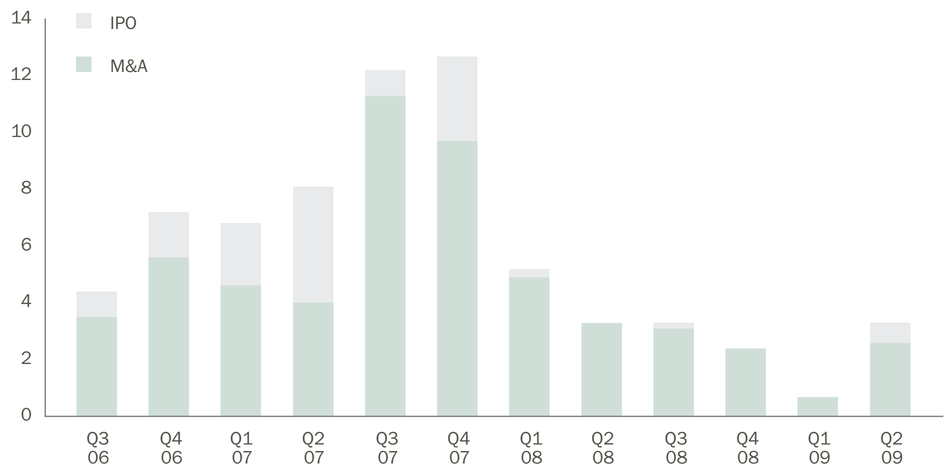


Source: Capital IQ

The mid-market sector continues to dominate and drive overall technology M&A activity. 85% of European technology deals and 78% of US technology deals have been valued between $20 million and $200 million.

Deal volume in technology sector

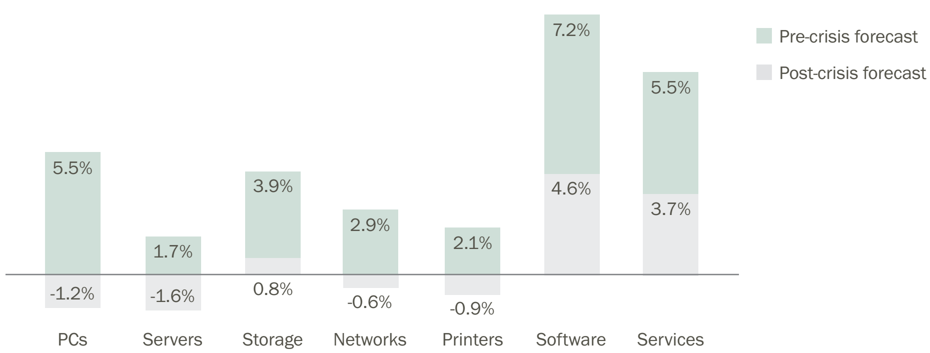
($ billions)



Source: VentureXpert

Technology spending in the US is projected to grow in 2009, albeit marginally, by 0.9%, despite continued difficulties for the US economy overall. According to the World Economic Forum, there are two main factors behind the sector's resilience. The first is that technology is constantly evolving and continues to make progress in a number of key areas. The second is that both the public and private sector have embraced technology as a major growth and productivity driver across all industries. In addition, the sector has benefited from renewed Federal and corporate focus on technology R&D as a primary competitive differentiator for the US economy.

Forecast on worldwide spending on IT



Source: IDC's Q2 and Q3 2008 Worldwide Black Books, Morgan Stanley Research

Top strategic investors have been significantly less acquisitive due to the current economic environment. This has lead to muted stock valuations and created a number of attractive opportunities for both add-on acquisitions and new investments. Likely acquirers are those with strong balance sheets and substantial cash balances.

Fundraising in the technology sector has been muted over the last 12 months. However, there are signs that this is coming to an end. Over the past three months, several technology-focused venture capital and private equity firms have successfully closed new funds. This is further proof of investor confidence in the strength of this sector.

Access to public capital via IPOs has also opened up very slightly but it remains highly selective. Venture capitalists continue to rationalize their portfolios aggressively, reflecting the lack of liquidity options and resulting in a substantial increase in the number of attractive, high quality private-to-private opportunities.

Blue-chip stocks with pristine balance sheets have been down 30% – 50% over the last 12 months. Valuations are more reasonable and the universe of mature technology companies with solid cash flow characteristics has increased substantially. Corporate carve-out activity for 2007 – 2008 equaled activity for 2003 – 2006 as companies have focused more heavily on their core operations.

Acquisition and realization activity:

Investcorp's technology investment business focuses on control-oriented investments in the IT and telecom sectors, with a preference for buyouts, corporate carve-outs and take-private transactions. It seeks to invest in profitable, growing companies with room for operational improvement. In general, the portfolio companies have limited direct exposure to the financial services industry and the team has been active in taking steps to insulate the few portfolio companies with direct exposure to the financial sector.

Fund III closed in January 2008 at $500 million and the team expects to make three to four investments per year with a target investment size of $25 to $50 million per deal. The team is targeting 10 – 12 investments overall.

A number of add-on investments have been made out of Fund II and two new investments have been made out of Fund III in FY09.

Acquisitions and add-ons

($ millions)	Sector	Company	Investment
Fund II (add-ons)	Communications infrastructure products	Antares	4.1
		Dialogic	5.0
		Kentrox	7.5
	Mobile data technologies and applications	InnerWireless (PanGo)	0.4
		Ubicom	0.5
	Digital content enablement	Magnum	0.9
		Moneybookers	8.5
		Zeta	3.0
Total Fund II (add-ons)			**29.9**
Fund III (acquisitions)	Mobile data technologies and applications	FleetMatics	40.0
	Enterprise software	TDX	43.0
Total Fund III (acquisitions)			**83.0**
Total acquisitions and add-ons			**112.9**

In July 2008, Fund III made a hybrid buyout-growth capital investment in FleetMatics, a leading telematics software solutions provider to the small-to-medium enterprise market. In December 2008, it signed a definitive agreement to acquire a 40% equity stake in UK-based TDX Group for £28 million ($43 million). TDX uses sophisticated analytic tools to maximize the recovery of defaulted consumer debt and is the largest and fastest growing player in the UK market. The company advises on more than 80% of the UK's Individual Voluntary Arrangements (IVAs) on behalf of creditors. IVAs are the process by which debtors negotiate a repayment plan with their creditors in order to avoid bankruptcy.

There were no exits during the 2009 fiscal year.

Portfolio:

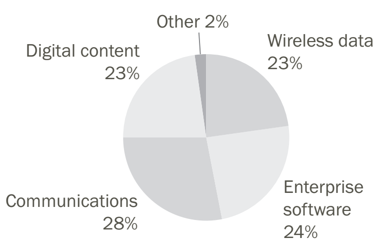
Fund I is fully invested and in harvest mode. Fund II is not making any new investments but has sufficient reserves for follow-on investments to support existing portfolio companies.

The carrying value of Investcorp's balance sheet co-investment exposure in TSI as at June 30, 2009 was $46.2 million.

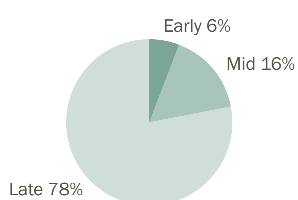
TSI Funds	Fund I	Fund II	Fund III
Fund size	$230 million	$300 million	$500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	89%	24%
Number of investments	24	12	3
Number of exits	20	3	0
Returned capital	$183 million	$37 million	$0 million
DPI	**88%**	**14%**	**0%**

Below are consolidated views of Fund I, Fund II and Fund III investments aggregated by sector, investment cycle and geography, as at June 30, 2009.

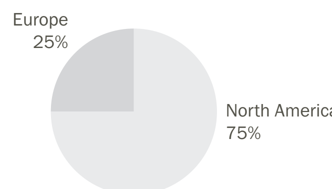
Sector



Stage



Geography



Outlook:

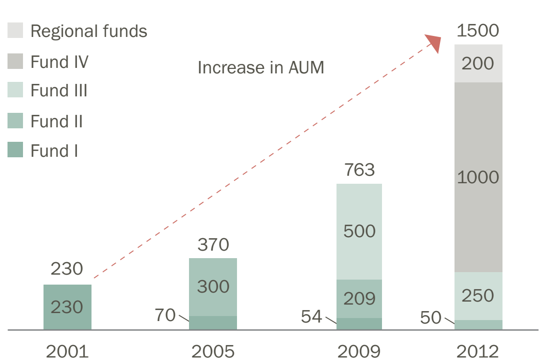
The investment team continues to see technology-enabled business models in software and IT services sectors that are well-positioned to withstand the impact of the economic slowdown, provided that end customers can see an acceptable return on investment before signing up for new deployments.

The investment team expects to see an increase in the number of opportunities that fit its highly selective deal criteria. Given the uncertain economic environment, it is highly focused on acquiring defensible businesses that are appropriately priced. Deal opportunities that were passed on over the last 12 – 24 months are beginning to return to the market on more favorable valuation terms, further validating the team's disciplined approach.

Over the medium-term, the business intends to grow assets under management to $1.5 billion, with an equal mix of international and Gulf-based investors.

TSI AUM growth plan

($ millions)



Private equity — technology small-cap portfolio

Investment ($ millions)	Investment theme	Location	Stage	Fund investment	Investcorp's exposure
Fund I (size: $230 m)				**51.2**	**4.3**
Genband (BayPackets)	Communications infrastructure products	US	Early	11.7	
Aurora	Digital content enablement	US	Late	4.2	
Atrenta	Enterprise software and technology outsourcing	US	Mid	6.0	
Vaultus	Mobile data technologies and applications	US	Mid	12.6	
Willtek*		US	Late	9.4	
i-Hatch	Other investments	US	N.A.	7.3	
Fund II (size: $300 m)				**194.4**	**26.1**
Antares	Communications infrastructure products	US	Late	27.8	
Eicon (Dialogic)		US	Late	30.0	
Kentrox		US	Mid	26.2	
Magnum	Digital content enablement	US	Late	21.4	
Moneybookers		Europe	Late	24.5	
Zustek (Zeta Interactive)		US	Late	30.0	
Kgb (InfoNXX)	Enterprise software and technology outsourcing	US	Late	15.0	
InnerWireless (PanGo)	Mobile data technologies and applications	US	Early	7.5	
Ubicom		US	Mid	11.9	
Fund III (size: $500 m)				**104.0**	**15.8**
Utimaco*/ Sophos	Enterprise software and technology outsourcing	Europe	Late	21.0	
TDX		Europe	Late	43.0	
FleetMatics	Mobile data technologies and applications	US	Late	40.0	
Total unrealized portfolio				**349.5**	**46.2**

*Publicly listed investments

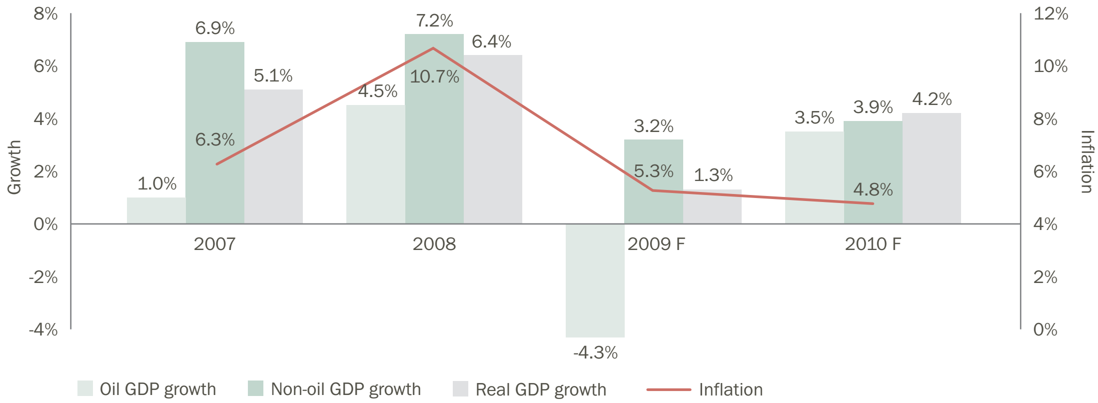
Gulf growth capital

Business environment:

This global financial crisis and the subsequent significant reduction in global economic growth have impacted the current economic environment across the Gulf, MENA and Turkey. This region has not been decoupled from the international markets and has seen a negative impact on regional financial markets, with lower energy prices and lower near-term economic growth. IPO activity in the MENA region declined by 87% during the first half of 2009 compared to the first half of 2008.

However, the crisis is certainly less acute in the Middle East compared to Western countries due to a number of structural forces. These include the resilience of the regional financial sector, the significant financial surpluses created in recent years and the deep reserves of available natural resources.

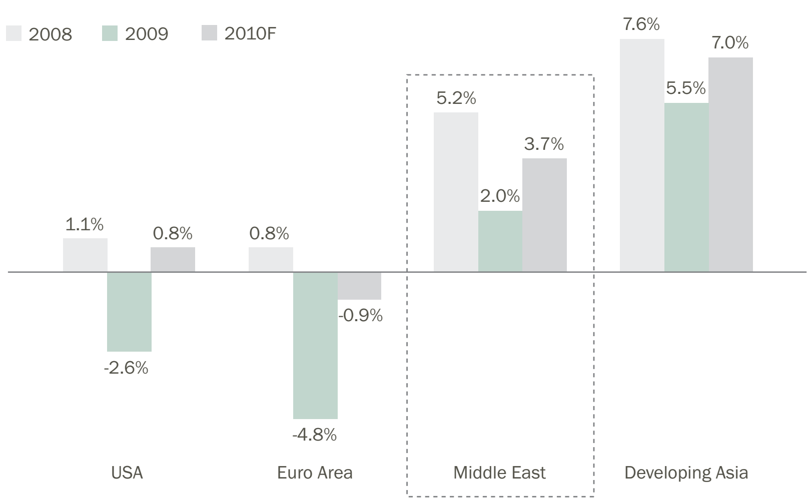
MENA growth and inflation



Source: IMF MENA Regional Economic Outlook Report May 2009

Although there has been a reduction to previous forecasts of economic growth in the region, a recession is not anticipated in the short-term. The IMF is forecasting GDP growth in the Middle East at 2.0% for 2009 and 3.7% in 2010, higher than the world average and significantly higher than in Western countries, where GDP is projected to contract in calendar year 2009.

GDP forecasts: Middle East amongst fastest growing economies globally

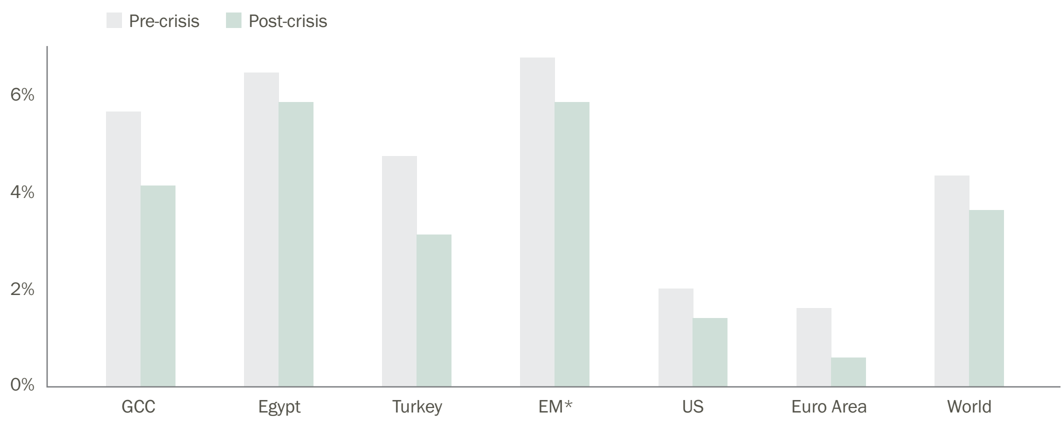


Source: IMF Report WEO July Update 2009

Action has been taken recently by the Governments within the GCC to stimulate their economies, improve infrastructure and make structural reforms. In addition there are significant regional competitive advantages due to cheap energy and labor, minimal fiscal costs and a strategic location between the East and West.

In the medium-term, these fundamental factors will continue to support economic expansion and augur well for steady and sustainable growth post 2009. Long-term economic growth, post-crisis, is predicted to decrease by approximately 1.5% versus pre-crisis projections but, post-crisis, the GCC compounded annual growth rate is still estimated to be a robust 4%.

Real GDP growth (2008 – 2013 compounded annual growth rate)



*Excluding Middle East, India and China
Source: IMF Estimates (October 2008) and Economist Intelligence Unit (February – April 2009)

Investment activities:

The Gulf growth capital investment fund, Gulf Opportunity Fund I (the 'Fund'), is a $951 million fund which will invest in 12 to 16 companies in MENA and Turkey, with a target holding period of three to six years. The timing of the Fund has benefited from the current regional economic outlook and a maturing investment climate.

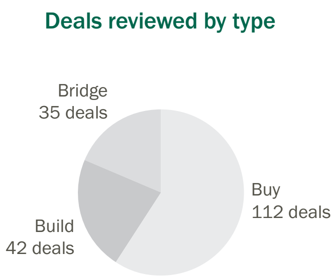
Although MENA and Turkey are projected to have strong medium-term growth, over the past 12 months public equity valuations and multiples in these markets have fallen to a greater extent than world equity indices. This is creating an attractive window of opportunity for growth capital investors in the region. Historically, the best performing private equity investments have been made in downturn years.

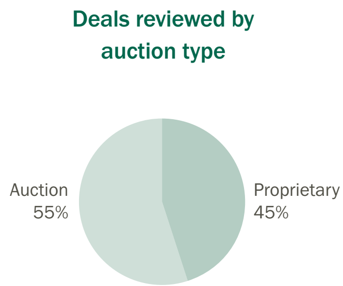
A gradual change of attitude among business owners is also supportive. Those that were formerly averse to selling are now open to financial investors. Some are still reluctant to release full ownership over the family business and the Fund is therefore prepared to look at minority interest investments which, at the same time, allow significant influence.

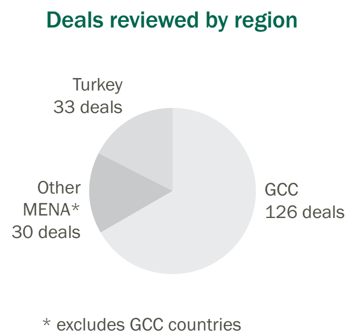
The Fund is also at a relatively early stage of its investment cycle with less than 25% of the Fund currently invested. This places the Fund at a distinct advantage to its core competitors who have less dry powder for investing and also pressure (versus their initial investment thesis) on portfolio companies that were acquired during the high valuation periods of 2006 to 2008.

The Fund will invest in a combination of: (i) 'Buyout' opportunities (majority and minority); (ii) 'Build' green-field ventures; and (iii) 'Bridge' opportunities, to bridge Western and Asian expertise, technology and franchises with market opportunities and players in the MENA region through acquisitions, relocation or joint ventures.

A total of 189 deals were reviewed during FY09, 20% of which were 'bridge', 20% 'build' and 60% 'buy' investments. Approximately half of the deal flow has been sourced through Investcorp's proprietary network, and the Fund has now developed an attractive pipeline of investment opportunities.







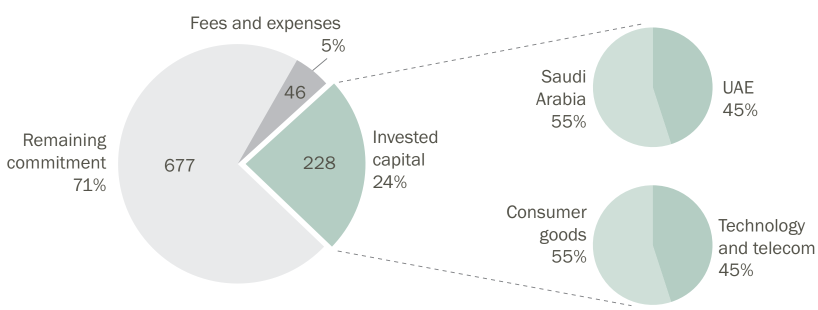
The Fund has closed two transactions in FY09 for a combined equity value of $228 million.

The first Fund investment was a 36% minority interest in Redington Gulf, the leading IT master distributor in the Middle East and Africa, which distributes IT and telecom products for global companies such as HP, Nokia, Acer and Samsung. IT master distributors are integrated supply chain management experts that provide the link between global equipment manufacturers and local resellers and retailers, who then sell the products to governments, companies and individuals. This investment, made as a capital increase, was closed in November 2008. Redington Gulf was previously a wholly owned subsidiary of Redington India Ltd, a prominent IT distributor listed in India, and operating in India, Asia, the Middle East and Africa. Redington Gulf has headquarters in Dubai, UAE.

The Fund closed its second investment in L'azurde, MENA's leading manufacturer and wholesaler of gold jewelry based in Riyadh, KSA. The investment was closed in March 2009 with the Fund leading a consortium in the acquisition of a 70% stake. The seller retained the remaining 30% interest highlighting the seller's belief in the significant value creation potential in the business. L'azurde is the uncontested market leader in the MENA region, nearly four times larger than its nearest competitor. The company has a high brand awareness and reputation among its customers, and has considerable growth opportunities in the GCC and wider MENA region. It has a long and well established track record, coupled with a highly attractive and resilient business model.

Overview of Gulf Opportunity Fund

($ millions)



Hedge funds ('HF') asset class

Business environment:

In 2008 the global financial system faced an unprecedented market failure and hedge funds were unable to play their traditional role of protecting capital in a downturn. The financial system in which hedge funds hold cash and securities, and through which they finance, execute and clear their trades, essentially stopped functioning. Banks around the world were forced to write-off hundreds of billions of dollars in losses from their holdings of toxic assets. As a result, they were forced to sell other assets to de-lever, dramatically reduce lending of all types, including to hedge funds, and to step back from market-making activities. This prevented their clients, including hedge funds, from executing effectively. Hence, like many other types of investors, hedge funds were victims of the banking crisis and a perfect storm of systemic events.

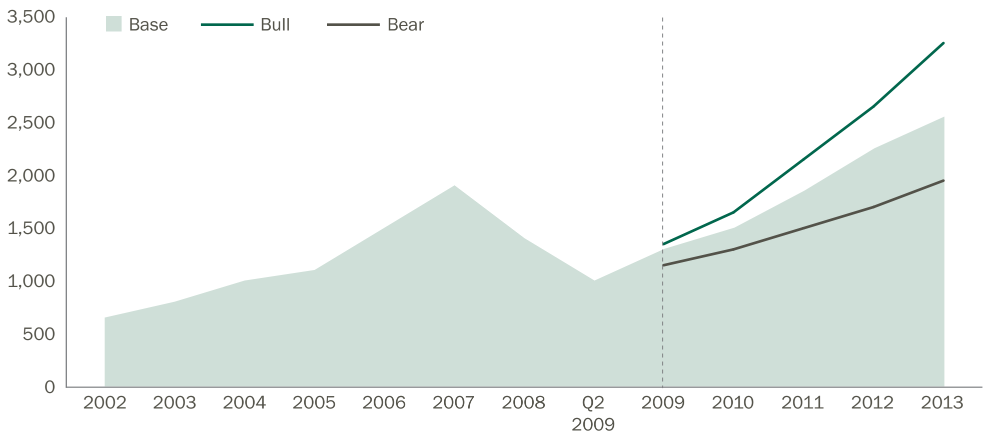
After the bankruptcy of Lehman Brothers, banks stopped lending to investors and to each other, leading to drying up of liquidity. Hedge funds were stripped of the traditional tools they use, such as short selling. This forced hedge funds to cover positions and realize losses where they would otherwise have generated profits. Following the Lehman bankruptcy, between September and December 2008, the HFR Fund of Hedge Fund Composite index fell 15.9%, while the S&P 500 fell 28.9%. A bulk of the losses for the hedge funds industry in 2008 were caused during this post Lehman bankruptcy crisis period when an unparalleled confluence of events prevented hedge funds from protecting capital.

Investors in hedge funds, nursing losses in other asset classes, scrambled to raise liquidity and put in redemptions on an unmatched scale. This put further pressure on hedge funds that were struggling in an already difficult environment.

Global hedge fund assets have now fallen from their peak of $1.9 trillion and are expected to bottom out around $1 trillion. Nonetheless, this asset class is projected to at least double and possibly triple in size over the next five years.

Hedge fund assets

($ billions)



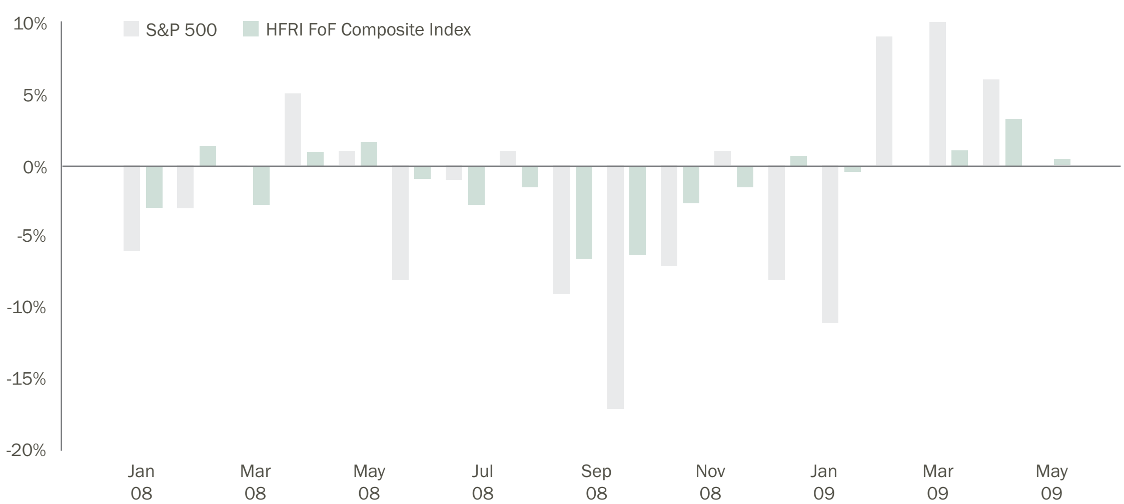
Source: Hedge Fund Research, Bank of New York, and Casey Quirk and Associates analysis 2009

Clearly, such an extraordinary combination of events had not been seen previously in modern markets. While it is difficult to say that the industry will never see such a period again, Investcorp believes that actions taken by governments and regulatory agencies worldwide have reduced the probability of a large systemic banking shock. While institutions may still fail, they are unlikely to have as large or serious an impact on markets as the Lehman bankruptcy.

Investcorp funds had no material direct exposure to Lehman Brothers and the overall direct impact of the Lehman Brothers bankruptcy was minimal. Investcorp funds also had no exposure to investments related to Bernard L. Madoff Investment Securities LLC.

The impact of the Lehman bankruptcy on the global financial markets now appears to be over. Hedge funds were able to protect capital during the down markets of January and February 2009 and have continued to post strong returns for the first half of the 2009 calendar year that are uncorrelated to directional equity markets.

HFRI FoF Composite Index vs S&P 500 Index



Sources: HFRI & S&P

Investcorp's business model:

Investcorp believes that the lasting impact of this crisis will be the acceleration of a trend towards institutionalization of the hedge fund industry and a convergence with Investcorp's approach to hedge fund investing across a number of areas:

Transparency and managed accounts: Investors will increasingly move away from managers who provide little or no transparency. Nearly 70% of Investcorp's portfolio is transparent at the individual position level (daily transaction-level and daily and monthly position-level data) and a sizeable portion is in managed accounts.

Innovative risk management: Investors will demand better risk analysis and will no longer accept summary risk information or a manager's word that risk is 'under control'. Investcorp conducts comprehensive risk analysis of its investments for its entire hedge fund program.

Custom solutions: Investors will demand custom solutions tailored to their individual risk preferences. A sizeable component of Investcorp's assets is managed as custom accounts for some of the world's largest institutional investors.

Co-investment: Investors will require meaningful alignment of interest between the manager and the client. Even with a significant reduction of its proprietary co-investment in hedge funds, Investcorp continues to be the largest investor in its hedge fund program.

Institutional funding arrangements: Investors will require committed long-term funding arrangements. Investcorp utilizes its institutional relationships in negotiating attractive financing terms and robust documentation.

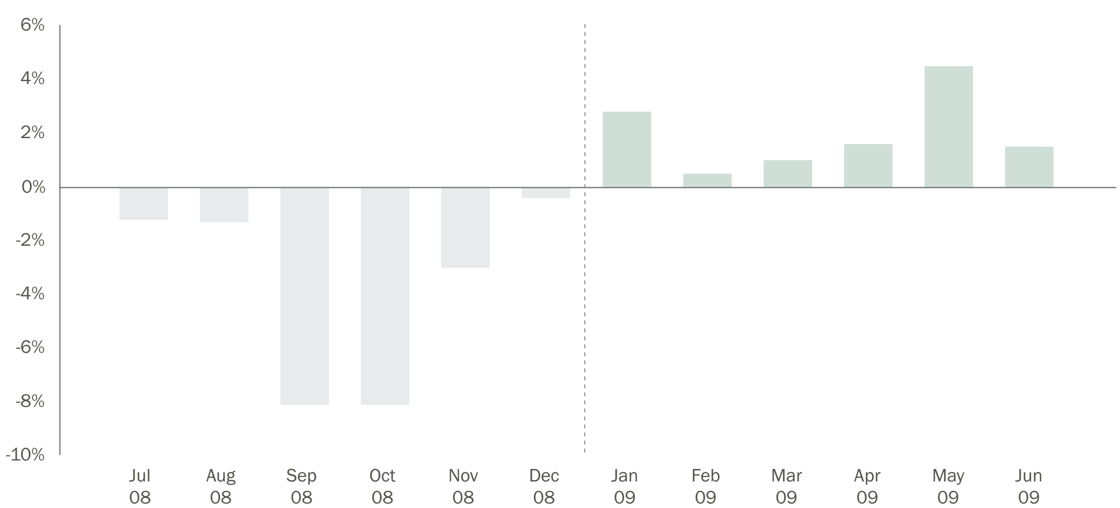
Investcorp also emphasizes a preference for managers who have independent service providers and strong infrastructures and processes in place to control fraud. Managed accounts are used to control operational and market risk and Investcorp seeks to obtain full transparency from its underlying managers.

Investcorp's hedge fund portfolio:

(i) Performance

Proprietary co-investment returns from hedge funds for H2 FY09 reflect a stabilization of the asset class after the systemic crisis in September and the subsequent market fall-out through December. They are a stark contrast to the returns reported in H1 FY09. Monthly returns in each of the last six months of FY09 were positive and have reflected a lowering of systemic risk and an increase in market liquidity, factors which are prerequisites for positive hedge fund performance.

Investcorp hedge fund proprietary returns



(ii) Portfolio positioning

Throughout the second half of FY09, the portfolio was positioned to take advantage of opportunities available in relative value strategies that were affected by liquidity driven dislocations (fixed income relative value and convertible arbitrage). The portfolio was also positioned to exploit the opportunities available in Macro strategies. Investcorp continues to remain positive on these strategies and also expects that credit and distressed strategies will outperform equity oriented strategies (event driven, long-short equities) in the current environment. A high level of portfolio insurance was maintained during the crisis, but the allocation has been pared back recently.

Although the worst of the crisis has passed, economic fundamentals are still weak and any recovery is likely to be mild. Investcorp's portfolio investment strategy has therefore concentrated on avoiding aggressive directional positions, to stay liquid and flexible in what continues to be an uncertain environment.

(iii) Liquidity

Investcorp has been prudently managing the liquidity of its hedge fund portfolios through the crisis. While many managers imposed redemption gates, Investcorp did not impose any gates for its clients and met their redemption requests in full. It also generated $1.1 billion of liquidity for Investcorp's balance sheet during the fiscal year, in support of Investcorp's balance sheet de-leveraging plans. Of this, approximately $1 billion was funded from fund of funds redemptions and $0.1 billion from single managers. Despite meeting the liquidity requirements of its clients including Investcorp Treasury, the integrity, diversification and liquidity profile of the HF portfolios were preserved. Through the crisis, strategy allocations were kept consistent with the investment views held by the investment team. As a result, Investcorp's co-investment portfolio generated a 12.3% non-dollar weighted return in the first half of calendar year 2009.

Investcorp's current co-investment portfolio reflects high liquidity accessibility. Approximately 57% of investments can be redeemed within three months, and approximately 72% can be redeemed within six months. The investments in the single manager platform also exhibit an excellent liquidity profile, with 74% of current investments available for redemption within three months.

Liquidity profiles of HF portfolio	Fund of funds	Single managers	Total portfolio
Within 1 month	21%	21%	21%
Within 3 months	28%	74%	57%
Within 6 months	68%	74%	72%
Within 12 months	84%	74%	78%

(iv) Exposure

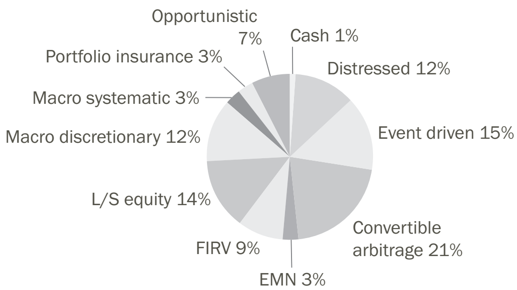
Investcorp's proprietary co-investment includes investments in its fund of funds products as well as its single manager program. As at June 30, 2009, Investcorp had a gross hedge fund exposure of $845 million, with $457 million in fund of funds and $388 million in single managers. There is $230 million of third-party provided leverage embedded in Investcorp's fund of funds exposure, resulting in $614 million of net cash investment in aggregate. Investments in fund of funds products are in diversified portfolios across different strategies, while Investcorp's investments in the single manager platform are across seven specific hedge fund strategies.

Investcorp's single managers are listed below:

Investment manager	Investment strategy	Launch date	Location
Interlachen Capital Management LLC	Multi strategy	April 2006	Minneapolis, Minnesota
Cura Capital Management LLC	Relative value	December 2004	New York, New York
Silverback Asset Management LLC	Convertible arbitrage	November 2006	Chapel Hill, North Carolina
WMG Asia Limited	Long/short equity	March 2007	Hong Kong
Stoneworks Asset Management LLC	Global macro	August 2007	London, UK
White Eagle Partners LLC	European event driven	June 2008	New York, New York
Hawkstone Capital LLC	European long/short	October 2008	New York, New York

Details of the strategy allocations across the total portfolio as at June 30, 2009 are shown below:

Exposure by strategy



All alternative and conventional asset classes exhibited a high correlation to each other during the market's systemic crisis over the last 12 months. However, over the medium-term, Investcorp's proprietary co-investment in a diversified strategy hedge fund portfolio shows low correlation to other conventional asset classes.

	Last 5 years		Since inception	
Correlation to other asset classes	**DSF**	IBF	**DSF**	IBF
Correlation to S&P 500 Index	**0.51**	0.55	**0.36**	0.38
Correlation to NASDAQ Index	**0.52**	0.57	**0.30**	0.35
Correlation to MSCI World Index	**0.62**	0.66	**0.44**	0.45
Correlation to Citigroup WGBI Index	**(0.32)**	(0.31)	**(0.11)**	(0.05)

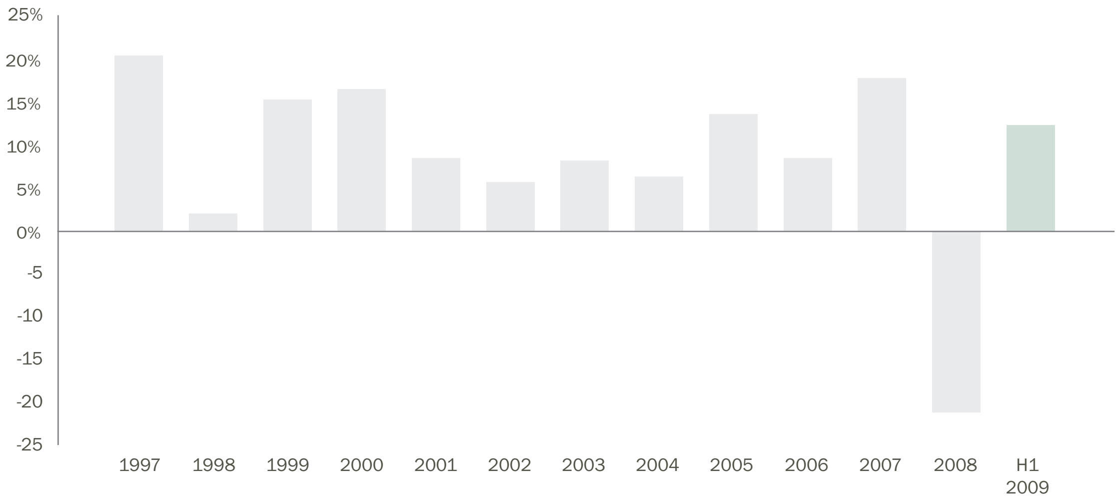
Details of proprietary and client AUM as at June 30, 2009 and 2008 are shown below:

Hedge funds AUM ($ millions)	**FY09**	FY08
Clients		
Diversified FoF	**708**	1,438
Theme FoF	**148**	412
Structured products	**83**	1,418
Customized accounts	**1,006**	639
Single manager platform	**1,148**	1,641
Total client AUM	**3,094**	5,549
Proprietary co-investments		
Fund of Funds (FoF)	**457**	1,536
Single manager platform	**388**	529
Total proprietary co-investments	**845**	2,065
Affiliates	**13**	305
Grand total	**3,952**	7,920

Outlook:

The Investcorp hedge funds business has been in operation for over 13 years. During that time, the industry has survived several bull and bear markets. The events of 2008, however, were well beyond any expectations and calendar year 2008 was the first ever year of negative returns on Investcorp's hedge fund co-investment.

Investcorp hedge fund total return



Investcorp has examined the lessons to be learned from this experience, incorporated them into the investment process and implemented the necessary changes across portfolios via re-balancing. With such enhancements, Investcorp is optimistic about future performance, especially given the attractive opportunities in the markets.

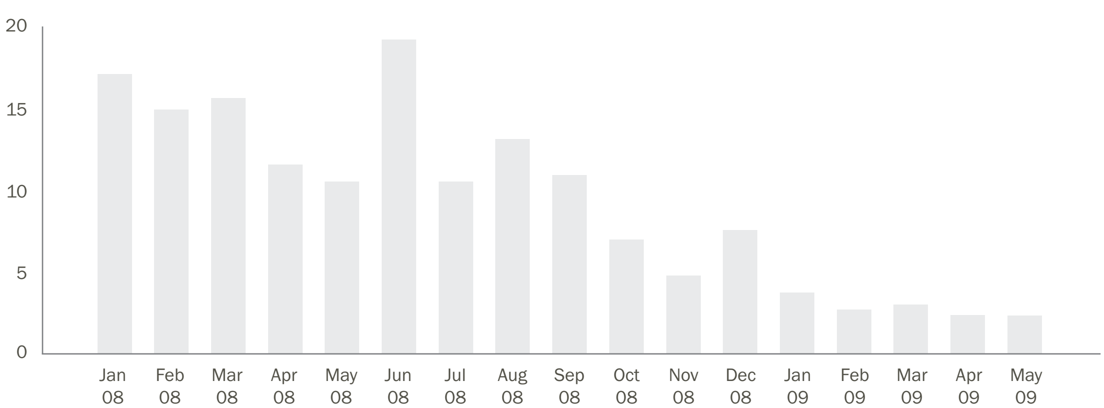
Real estate ('RE') asset class

Business environment:

In the US real estate market, the availability of debt and equity capital remains highly constrained and property purchases continue to be almost non-existent. Transaction volumes are significantly down due to the US recession, the ongoing dislocation in financing markets which makes it difficult to re-finance assets, and due to a mismatch in pricing expectations of buyers and sellers. All markets have been affected and investors are highly cautious, particularly with regard to valuations. Specific locations such as New York City and its surrounding metropolitan area, southern Florida, Silicon Valley and the Midwest are struggling. Other markets such as Seattle, Washington D.C. and Texas are more stable.

Transaction volume

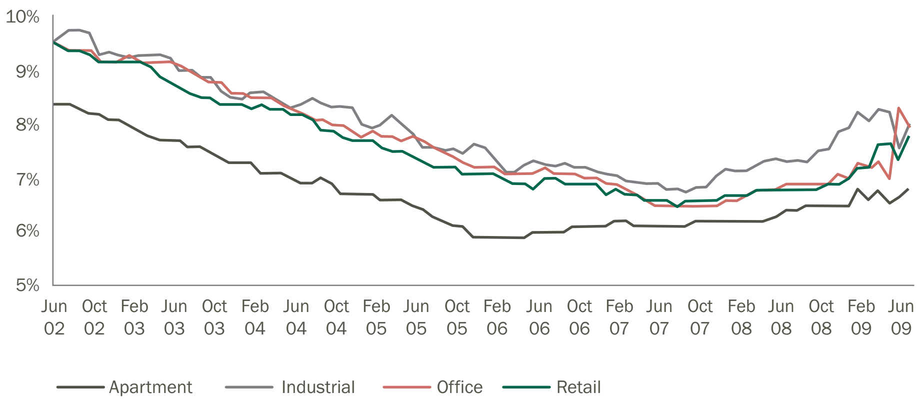
($ billions)



Sources: Jones Lang LaSalle, Real Capital Analytics

As real estate prices soared through the middle of 2007, capitalization rates, a common measure of initial return on real estate investments, fell to 6% and below. This was the lowest level in decades and reflected the fact that investors were accepting lower returns despite the risk. The severe dislocation in the credit markets that began in the second half of 2007 accelerated the decline of a residential market that was already dropping and started to affect the commercial real estate sector. The negative impact on the commercial real estate market has since accelerated even more.

Cap rates



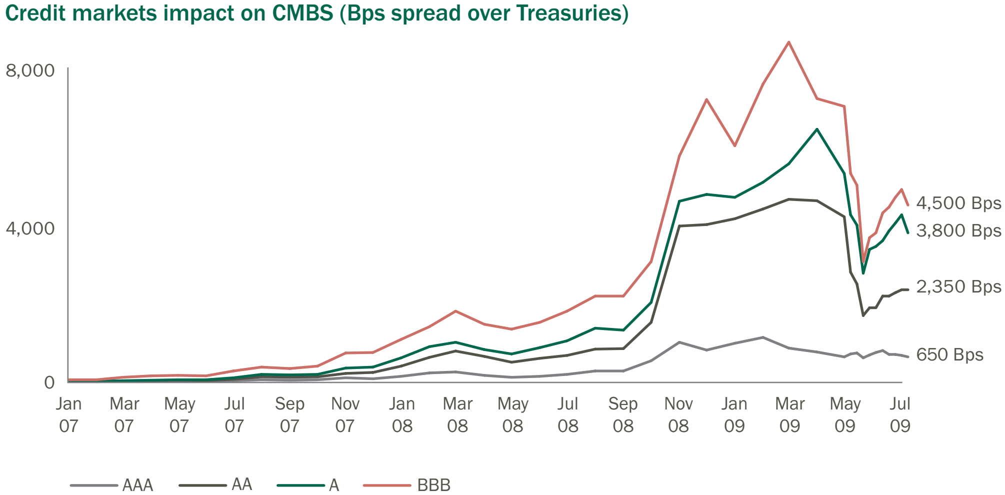
Sources: Jones Lang LaSalle, Real Capital Analytics

The vacancy rate for US apartments hit a 22-year high in the second quarter of the 2009 calendar year, as rising unemployment reduced demand. Vacancy levels nationally rose to 7.5% between April and June, up from 6.1% a year earlier.

Hotels have also been suffering from the reduction in consumer spending and lower corporate travel expenditure. In March 2009, hotel revenue per available room in the US was down 18% compared with March 2008, the worst performance since 1932. New York has been especially hit, with hotel revenue down 35% and effective rents of commercial buildings down 40%. According to Morgan Stanley, hotel loan delinquencies, currently at 4.7%, are likely to reach the previous recession's peak of 8.2% during 2009. Performance in 2009 is likely to be very challenging, exacerbated by rising unemployment.

Vacancy in the retail sector is also on the rise as consumer spending has dropped notably. In addition, occupancy in the office sector has dropped as a number of office users have reduced their workforce and need less office space.

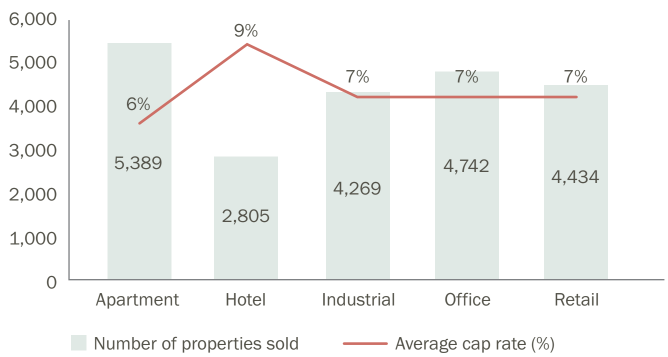
Credit markets impact on CMBS (Bps spread over Treasuries)



Source: Jones Lang LaSalle, Commercial Mortgage Alert (AAA), Real Capital Analytics

In 2008, US commercial real estate's operating fundamentals slowly declined but were mitigated by limited new supply and high occupancy rates by historical standards. In the first quarter of 2009, the decline in operating fundamentals accelerated with downward pressure on rents and occupancies as economic activity slowed. Leasing rates in virtually all markets are now in decline and concessions are increasing. Net Operating Income ('NOI') is beginning to fall and in certain markets, such as New York and Florida, steep declines are taking place.

Type of property sold vs average cap rate (Q2 2007 – Q2 2009)



Source: Real Capital Analytics

All of these factors are pushing down valuations and increasing capitalization rates across all commercial real estate market sectors. However, despite the downward valuation pressures on equity, supply is under control and there are still good levels of occupancy for 'grade A' commercial properties, especially those in top-tier locations. Acquisitions of good quality debt-securing commercial property have continued and are expected to become a growing investment opportunity, particularly as assets resulting from distress and recapitalization situations become available over the next three years. Credit conditions have tightened generally and over $500 billion of debt needs to be refinanced in the next two years. Investors are indicating that the best opportunities are in the established real estate markets of North America and Western Europe. 34% of capital raised by private real estate funds in 2009 is now allocated to debt investments, compared to 17% in 2008.

Portfolio activity:

In FY09, Investcorp's real estate team funded the $77.1 million Best Western Hotel acquisition, which was signed in FY08, and made follow-on investments to existing equity portfolios totaling $36.1 million. In addition, the real estate business deployed $111.4 million of capital into debt investments. These investments include $14.7 million for debt investments within the existing property portfolio. The remaining $96.7 million was invested through Investcorp's two closed-end funds dedicated to making debt investments. $71.2 million was invested in three new portfolios: Coast Guard Headquarters, Veritas Self-Storage and the GSC Loan portfolio. $25.5 million was used to increase the initial investment in the 8th Avenue Hotels portfolio and the Multi-State Hotel portfolio debt acquired in FY08.

Real estate debt investments FY09 ($ millions)	Property name	Value
Deal-by-deal	Best Western Hotel	12.9
	Weststate	1.8
	Total deal-by-deal	**14.7**
Investcorp Real Estate Credit Fund	Coast Guard Headquarters	39.8
(IRECF)	Veritas Self-Storage Portfolio	15.0
	GSC Loan Portfolio	8.4
	8th Ave Hotels	15.0
	Multi-State Hotel Portfolio	10.5
	IRECF total investment	**88.7**
Mezzanine Fund I	GSC Loan Portfolio	8.0
Total debt investments		**111.4**

In January, Investcorp acquired the Best Western Hotel, a 334-room limited-service hotel located in the Times Square submarket of Manhattan, New York, for $77.1 million. The investment thesis involves a comprehensive $11.5 million renovation program to upgrade the overall appeal and competitive position in order to increase room revenues and achieve higher average daily rates. The equity investment followed the purchase of $12.9 million of discounted mezzanine debt in December 2008.

The US Mezzanine Fund I, created in 2006, has now been fully invested. $100 million has been invested and $8 million is held in reserves. The Investcorp Real Estate Credit Fund, created in 2008, is also fully deployed with $171 million invested and $6 million held in reserves.

In November 2008, the real estate team sold Southgate Office Plaza from the Old Real Estate Fund portfolio. This property was purchased in December 2000 and was not placed with investors. This exit concludes the Old Real Estate Fund portfolio.

In March 2009, Holiday Isle, part of the Opportunity III portfolio, was restructured following the decline in condominium pricing in South Florida and the challenged cash flow outlook for the property. Investcorp has retained an option to acquire a 50% interest in the property over the next three years, providing an opportunity to participate in future development, sale or recapitalization.

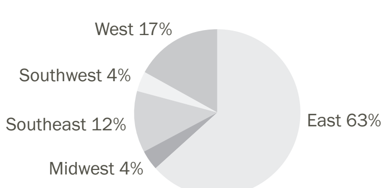
In June 2009, Investcorp closed on the sale of the remaining condominium units at Amelia Lakes. The property was acquired in March 2005 and underwent a successful conversion from apartments to condominium ownership. The majority of the units were sold to individual buyers with the last 51 units sold to a single buyer. This investment was originally held on Investcorp's balance sheet and was not placed with investors. The investment generated a property level IRR of 13% over a four-year investment period and a 1.4x equity multiple.

Portfolio:

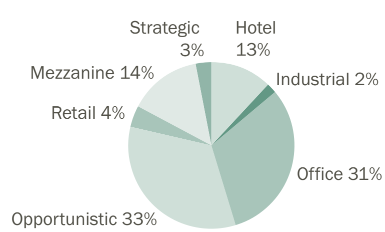
At June 2009, Investcorp's real estate balance sheet co-investment portfolio totaled $283.2 million (FY08: $337.0 million), consisting of $168.3 million of fair valued equity investments and $114.9 million of held-to-maturity debt investments, held at cost less provisions for impairment.

Investcorp's real estate co-investments at June 30, 2009

By geography



By sector



Investcorp continues to be primarily focused on income-producing commercial real estate assets that have no meaningful exposure to sub-prime or residential sectors.

Overall Investcorp's real estate property portfolio has felt the impact of the correction in the market as 'mark-to-market' values have declined throughout. The carrying values by each vintage year are shown below.

Investcorp co-investments by year ($ millions)	Carrying values as of June 30, 2009	Carrying values as of June 30, 2008	Change %
Vintage FY03	**0.7**	2.4	(71.2%)
Vintage FY04	**0.1**	0.1	(11.3%)
Vintage FY05	**16.3**	22.7	(28.4%)
Vintage FY06	**69.4**	62.1	11.8%
Vintage FY07	**46.1**	54.6	(15.5%)
Vintage FY08	**114.8**	176.2	(34.8%)
Others	**35.8**	18.9	88.8%
Total	**283.2**	337.0	(16.0%)

There are 21 active investment portfolios of which 12 are on or ahead of investment plan. Nine are behind plan as at June 2009. The table below shows a classification of the current state of the 21 portfolios.

Outlook			
Good/steady		Challenging	
Empire Mountain Village	Mezzanine Fund I	Diversified II	Highgrove
W South Beach	Diversified VI	Diversified V	280 Park Avenue
Commercial IV	US Hotel Portfolio	Opportunity I	Commercial V
Retail IV	Diversified VIII	Retail III	
Diversified VII	Bravern	Opportunity II	
Best Western	Investcorp Real Estate Credit Fund	Opportunity III	

The challenging portfolios are weighted to those holding hotel, condominium developments and retail developments in struggling regions where the economic environment has generally slowed down the pace of sales and unit prices. The asset management team has focused on cash flow and capital reserve management, tenant retention and expense reduction programs in order to improve or sustain operating performance. Leasing activity for longer term and larger transactions has become more challenging.

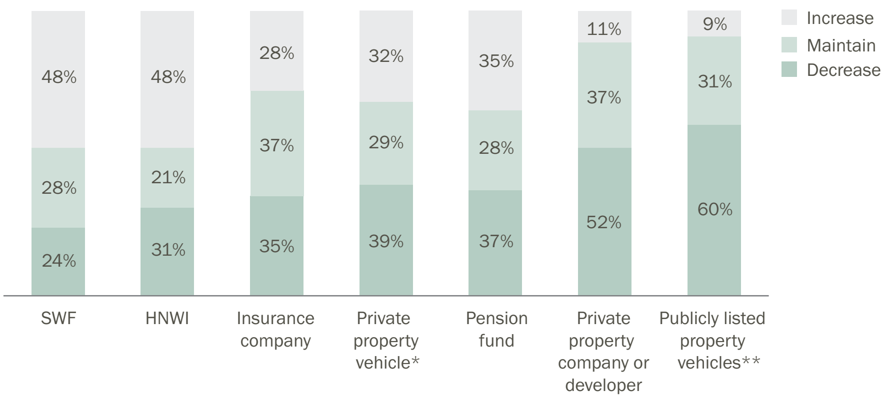
280 Park Avenue is one of the larger investment properties in the challenging category. Execution of the business plan to grow NOI is compromised due to declining rental rates and weak tenant demand in Manhattan. Initiatives to reduce operating expenses have therefore been implemented and capital expenditures reduced or eliminated in 2009 and for the foreseeable future. The carrying value has been marked down by 33% during FY09.

Outlook:

The opportunity to invest, at favorable prices, in sound US commercial real estate assets is available although in lower deal values. Real estate debt is particularly interesting. Overleveraged buyers are being forced to recapitalize, and lenders, who need to liquidate to address balance sheet issues, are being forced to sell outright. At the same time, dislocation in the capital markets has made mortgage debt scarce, so other forms of debt capital are needed to fill the gap. There is an investment opportunity created by this combination of the availability of strong assets, distressed sellers and the scarcity of debt capital.

Further, on the demand side, real estate asset allocations of sovereign wealth funds and high-net-worth individuals are supportive and reflect their perception of investment opportunities.

Expectations of real estate from different investor groups



Source: DTZ Research
*e.g. Opportunity Funds, Private Hedge Funds, Limited Partnership
**e.g. Listed Fund, Company, REIT

Investcorp real estate has established a third real estate debt fund, Mezzanine Fund II, to invest in and originate commercial real estate debt, with fundraising for a $250 million size targeted to close by the first quarter of calendar 2010. The fundraising will target institutions in Europe as well as Investcorp's traditional Gulf clients.

Investcorp has a powerful position in the US real estate debt business. The team has strong buying capacity and relevant expertise, plus industry relationships built over 30 years in US real estate.

Real estate portfolio

Investcorp co-investment by year ($ millions)	Transaction size	Properties original/ current	Sector (of remaining properties)	Geographic location (of remaining properties)*	Carrying value, as of June 30, 2009
Diversified II	99	7/3	Office and Industrial	W	0.7
Vintage FY03	**99**				**0.7**
Empire Mountain Village	142	1/1	Opportunistic	W	0.1
Vintage FY04	**142**				**0.1**
Commercial IV	392	12/8	Office	E	0.9
Diversified V	145	5/1	Office	E	0.7
W South Beach	345	1/1	Opportunistic	SE	5.6
Opportunity I	92	3/2	Opportunistic	E/SE	9.1
Vintage FY05	**974**				**16.3**
Commercial V	256	3/3	Office and Retail	E/SE	22.7
Retail III	239	8/8	Retail	MW	1.4
Retail IV	407	29/23	Retail	SW	2.0
Opportunity II	97	3/3	Opportunistic	W/SE	18.7
Opportunity III	284	3/3	Opportunistic	E/SE	24.6
Vintage FY06	**1,283**				**69.4**
Diversified VI	279	2/2	Retail and Hotel	SE/SW/MW	3.1
Diversified VII	209	4/4	Industrial/ Office/Hotel	E/MW	13.7
Hotel**	450	9/9	Hotel	E/SE/SW/MW	8.5
Bravern	893	1/1	Opportunistic	W	20.8
Vintage FY07	**1,831**				**46.1**
280 Park Avenue	1,459	1/1	Office	E	52.5
Diversified VIII	258	5/5	Office/Hotel	W/SW/MW/SE	18.9
Highgrove	148	1/1	Opportunistic	E	4.1
Weststate	388	1/1	Opportunistic	W	10.9
Best Western	176	1/1	Hotel	E	28.5
Vintage FY08	**2,428**				**114.8**
Mezzanine investments	284	n.a.			27.4
Strategic investments	n.a.	n.a.			8.3
Others	**284**	**n.a.**			**35.8**
Total	**7,040**	**81**			**283.2**

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

** Includes Norfolk Marriott Waterside acquisition from FY08

PORTFOLIO REVIEW

Private equity US and European buyout portfolio

Vintage 2005 investments

A discussion of acquisitions and realizations is included in the Line of Business Review.

N&W is the market leader and only pan-European manufacturer of beverage and snack food vending machines, offering a full range of products in a market otherwise composed of smaller, regional market participants. N&W is over four times the size of its nearest competitor. N&W operates four state-of-the-art production facilities in Italy, Denmark and China.

Investcorp believes that the acquisition of N&W has represented an attractive investment opportunity given: (i) its uncontested leadership and sustainable competitive advantage in the European vending machine market; (ii) its favorable long-term industry dynamics and ability to leverage market leadership to expand into adjacent businesses and new geographical markets; (iii) the high barriers to entry of the vending machine industry; (iv) its experienced management team with a track record of market out-performance, operational excellence and successful integration of acquisitions; and (v) various sources of further upside potential, including geographical expansion, cost efficiencies and add-on acquisitions.

The abrupt and widespread nature of the current economic contraction in Europe has had a severe impact on the confidence of N&W's vending operator customers, who are unable to predict near-term demand with any certainty and thus cannot commit to medium-term investment plans. This has affected N&W's trading results in recent months. However, given the company's strong competitive positioning, it has been able to continue gaining market share as this environment has also led to some of N&W's competitors facing financial challenges and customers consolidating suppliers. In view of continued uncertainty and low order build up, N&W management has identified a broad set of production efficiency, procurement and SG&A cost reduction initiatives that will have a combined annualized EBITDA impact of over €25 million. The implementation of the first two waves of initiatives is complete and further measures will be implemented throughout the rest of 2009 and 2010.

The acquisition closed in November 2008.

CEME is the leading global producer of solenoid pumps for domestic espresso machines and solenoid valves for steam ironing systems and specific industrial applications. In the medium-term, the company anticipates significant growth in its coffee division, driven by espresso and pad-filter machines taking share from traditional filter coffee machines. CEME's sales in the appliances division are expected to benefit as steam generators continue to gain share from traditional irons and as condensing boilers increase penetration of European markets.

CEME's growth strategy encompasses: (i) maintaining its market leadership in the growing coffee and steam markets; (ii) extending its product range to address applications in adjacent industrial, appliances, technical and vending machine markets; (iii) expanding its geographical footprint particularly in North America and following the international expansion of its customers; and (iv) pursuing add-on acquisitions. CEME's current initiatives include focused work on short-term efficiency initiatives to maintain the company's performance in light of the deteriorating economic environment, key customer projects including Keurig, Nespresso and Coca-Cola, continued screening of acquisition targets; developing/formalizing CEME's industrial strategy and the build up of its finance function.

Market volumes of pumps and valves for espresso machines, cleaning machines and steam iron generators have deteriorated since the fourth quarter of 2008, while CEME's market share and prices remained stable. The slowdown in sales was primarily caused by de-stocking and stock optimization of these appliances in the manufacturing and retail chain. The long-term growth trend, driven by increased espresso penetration, marketing efforts by roasters to drive portioned coffee and substitution of irons by steam iron generators, is expected to continue. Monthly sales have started to improve since May 2009, with a strong order book building up for June and July, indicating that the market decline may have bottomed out.

The acquisition closed in July 2008.

Asiakastieto is Finland's leading provider of business and credit information, providing services to support risk management and customer relationship management. At the core of Asiakastieto's business are databases which consolidate data gathered over several decades from multiple sources to provide Finland's most extensive and comprehensive historical business and credit information database and Finland's only personal credit information database. One of Asiakastieto's main strengths is its ability to combine, link, process and analyze this extensive information to add value for its customers. The database also enables Asiakastieto to develop new services, which are delivered to customers via its various distribution channels.

The company's growth strategy encompasses: (i) driving volume increases through the continued development of value added new products and services in its core business; (ii) developing and growing adjacent market segments; and (iii) expanding into new geographies.

General economic growth in Finland has continued to slow down and this has impacted Asiakastieto's information services. The company's core credit information business has performed well and has compensated for underperformance in adjacent businesses. Management is continuing actions to achieve its future targets in core and adjacent business areas by increasing integration with existing customers and developing new customers through better sales-force effectiveness, amongst other initiatives. Add-on acquisitions are also being evaluated for this investment.

The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business ('B2B') media and data company focused on providing publishing and related products to the trucking, infrastructure-oriented construction, and industrial end markets. The company's product offerings within these end market segments include B2B trade publications, many of which are qualified circulation titles that rank number one or number two in market share within their respective sectors, live events and trade shows, and indoor advertising displays. Through its Equipment Data Associates business ('EDA'), Randall-Reilly is an industry-leading collector and aggregator of industrial equipment purchase data, providing subscription-based sales lead generation and market intelligence products to several industrial, agricultural and other equipment end markets. Randall-Reilly also owns and operates a national service company, Truck Stops Express, which provides the company with an in-house distribution arm for its publications and the ability to sell and service indoor advertising displays. This unusual service business provides the company with a meaningful competitive advantage in the truck stop market.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) the company's leading positions within its key market segments; (ii) a company culture focused on customer service and increasing market share; (iii) the opportunity to grow the company's highly valuable data business, EDA; (iv) opportunities to complete accretive acquisitions of other B2B media companies; and (v) strong downside protection given an entrenched market position and attractive free cash flow characteristics.

Although the overall depressed economic environment has adversely impacted the company's performance, Randall-Reilly has outperformed the market and gained share in most areas during this downturn. In anticipation of the difficult environment, the company took extraordinary steps to lower its cost structure in 2008, including circulation, printing cost and headcount reductions. It is also in the process of implementing additional cuts that will include salary and benefit reductions for all employees. Randall-Reilly continues to develop its acquisition pipeline, as acquisitions remain an important tenet to growing the business and generating equity value.

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, Chicago-based Berlin Packaging supplies plastic, glass and metal containers, closures and dispensing systems to a wide variety of customers in the food and beverage, personal care, healthcare/OTC and chemicals end markets. Berlin Packaging also provides value-added services such as packaging design and leasing support services — effectively acting as a 'one stop shop' for all the packaging requirements of many of its customers.

Berlin's investment thesis has been based on its: (i) leading market position; (ii) impressive management team and culture focused on achieving growth and gaining market share; (iii) attractive industry structure; (iv) limited customer, product and geographic concentration; and (v) attractive free cash-flow characteristics. In addition, Berlin has possessed opportunities for future growth including: (i) expansion opportunities within existing markets through new customers and increased penetration of existing customers; (ii) geographic expansion opportunities into new markets; (iii) growing the presence of the company's catalog business; and (iv) 'tuck-in' acquisition opportunities. Since acquisition, the company has continued to focus on strengthening capabilities to drive robust organic growth including enhanced sales management and performance.

General softness in demand is being experienced across Berlin's end markets due to general lower consumer demand and lowered inventory levels at Berlin's customers. The management team is therefore extremely focused on growth and improving performance, while closely monitoring costs. Berlin believes it remains well-positioned for continued strong performance despite the current economic environment.

The acquisition closed in August 2007.

Icopal is a leading European manufacturer of waterproofing membranes and the leading flat roof contractor (installation services) across the Nordic countries, also offering a wide range of roofing accessories and construction materials. The company's products are primarily used for non-residential construction applications across Europe and are predominantly sold to building material merchants, independent roofing contractors and Icopal's own contracting business. With sales teams in 95 offices across 30 countries and 37 manufacturing sites serving more than 12,000 customers, the company benefits from a high degree of regional and customer diversification.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) its leading market position in the roofing and contracting sectors; (ii) its strong regional and customer diversification; (iii) the relative stability of Icopal's core non-residential European flat roofing market; (iv) an opportunity to consolidate the highly fragmented European waterproofing products industry; and (v) an opportunity to expand through the roll-out of new products, as well as through expansion into new countries.

Since acquisition, Icopal has launched a range of strategic initiatives, including procurement, lean manufacturing, contracting best practices, as well as an accelerated execution of the company's acquisition strategy, which has included the acquisition of Vedag, the second largest producer of bitumen membranes in Germany, and Van Besouw, a Dutch manufacturer of PVC waterproofing membranes. In response to deteriorating market conditions, Icopal has also initiated a broad and structured cost cutting program, with its new CEO leading a process to rebase the company's plan and articulate priorities to ensure strong long-term positioning, while at the same time taking remedial actions, including streamlining the company's manufacturing setup.

The acquisition closed in July 2007.

Moody International is a leading global provider of technical inspection and other complementary services to the oil and gas industry as well as a leading provider of certification services targeting small and medium-sized enterprises. Based in the UK, Moody's range of technical inspection services (its main offering) spans the procurement, construction and operational project phases of many of the world's leading oil and gas companies, and is complemented by health, safety and technical consulting and training offerings as well as technical staffing services to its inspection services client base.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) its leading, niche position as a global service provider to the oil and gas sectors; (ii) its strong regional and customer diversification with earnings generated worldwide from a very high quality client base; (iii) continuing strong growth in demand for services in the oil and gas sectors, as well as the certification markets; (iv) the opportunity to expand the services Moody offers to its existing clients; and (v) the opportunity to acquire numerous smaller regional or local service providers and integrate them into Moody's global network, thereby consolidating a fragmented market.

Since acquisition, the company has performed strongly, mainly a result of continued investment growth in the energy industry and increased globalization of the activities of the sector and its suppliers. Moody has continued to perform strongly during the first half of the current calendar year but projects a modest decline in new oil and gas inspection and staffing projects in the latter part of 2009 through 2010 due to cutbacks in exploration and production expenditure by its clients in this period of oil price volatility. Management expects to mitigate in part this market slowdown by continued development of its service offering and by focusing its resources on growth geographies and key clients. Over the medium-term, oil and gas industry demand for the company's services is expected to be strong as the longer-term issues of supply and production replenishment require continued high levels of investment to satisfy global demand for energy. The company is actively reviewing further acquisition opportunities to complement Moody's organic growth profile.

The acquisition closed in February 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. Based in Germany, with a network of 19 manufacturing facilities in 12 countries worldwide, the company is in a strong position to service market requirements for the broadest range of technical insulation and high-performance specialty foam products.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) the company's leading market position in its core activity; (ii) strong regional diversification with sales spread over Europe, North America, Asia Pacific and emerging markets; (iii) Armacell's strong positioning with its fragmented distributor base; (iv) attractive growth in core activities due to rising insulation requirements; and (v) identified potential upside from increased geographical penetration and increased presence in industrial, marine and petrochemical applications from technical foams (profitability enhancements and attractive growth niches such as core materials for sandwich construction) and from potential add-on acquisitions.

Since acquisition, Armacell has, in conjunction with a leading strategy consulting firm, launched initiatives to extract the full potential of its core technical foams business. In addition, Armacell has established a dedicated business unit to drive penetration in industrial and marine as well as in Petrochemical applications. To improve response to the strong demand from the Gulf region and neighboring countries, Armacell entered into a joint venture agreement with Zamil Industrial Investment Company in April 2008, and production started in Dammam (Saudi Arabia) in early 2009. The sales ramp-up of Armacell's innovative PET product, a core-foam primarily used in wind turbine blades, is also progressing very well.

Armacell is experiencing an adverse market environment in insulation in Europe and the US. However, management is working to offset some sales decline through market share gains as a result of specific initiatives in selective growth areas (IMPS, Solar, and Ducting). The technical foams market is also experiencing challenges, however in Europe, PET foams are continuing to benefit from the substitution of PVC foams in wind turbine blade applications and from added demand in new markets (marine, transportation, medical, etc.). Additionally, the cost reduction measures launched in the last 12 months, combined with an anticipated fall in raw material prices, are expected to limit the effects of the current adverse conditions.

The acquisition closed in January 2007.

TimePartner is a German supplier of temporary staffing services with leading market and customer positions in the logistics, engineering and aviation segments. Since acquisition, the company has implemented a number of strategic and operational initiatives, including hiring a new Chief Executive Officer with over 20 years of service industry experience, and hiring senior executives in marketing, finance and technology functions. An important element of TimePartner's growth plan has involved strategic and 'tuck-in' acquisitions.

Due to the deterioration in the German economic environment since the second half of 2008, management has been focusing on the productivity of external personnel and reduction of internal costs. However, these efforts have been countered by the severe economic downturn as the German economy entered into a general recession in the summer of 2008. In the last six months of 2008, the German temporary staffing industry collapsed, with a drop of over 40% in the number of people employed in this sector.

As a result, progressively weakening sales across a relatively high fixed-cost branch network led to rapid deterioration in the earnings of the company. Emergency cost reduction measures launched by management in Q3 2008 could only partially off-set this rapid earnings decline, leading to 2008 EBITDA coming in 33% below the corresponding prior year period. Unfortunately this trend also continued during the first months of 2009 and put the company under severe financial constraints. Although TimePartner continued to generate positive operating cash flow even in this severe demand environment, its over-leveraged balance sheet meant that debt service obligations were not sustainable.

Faced with this deteriorating situation, in December 2008 Investcorp started engaging with the existing lenders of TimePartner regarding a restructuring of the company's balance sheet. An agreement in principle was reached in June 2009 on a restructuring and the transfer of Investcorp's ownership in TimePartner to a trustee (subject to final documentation currently ongoing).

The acquisition closed in July 2006.

FleetPride is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the US. Since acquisition, the company has launched several key strategic initiatives to enhance sales force and operational capabilities and to position itself for future growth. Areas of particular focus include enhancing FleetPride's purchasing capabilities, extending its national accounts and increasing private brands exposure. These initiatives have facilitated FleetPride's realization of market share gains.

In 2008 FleetPride closed seven acquisitions representing $48 million in aggregate annual sales. FleetPride will continue to focus on developing its national sales growth plan, expanding market coverage, developing a more focused approach to private brand development, pursuing additional strategic acquisitions, and initiating operational level changes to reduce or manage costs through better purchasing/sourcing strategies. The company will continue to strengthen its organizational structure to be better positioned to drive its strategic plan.

Overall demand in 2009 continues to be affected by a downturn in the trucking sector that started in late 2006 and accelerated in the fourth quarter of 2008. Operating conditions have remained challenging in 2009 and the lack of market visibility that exists is significant. Management has already put in place cost saving measures and has additional initiatives planned in an effort to maintain profitability despite declining volumes. The company is also focused on maximizing cash flow and has realized a significant cash benefit from working capital reductions in 2009.

The acquisition closed in June 2006.

Orexad (formerly 'Orefi') was formed out of the merger of Orefi and AD Industrie to create the largest distributor of industrial supplies in France. In November 2007, Orexad acquired Anjac, the third largest distributor. Orexad now has over 247 distribution outlets, including 67 acquired from Anjac, with a presence across all regions of France. The company enjoys a substantial competitive advantage due to its large customer reach, ability to negotiate with suppliers, and broad product offering.

Orexad has continued to pursue strategic as well as 'tuck-in' acquisitions with the intention of expanding its base across Europe and is evaluating selected acquisition opportunities (particularly outside France) to take advantage of potentially depressed valuations to continue building the group. In addition to external growth, the company has, since acquisition, successfully implemented strategies for fast organic growth, including sales and marketing initiatives, hiring senior executives to add depth to the already strong management team and implementing best practices.

The industrial parts and supplies market is driven by the general level of economic activity, with the most important factor being the trend in industrial production. In light of the continued difficult market conditions, management is implementing cost cutting measures to reduce the group's cost base by approximately 10%. The first two steps of the cost reduction program have been implemented with further measures being considered in the next six months.

The acquisition closed in June 2006.

Autodistribution, operating through a network of 130 wholesalers with 600 distribution outlets, is the largest independent distributor of auto and truck spare parts in France. The company supplies products to all types of garages, including more than 2,600 affiliated garages and body repair shops, as well as to truck repair shops and truck carriers and fleet managers. In January 2007, Autodistribution completed the sale of its industrial supplies business to Orexad, enabling the company to concentrate on its core car and truck parts business. Autodistribution completed its first significant acquisition in January 2007 through the purchase of a truck parts distributor in France (Comptoir du Frein) and in July 2007 acquired AD Polska, the leading auto spare parts distributor in Poland, which is also a member of the AD International network.

Up until the middle of 2008, the Autodistribution management team had been making progress towards achieving the strategic goals established for Autodistribution. However, the deteriorating economic environment in France starting in early summer 2008 led to a sharp decline in demand in the automotive aftermarket. In addition to the stress on Autodistribution's balance sheet from the resulting deterioration in earnings, new legislation passed in France made it illegal for trade credit terms to extend beyond 60 days and resulted in the need for approximately €70 million of additional funding to support working capital in Autodistribution.

Faced with this deteriorating situation Investcorp made several proposals to the existing lender group to restructure Autodistribution's balance sheet. Ultimately, given the number of potential job losses at stake if Autodistribution failed, and the political ramifications, the French government became involved in the restructuring process and all constituents, Investcorp and the lenders, were forced to find a solution. As a result, Investcorp worked with another potential private investor, TowerBrook Capital Partners ('TowerBrook'), to find a solution for the benefit of Autodistribution and its employees.

In March 2009, an agreement was reached whereby Investcorp and TowerBrook would jointly invest a total of €110 million of new equity into Autodistribution. Under this agreement, TowerBrook became the majority shareholder and Investcorp acquired a 16.0% stake in Autodistribution, while retaining significant governance rights. At the same time, there was a material restructuring of Autodistribution's balance sheet, including a 70% write-off of the existing senior bank debt, and 100% write-off of the existing junior bank debt, mezzanine debt and existing equity investment. In consideration for these extensive write-offs, the lenders received a participation of up to 21.5% in the equity of Autodistribution. The significant restructuring of Autodistribution's balance sheet is expected to provide the business with a far more stable and de-risked financial position from which to pursue its business strategy.

The original acquisition closed in March 2006.

CCC is the market leader in the US automotive insurance claims software and information solutions industry providing mission critical information and software solutions to parties involved in the automotive and insurance claims process. The company markets its products primarily to insurance carriers and collision repair facilities, and is recognized as the industry's technology leader. With a network that includes over 350 insurance carriers, 22,000 repair facilities and information from more than 30 data providers, CCC believes it has the industry's most comprehensive data warehouse of claims file information.

In April 2008, CCC Information Services and Mitchell International, Inc. signed a merger agreement. In March 2009, the parties mutually decided to terminate this agreement following court proceedings initiated by the US Federal Trade Commission (the 'FTC') because of the FTC's view that the merger created a risk of having an anti-competitive impact on the estimatics and total loss markets. While CCC and Mitchell disagreed with the FTC's conclusion, they agreed not to pursue the merger any further as both companies decided that this was no longer in the best interest of either party.

CCC remains focused on growth, with a particular focus on several key new product areas that could create meaningful uplift in future years. The company is also investing in cost savings initiatives in order to drive profitability in 2009 and onwards.

The acquisition closed in February 2006.

Based in the Netherlands, **Polyconcept** is the world's largest supplier of promotional products. It was created by the merger of Polyconcept, the leading generalist (wearables and non-wearables) supplier in Europe, and GPG, the number two (non-wearables) supplier in the US. The company subsequently strengthened its global leadership position with the acquisition, in August 2006, of Bullet Line which, in conjunction with GPG, created the largest US supplier of non-wearable promotional products and, in July 2007, Journal Books, a leading US promotional products supplier specializing in calendars. The company has also launched a number of strategic initiatives, including the introduction of product decoration services in Europe. Management continues to consider potential add-on acquisitions to expand its product range and customer reach.

Despite unfavorable markets and foreign exchange rates, Polyconcept delivered a 2008 operating-cash flow and net debt in line with budget. Operating cost reductions of €6 million were achieved in 2008, and additional cost savings of €12 million will be implemented in 2009. Second and third wave plans have been launched or are in the process of being developed, and are expected to save additional expenses. Price increases implemented as of January 1, 2009 in Europe (15%) and North America (between 5% and 10%) have added to the price increases successfully implemented in the fourth quarter of calendar 2008.

Market conditions are expected to remain difficult throughout 2009. The revenue decline experienced in the first two quarters and the shift in product mix towards lower value products are forecasted to continue and to put pressure on industry margins. Management is implementing a comprehensive fixed operating cost reduction program and is undertaking a full review to adapt its business platform to the new economic environment.

The acquisition closed in June 2005.

American Tire Distributors ('ATD') is the leading national distributor to the replacement tire market in the US. Over the past two years, American Tire has successfully acquired and integrated seven businesses including Am-Pac Tire Distributors (one of ATD's largest competitors) in December 2008.

ATD remains focused on medium-term strategic objectives to drive revenue and profitability. It believes the strong growth in high and ultra-high performance tires will continue and believes that it is well positioned to continue to benefit from the new demand. ATD has continued to grow organically and faster than the market by leveraging scale and superior distribution capabilities to take market share. The company continues to build a pipeline of attractive acquisitions both in its core markets and in new geographies, and maintains adequate liquidity and resources to seize opportunities as they arise.

The biggest issue facing ATD in 2009 is the effect of the overall economy on the demand for replacement tires as consumers may continue to defer purchases in the short-term. With unit volumes likely to remain significantly below the prior year, ATD is seeking to drive greater profitability through realization of cost synergies related to the Am-Pac acquisition and by continuing to take market share from smaller competitors that are less equipped to handle the downturn. The company's integration plan for Am-Pac involves rationalizing facilities, converting systems and integrating other operating components throughout 2009. Meanwhile, ATD is continuing to take operating expenses out of the core business in order to maintain ample liquidity during the difficult economic period.

The acquisition closed in March 2005.

Vintage 2001 investments

Associated Materials ('AMI') is a leading manufacturer and distributor of exterior residential building products based in the US. Industry analysts believe that the slowdown in the housing market represents an ongoing adjustment toward more sustainable levels of housing production, following the record surge in prior years that was fueled by extraordinary demand for single-family homes and condominium units by investors.

In the fall of 2008, AMI obtained a new $225 million loan facility to refinance its then existing term loan and replace its revolver which was due to expire in 2009. The new facility provides AMI with additional liquidity.

Housing market conditions have remained difficult in 2009, with new housing starts and home sales figures significantly lower than 2008 levels. In view of the market softness, AMI management is aggressively reducing the company's cost base, amounting to $30 million in savings on a cumulative basis over the past two years, which is intended to accelerate the company's EBITDA improvement once the industry recovers. Procurement initiatives, freight and efficiency improvements and overhead reductions, could yield up to $50 million of additional cost savings in 2009. The company is also focused on managing the capital structure to reduce the company's cash interest expense and debt burden.

The acquisition closed in December 2004.

SourceMedia, comprising both the SourceMedia and Accuity businesses, provides market information, including news, analysis and insight, to the financial services and related industries, through its publications, industry-standard data applications, seminars and conferences. Its flagship publications, including *American Banker, National Mortgage News, The Bond Buyer* and *Accounting Today*, have helped build SourceMedia's reputation as the pre-eminent information source in its respective markets.

Conditions in SourceMedia's end markets (finance, banking and mortgage) have continued to deteriorate, and it is unclear when the situation will begin to improve. Customers are adopting a 'wait and see' approach towards advertising and subscriptions, and this makes it difficult to forecast revenue. The current softness in demand comes in the middle of an overall B2B publishing industry transformation with the shift from print to online media that brings its own challenges. SourceMedia remains focused on right-sizing the publishing business for a lower revenue environment while continuing to push forward with the company's growth initiatives. Management has been positioning the company for when markets improve, and has undertaken a reorganization of operations both to improve the cost position of the company and to enhance its leadership and editorial structure. SourceMedia completed several rounds of cost cuts in 2008 and has continued to reduce expenses and headcount in 2009.

The Accuity business is a leading provider of subscription-based data solutions that enable financial institutions, corporations and other organizations to make accurate and efficient payment transactions and to manage their risk by ensuring that they, and their clients, are in regulatory compliance. Accuity continues to perform well, and under new leadership, is in the process of implementing several growth initiatives, including new product introductions and continued international expansion. These included the December 2008 acquisition of CB NET Services Limited, an international payment efficiency company based in London, which has strengthened Accuity's European presence.

The acquisition was closed in November 2004.

EnviroSolutions is a vertically integrated municipal solid waste, construction and demolition waste disposal company that has landfills, transfer stations and collection assets in the Mid-Atlantic and Northeast US. The company's strategy is based on buying new platform assets, and executing accretive tuck-in and edge-out acquisitions that provide consolidation synergies related to internalization, route optimization, general operating efficiencies and duplicative SG&A.

EnviroSolutions has been affected by a regional slowdown in construction and demolition volumes driven by a soft residential and commercial construction market. This is particularly acute in regions that experienced a large boom in residential construction activity over the prior three years. In addition, incremental capacity has come on line within select market areas impacting the supply of disposal within its markets and the price it is able to charge customers. As a result, the current focus of the EnviroSolutions management team is on short-term action to grow volumes, implement strategic price increases and control costs to help mitigate the effect of the slowing economy.

The acquisition closed in December 2003.

PlayPower is a leading global manufacturer of commercial playground systems and outdoor recreational equipment. 50% of the company's revenue is derived from markets outside the US, most notably from Europe.

Revenue grew modestly in 2008 due to growth in Europe and price increases, which were partially offset by a decline in orders. EBITDA decline was driven by substantial increases in raw material prices and lower US volume. The company implemented a 7% price increase (consistent with industry) in July 2008 to mitigate the negative impact of raw material cost increases.

The key issue facing the company is the impact of a 'soft' US and European economy on the company's business. The company aggressively managed expenses through 2008 and is doing the same in 2009, with initiatives that include salary increase suspensions, pension contribution cuts, and trade show cutbacks. The company is also embarking on a plan to further consolidate its manufacturing operations in the US. The long-term outlook remains positive as PlayPower maintains a leading share position in all of its core markets and continues to pursue opportunities for growth through improved sales channel management, product development, and penetration of emerging markets.

The acquisition closed in December 2002.

Aero Products International, based in the US, is a leading designer and marketer of high-end air-filled beds, pools and other leisure products using Aero's patented pump and valve technology. Under new management, Aero is following a business plan focused on new product innovation, domestic and international sales growth coming from new and existing accounts, improved purchasing, and prudent management of overhead, general and administrative costs.

The current downturn in consumer spending has had a negative impact on demand for Aero's products. To mitigate this trend, Aero has undertaken significant cost reduction and cost containment efforts while still investing, where necessary, to position it for long-term growth and market penetration. The company has also intensified its new customer sales effort and has secured product placement at two major retailers in the past 12 months.

Aero's financial performance in the coming months will depend in part on how quickly demand for consumer products returns. Given the current lack of visibility, Aero continues to closely monitor discretionary spending and working capital to enhance profitability and liquidity. In May 2009, Investcorp invested an additional $4 million in support of the company in the form of subordinated debt, further bolstering Aero's position during this downturn.

The acquisition closed in December 2002.

Vintage 1997 investments

TelePacific, based in the US, continues to maintain an attractive growth trajectory despite economic softness in its California and Nevada marketplace. TelePacific continues to realize attractive revenue growth, customer additions and low customer churn, all among the best in the competitive local exchange carrier 'CLEC' industry. TelePacific's acquisitions, Arrival Communications, Pac-West and MPower, are proving to be significantly revenue and margin accretive, resulting in an overall positive outlook for the company. The company is also experiencing improved labor productivity, largely driven by realized synergies from these acquisitions. TelePacific surpassed the 1,000,000 lines provisioned mark in 2008 and currently serves in excess of 50,000 customers.

Despite the current economic conditions, TelePacific expects to continue to perform near or at the top of the CLEC peer group in revenue, EBITDA and free cash flow growth. Customer churn appears under control and despite a spike in churn levels in late 2007 and early 2008 this has fallen to historic levels. The economic climate may affect performance in coming months, but the company believes its compelling value proposition continues to resonate with customers and will differentiate it in the market place.

The acquisition closed in April 2000.

Stratus is a leading provider of continuously available servers headquartered in the US. Stratus' recent financial performance reflects the continued profitability of the company's legacy products and services offset by investments to grow its next-generation open-system business lines based on the Linux and Windows operating systems. The company has recently launched a new product that is likely to broaden its addressable market by targeting the software high availability market with virtualization technology.

The acquisition closed in February 1999.

Avecia, a leading specialty chemicals group, has successfully completed the divestiture of all of its business divisions, with the exception of biotechnology, and is now a pure contract manufacturing biotechnology business. The senior management team has been restructured to reflect the company's reduced size. The UK biologics plant was recently inspected by the FDA and successfully passed the inspection. This key achievement is expected to improve the rate of capture of business and ultimately enhance profitability of the Group. On the back of this key milestone for the business, management, in conjunction with Investcorp, continues to explore strategic options for the remaining Avecia businesses.

The acquisition closed in June 1999.

OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

Investcorp Bank BSC (IBBSC) 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 Stock Exchange (BSE) and the London Stock Exchange (LSE), represented by GDRs in the case of the LSE listing. Within the Investcorp Group of companies, IBBSC is the principal parent entity and owns a 100% economic interest in a Cayman Islands-based subsidiary, Investcorp Holdings Limited (IHL). In turn, IHL has two subsidiaries, the principal being Investcorp SA (ISA), domiciled in Luxembourg as a financial holding company. The principal subsidiaries of the Group are discussed in footnote 1.A(iv) of the consolidated financial statements of IBBSC.

Investcorp Bank BSC and its subsidiaries

The ownership and subsidiary structure of Investcorp is designed to ensure that:

- The interests of the strategic shareholder group, comprising Investcorp directors, prominent Gulf individuals and institutional shareholders, together with the public shareholders, are closely aligned with management.
- Investcorp effectively operates as a management controlled entity.
- Substantially all of the Group's assets and operations are owned and controlled by ISA. As a result, substantially all of Investcorp's commercial risks are held outside the Middle East. This structure, reinforced by the protection mechanism described below, is viewed favorably by both lenders and rating agencies in terms of domicile risk.

Ownership structure

The ownership structure of IBBSC is outlined in footnote 1.A(iii) of the consolidated financial statements of IBBSC. IBBSC is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 38.8% of the ordinary shares of IBBSC. Approximately 18.4% of these shares are traded on the BSE and are held by Gulf-based nationals or institutions, and approximately 20.3% of these shares are traded on the LSE (represented by GDRs) and are held primarily by international institutions.

Ownership Holdings Limited (OHL), directly and through C.P. Holdings Limited (CPHL), has control of 52.6% of the ordinary shares of IBBSC. CPHL is majority owned by OHL which, in turn, is majority owned by SIPCO Limited (SIPCO). SIPCO is the company through which IBBSC's employees beneficially own IBBSC's ordinary shares. Approximately 60 strategic shareholders who are Gulf-based nationals or institutions own the balance of CPHL. 10.5% of IBBSC's shares are held in treasury. Treasury shares include a portion that is held for future sale to management under the SIP Plan. The Group has approval from the CBB to hold up to 40% of the ordinary shares of IBBSC for the SIP plan.

Investcorp management's ownership in the Group is implemented through the SIP plan. This provides for management to buy their allocated shares for cash. This program is an effective tool for ensuring stakeholder alignment, encouraging management to focus on long-term value creation and enable prudent control of balance sheet risks.

Luxembourg country risk / Control of Investcorp Group: creditor protection mechanisms

Investcorp's shareholding structure is designed to ensure that its assets are protected against Middle East regional risk. Currently, over 97% of the book value of IBBSC's assets is 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.

Currently, approximately 52.6% of the voting shares of IHL are owned directly by two Cayman Islands companies that are owned by Investcorp's management and strategic shareholders. A majority of the Controlling Shareholders (defined below) has voting control of those companies and, therefore, of IHL. IBBSC directly holds 38.8% of the voting shares of IHL and 100% of the non-voting shares of IHL. A wholly owned subsidiary of IBBSC owns 8.6% of the voting shares of IHL. The non-voting shares owned by IBBSC give IBBSC 100% economic ownership of IHL and, therefore, of Investcorp Group's consolidated assets.

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 IBBSC's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, certain of IBBSC's senior executive officers and members of IBBSC's Board of Directors (the 'Designated Representatives') 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 IBBSC 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 IBBSC. Should the Designated Representatives declare that an investment protection event has occurred, IHL will automatically redeem IBBSC's shares in IHL for nominal consideration. If the change in climate is not temporary, IHL will issue shares and cause them to be delivered to the shareholders of IBBSC so that each shareholder will own shares directly in IHL that are economically equivalent in all respects to the shares that they own in IBBSC.

Further, pursuant to an agreement between IBBSC and ISA, following the declaration of an investment protection event, all group company indebtedness owed to IBBSC is automatically forgiven, except to the extent that IBBSC 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 IBBSC, except to the extent that the cash proceeds of the repayment of that indebtedness are applied to satisfy the claims of IBBSC's depositors.

As a result of certain proxy arrangements and IBBSC's ownership structure, seven senior members drawn from the Board of Directors of IBBSC and management of the Investcorp Group (the 'Controlling Shareholders') control the voting of 61.2% of the ordinary shares of IBBSC.

Corporate governance

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 private equity, real estate and venture capital. It places a majority 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 25 years. Investcorp's corporate governance practices have been structured around the following four principles:

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

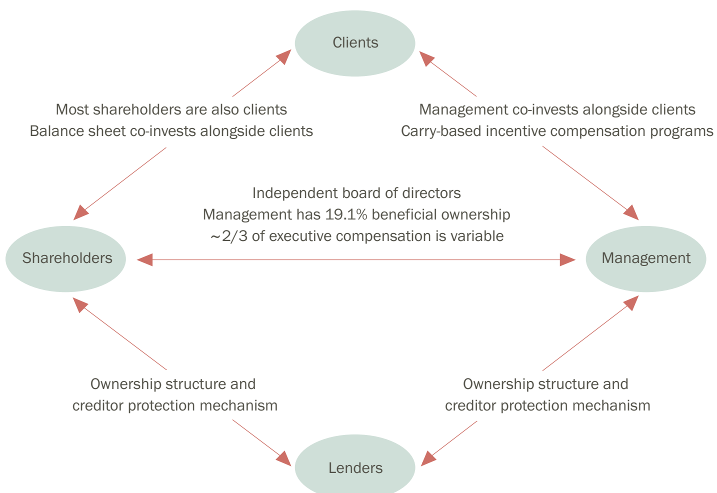
ii. transparency of reporting and actions plus proactive risk control;

iii. collective decision-making; and

iv. an institutional mindset.

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.



- Co-investments: clients, shareholders and management all participate in each of Investcorp's investment products. Investcorp retains a stake of between 5% and 20% in each private equity or real estate 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 and management indirectly participate in each of the investment products. In addition, Investcorp's employees co-invest alongside clients and Investcorp in all these investment products (further described under 'program for investment participation' in Note 25 of the consolidated financial statements of IBBSC). 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 generation of superior risk-adjusted returns in each of the Company's products.

- Performance-based incentive compensation: investment professionals, consistent with industry practice, participate in performance-based 'carry' programs whereby a certain variable portion of exit proceeds due to investors from 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, approximately two-thirds of the overall executive compensation is paid in the form of variable incentive compensation that is highly correlated with Investcorp's net income. Investcorp's net income is driven by its ability to acquire, place, manage and realize investments (franchise value) and realize gains from investments on its balance sheet. 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.

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.

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 are vital elements of a group-wide framework for mitigating risks, allocating resources and making decisions with full accountability based on all relevant information.

- Board of directors: The Board of Directors of IBBSC is ultimately accountable and responsible for the affairs and performance of IBBSC. Entrusted by shareholders, the Board establishes organizational and strategic policies to be implemented day-to-day by senior management.

  Since Investcorp's inception, the Board has been composed of non-executive directors, with the single management director being the CEO. Also since inception, IBBSC has separated the roles of Chairman of the Board of Directors and the CEO.

  Directors are elected for three-year terms and, in line with CBB corporate governance standards, a letter of appointment is issued to each Director following his election to the Board, confirming his election to the Board of Directors and any Board of Directors Committee. Each Director's letter of appointment references the Investcorp Director's Handbook and the Handbook's provisions relating to:

  - Administrative responsibilities of Directors
  - Legal obligations of a Director
  - Board of Directors structure and operations
  - Restrictions on a Director's trading practices

  Details of the Directors are available on Investcorp's website and in a supplement to this annual report.

  The Board of Directors has determined that each Director other than the CEO is an independent non-executive Director. In making this determination, the Board of Directors considered whether each director:

  - Is a 'controller' of IBBSC as that term is defined by the CBB, which term includes a person who owns 10% or more of the shares of IBBSC;
  - Is an 'associate' (as defined by the CBB) of a Director or a member of senior management of IBBSC, which term includes a close relative of a Director or member of senior management of IBBSC;
  - Is a professional advisor to IBBSC;
  - Is a large depositor with or borrower from IBBSC; or
  - Has a significant contractual or business relationship with IBBSC which could be seen to interfere materially with the Director's capacity to act in an independent manner.

All of the Directors own Investcorp shares, in part to satisfy a requirement under the Bahrain Commercial Companies Law that each Director own shares with an aggregate nominal value of not less than BD 10,000 (approximately $26,525), which represents 107 shares at $250 par value. In addition, many of the Directors invest in various Investcorp investment products (Investcorp Investments).

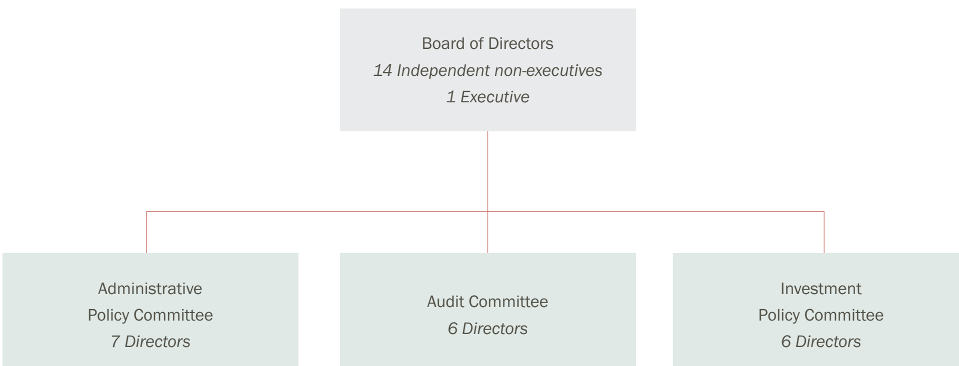
With reference to the last of the criteria listed above, in determining Director independence, the Directors have not considered their ownership of Investcorp shares or their Investcorp Investments as factors that could materially interfere with a Director's ability to act in an independent manner because their share ownership and Investcorp Investments are purely passive in nature.

The Board determined the significance of any other contractual or business relationship that a Director has with IBBSC by reference to the extent of the relevant Director's other contractual and business relationships and determined that a contractual or business relationship with IBBSC that represents 5% or less of a Director's net worth or annual income is not significant.

In the case of any Director that does have a significant other contractual or business relationship with IBBSC, the Board of Directors determined that a Director's demonstrated independence of character, judgment and integrity during his years of service on the Board of Directors are conclusive of that Director's independence.

The Board of Directors is given open access across the management team. This team provides a regular flow of information to the Board through full year forecasts, year-to-date updates and long range plans. All major decisions are discussed with the Board, including the rationale behind investment decisions.

The Board of Directors meets at least four times a year. Governance of Investcorp is carried out through the focused activities of three Board committees, together named executive committees, each of which meets at least three times a year.



The administrative policy committee is responsible for making administrative decisions and for oversight of Investcorp's administrative policies. The committee's principal charter calls for it to:

- approve cash bonuses, compensation programs and other incentive plans;
- review corporate and administrative policies;
- approve annual budgets and dividend policy; and
- function as a nominating committee to identify and review candidates to fill vacancies on the Board of Directors and evaluate the balance of skills, knowledge and experience on the Board of Directors when evaluating potential candidates to fill vacancies on the Board of Directors.

The audit committee is responsible for the oversight of Investcorp's internal audit, external audit, risk management and compliance activities. Both the head of internal audit and the head of risk management report to the committee. The committee's principal charter calls for it to:

- review the integrity of Investcorp's financial reporting;
- ensure the independence of Investcorp's internal audit functions;
- review the adequacy and effectiveness of Investcorp's accounting and financial controls;
- oversee the selection and compensation of Investcorp's external auditor for appointment and approval at each Annual General Meeting and ensure the external auditor's independence;
- review the adequacy and effectiveness of Investcorp's risk management policies and methodologies; and
- oversee Investcorp's compliance with all applicable laws and regulations.

The investment policy committee is responsible for the oversight of Investcorp's investment policies. The committee's principal charter calls for it to:

- review and approve recommendations for investment strategies and products and services;
- set investment and trading limits;
- evaluate investment, financing and trading decisions and recommend enhancements; and
- approve corporate funding policy and banking relationships.

At the end of FY09, Investcorp's CEO, Nemir A. Kirdar, took on more direct involvement in the day-to-day management of Investcorp and assumed direct responsibility for those business areas that had previously reported to him through the Chief Operating Officer (COO), as it was felt that in light of current industry challenges the strategic direction of Investcorp would benefit from the CEO being closer to the lines of business.

The leadership team now comprises five senior partners: Nemir A Kirdar, Executive Chairman & CEO; Mohammed Al-Shroogi, President, Gulf business; Christopher O'Brien, President, US and European business; Rishi Kapoor, Chief Financial Officer; and Mark Slaughter, Chief Administrative Officer. Messrs. Al-Shroogi, O'Brien, Kapoor and Slaughter will report directly to the CEO.

In line with the corporate governance standards of the CBB, letters of appointment have been issued to the senior members of the management team. Each letter of appointment confirms the principal management responsibilities and reporting lines of the senior manager and specifies his or her responsibilities.

Details of the senior members of the management team are available on Investcorp's website.

- Transparency for other stakeholders: Investcorp is transparent and open with its shareholders, clients and lenders. Investcorp 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 AGM, provides further information and an opportunity for interchange of opinions and ideas. The relationship management team and several senior members of the management team also periodically meet with shareholders in one-to-one meetings. Clients have direct, ongoing access to the relationship management 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 relationship management 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, ongoing access to the members of the corporate financial management team, usually through one-to-one meetings.

iii. Collective decision-making

At Investcorp, significant decisions are always made by teams, rather than by individuals. No single person at Investcorp has a right of veto or is in a position to override another.

Such collective decision-making is evident in the set of cross-functional committees that fully review and approve all investments and asset/liability decisions as described elsewhere in this annual report, including the various investment committees, the commitment committee and the FRMC.

Investcorp acts with a partnership mentality. All business units are accountable to, and have their performance evaluated by, their partners within Investcorp. In addition, all employees adhere to the Investcorp Group code of conduct. They are expected to consider the reputational impact of their actions and to act ethically at all times to protect the interests of Investcorp, shareholders, clients and lenders.

iv. Institutional mindset

Investcorp is an institution. It has a strong corporate culture, a highly professional management team, appropriate infrastructure and systems, as well as a deep talent base. Supporting this are concrete institutional foundations. Investcorp is a publicly listed company and has been licensed and regulated as a bank since inception.

CBB corporate governance standards

In an effort to bring the corporate governance of Bahrain banks more into line with corporate governance standards in many other countries, including the UK and the US, the CBB has adopted a series of corporate governance rules. The overall objective of the corporate governance rules is to foster a culture within Bahrain banks of more proactive boards of directors that are accountable and responsible for the affairs and performance of their banks.

Certain of the CBB's corporate governance rules became effective in October 2005, and Investcorp has implemented those rules.

The CBB has adopted additional corporate governance rules that became effective on January 1, 2007, and Investcorp has also implemented those rules. Included among these additional rules are requirements that:

- boards of banks periodically assess their composition and size and, where appropriate, reconstitute themselves by selecting new directors to replace long-standing directors;
- no board member hold more than one directorship of Bahrain bank licensees within the same license category;
- boards identify their members in the annual report as executive, non-executive and independent non-executive and outline in the annual report their criteria and materiality thresholds for the definition of 'independence';
- independent non-executive directors be permitted to meet periodically without executive management present; and
- formal letters of appointment be issued both to senior management and board members, outlining their specific responsibilities and accountabilities.
- In addition, in line with CBB requirements the Board of Directors has adopted a Public Disclosure Policy and Procedures Statement (the 'Public Disclosure Statement') that (i) states that it is the policy of Investcorp to provide to its shareholders, clients, creditors, depositors and employees public disclosures that are fair, transparent, comprehensive and timely and (ii) sets forth Investcorp's internal controls over the public disclosure process. The Public Disclosure Statement requires that all information regarding Investcorp that is publicly disclosed be made available on Investcorp's website promptly after the information is disclosed and that at least three years of Investcorp's audited annual financial statements be maintained on the website.

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 BSE, and Investcorp is subject to the regulations of the BSE.

Investcorp's shares are also listed on the LSE, in a secondary listing, and Investcorp is subject to those regulations of the UK Financial Services Authority (the 'FSA') and the UK Listing Authority that apply to companies with a secondary listing on the LSE. In addition, Investcorp has a UK subsidiary that acts as an arranger of corporate finance transactions. This subsidiary is registered with and regulated by the FSA.

In connection with the hedge funds business, Investcorp 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). In addition, all of the funds included in the hedge funds business are registered with and regulated by CIMA and the CBB, and the funds included in the Gulf Growth Capital business 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, long dated and diversified 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.

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 ongoing 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 such as the one experienced this fiscal year.

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 private equity and real estate. 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 II is targeted to remain well above regulatory minimums and is intended to keep the Company 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 SA, a non-Gulf entity. As a matter of course, certain loan covenants require that Investcorp SA owns at least 95% of Investcorp's consolidated 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 current credit and global markets crisis has impacted Investcorp's investment business and its balance sheet capitalization. Taking this into account and consistent with the broad wave of actions taken across the financial services industry, the rating agencies have downgraded the ratings of Investcorp to reflect the tough environment faced by the alternative investments sector. Investcorp has recognized these challenges and has focused on deleveraging and strengthening its balance sheet through risk reduction and capital raising measures in order to support a 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 liquid assets, and off-balance sheet liquidity, in the form of un-drawn 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 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 clients.

Liquid assets provide diversification from the illiquidity risks of Investcorp's second dominant category of balance sheet assets, co-investments in private equity and real estate and, other than the three months ended November 2008, have historically produced a strong stream of recurring asset-based income that has covered interest expense and fixed operating costs.

The Company's on-balance sheet liquidity is supplemented by off-balance sheet liquidity in the form of committed medium-term revolving credit facilities provided by a wide network of relationship banks. Such facilities are mainly used in the normal course of business for acquisition underwriting of new private equity or real estate 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 private equity and real estate acquisitions for placement with clients, without having to redeem a portion of the hedge fund co-investment for short-term working capital requirements.

Access to available but uncommitted short-term funding from the Company's broad range of established regional Gulf and international bank relationships can also provide additional comfort. However, the dislocation in the regional interbank funding markets that occurred in late 2008 and early 2009 has severely affected this source of liquidity during FY09.

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) repayment of client call deposits; (iii) below par performance of liquidity pools; and (iv) the 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 applied to Investcorp's funding activity. Investcorp's strategy is to maintain a wide range of lender relationships, to provide lenders with continual dialog 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. This has been achieved from the traditional global medium-term syndicated bank loan market, together with capital markets transactions such as private placements with institutional investors. Investcorp has a high positive structural funding gap where the average maturity of liabilities is targeted at 60 months, compared to a much shorter average maturity for assets.

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.

Investcorp's funding sources can be summarized as follows:

- **Short-term funding** comprises interbank takings as well as deposits from clients and non-banks, all with maturities of less than one year. Some of the deposits from clients are transitory as they relate to subscriptions pending investment in new deals or hedge fund products, or exit proceeds pending distribution to clients.

- **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. This pool has staggered maturities over five years to reduce repayment or refinancing concentration and to match the medium-term nature of Investcorp's working capital cycle.

- **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 long dated 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. Internal risk management guidelines target a leverage cap of three times capital, which is lower than external covenant threshold levels. Although Investcorp has traditionally operated with a leverage of between two and three times, the de-leveraging initiatives of FY09 have reduced leverage to below two times and Investcorp's strategy is for a continuing decline in the leverage ratio over the medium-term.

The Company 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 private equity and real estate 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 high proportion of borrowed money is retained in the form of accessible liquidity. Nevertheless, Investcorp is comfortable with its leverage in the above range, 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 the Company'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 the Company 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. This includes the Financial and Risk Management Committee (FRMC) and the Asset Liability Council (ALCO).

The FRMC, which comprises the CFO, the heads of several lines of business, the head of treasury and the head of risk management, performs a review of balance sheet risks from a company-wide perspective. The committee evaluates risk planning and discusses all major actions undertaken to manage risks from the standpoint of Investcorp's business model and capital base.

The ALCO assesses and reviews various balance sheet risks arising from treasury activities on an ongoing basis and decides on mitigation strategies for these risks, operating under the guidelines agreed by the FRMC. The ALCO 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. The ALCO debates and decides whether to pursue tactical hedging initiatives to protect against or reduce undesired levels of these balance sheet risks in order to manage Investcorp's overall risk profile in sync with ex-ante targets and the evolving outlook on business conditions. In addition, separate risk review forums are used for each line of business (e.g., investment committees for private equity, hedge funds and real estate) 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:

- credit risk: no significant exposure [Note 23(i)*],
- liquidity risk: discussed earlier in the previous section [Note 23(ii)*],
- line of business investment risk,
- concentration risk: diversification discussed in each business unit section [Note 23(iii)*],
- market risk: use of Value-at-Risk (VaR) approach [Note 23(iv)*],
- foreign currency risk [Note 23(iv)(a)*],
- interest rate risk [Note 23(iv)(b)*],
- equity price risk [Note 23(iv)(c)*],
- operational risk [Note 23(v)*], and
- reputational risk.

*References are to footnotes in the fiscal 2009 Investcorp Bank BSC consolidated financial statements.

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.

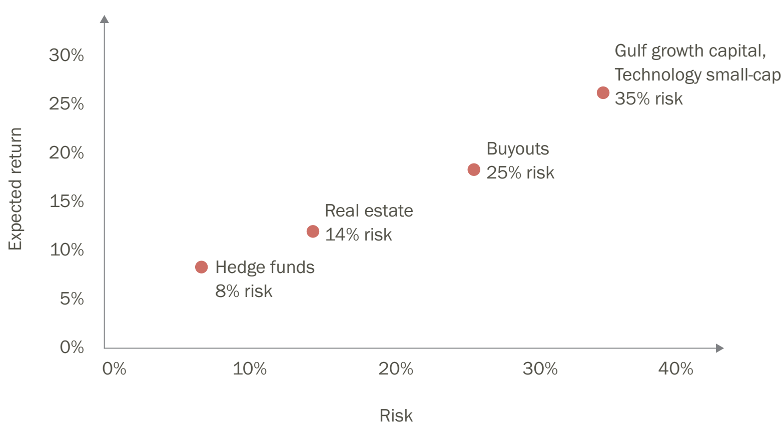
Interest rate/currency risk management

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 as at June 30, 2009 is shown in Note 23(iv)(b)* of the financial statements of Investcorp Bank BSC.

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 swaps and interest rate caps 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 23(iv)(a)* of the consolidated financial statements of Investcorp Bank BSC.

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.



Private equity investment

Private equity 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 US and European buyout 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 a proprietary risk model 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 buyouts 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.

*References are to footnotes in the fiscal 2009 Investcorp Bank BSC consolidated financial statements.

Once a company is purchased, 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. Correlation analysis among the portfolio holdings is conducted on a regular basis in order to identify any over-concentration in a specific sector and evaluate hedging of any undue downside risk. 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 buyouts business, the goal in small-cap technology investing and Gulf growth capital is to seek returns that justify the risk being taken. The higher risks of small-cap technology and Gulf growth capital 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 commitment 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 VaR 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 provide 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. Almost 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 first half of FY09. 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 private equity investment are also employed to mitigate risks associated with the acquisition and retention of real estate investments. In addition, the real estate 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. For larger size or opportunistic property investments, the risk management team works during pre-acquisition alongside the real estate deal team to implement a proprietary risk model 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, the Company 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 limits and guidelines.

Operational risk

Operational risk has been a focus of Investcorp's overall risk management framework since fiscal 2006, as part of preparations for the implementation by the CBB of the Basel II accord. 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 all legal and reputational risks, but excludes strategic and business risks.

Investcorp has met the 2008 regulatory requirements for Basel II implementation, which includes the set-up of an operational risk framework of the Basic Indicator Approach (BIA). The risk management team has conducted risk and control self assessments (RCSA) in every line of business to identify and assess the major operational risks and the relevant controls which mitigate these risks. Where necessary, a mitigation plan has been drawn up to improve the control environment, and its ownership has been allocated to the operational risk specialist of the relevant line of business.

Adequacy of economic capital

Investcorp uses an enterprise VaR approach to determine if it has sufficient economic capital to cover 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.

In the enterprise VaR approach, a dynamic five-year model, based on the current shape of the balance sheet and a bottom-up input from all businesses regarding base case expectations and variability around those, is used to project the financial condition of the Company at the end of each of the next five years. The model uses statistical techniques (Monte Carlo simulations) to project several thousand P&L and balance sheet scenarios, with the focus being on the amount of economic capital in the bottom 1% of simulated projections (termed the 'stress-case'). 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 of at least $100 million, even in such stress-case scenarios, to ensure solvency and flexibility for business initiatives.

Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2009

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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2009 based on internal guidelines set by the Board Audit Committee. Based on this assessment, management believes that, as of June 30, 2009 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 Executive Chairman & CEO	RISHI KAPOOR Chief Financial Officer	STEPHANIE R. BESS General Counsel

August 18, 2009

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

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. (the 'Bank') and its subsidiaries (together the 'Group') which comprise the consolidated balance sheet as at June 30, 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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, 2009 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other regulatory matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended June 30, 2009 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst & Young

August 18, 2009
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.
CONSOLIDATED BALANCE SHEET
June 30, 2009

$000s	June 30, 2009	June 30, 2008	Note	Page
ASSETS				
Cash and short-term funds	**416,088**	194,163	6	117
Deposits with financial institutions	**713,217**	257,407	6	117
Positive fair value of derivatives	**56,150**	62,191	20	131
Receivables and prepayments	**335,741**	459,580	7	118
Loans and advances	**224,103**	341,106	8	119
Co-investments				
Hedge funds	**614,481**	2,020,808	9	119
Private equity	**903,391**	1,029,142	10	120
Real estate	**283,207**	337,038	11	123
Total co-investments	**1,801,079**	3,386,988		
Premises, equipment and other assets	**73,986**	64,892		
Total assets	**3,620,364**	4,766,327		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	**15,000**	385,469		
Deposits from clients – short term	**289,873**	438,412	13	125
Negative fair value of derivatives	**33,287**	45,925	20	131
Unfunded deal acquisitions	**–**	234,321		
Payables and accrued expenses	**90,361**	217,125	14	125
Deposits from clients – medium term	**83,212**	119,607	13	125
Medium-term debt	**1,635,515**	1,116,395	15	126
Long-term debt	**578,370**	971,903	16	127
Total liabilities	**2,725,618**	3,529,157		
EQUITY				
Preference share capital	**500,000**	–	17	127
Ordinary shares par value	**200,000**	200,000	17	127
Reserves	**604,995**	653,971	17	127
Treasury shares	**(150,507)**	(177,602)		
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	**16,926**	542,563		
Ordinary shareholders' equity other than unrealized fair value changes, revaluation reserve and proposed dividend	**671,414**	1,218,932		
Proposed dividend	**–**	63,278	19	130
Unrealized fair value changes and revaluation reserve	**(276,668)**	(45,040)	18	130
Total equity	**894,746**	1,237,170		
Total liabilities and equity	**3,620,364**	4,766,327		

ABDUL-RAHMAN SALIM AL-ATEEQI
Chairman

NEMIR A. KIRDAR
Executive Chairman & CEO

The attached notes 1 to 28 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended June 30, 2009

$000s	2009	2008	Note	Page
FEE INCOME				
Management fees	**107,359**	136,464		
Activity fees	**21,715**	221,483		
Performance fees	**301**	24,952		
Gross fee income (a)	**129,375**	382,899	2	108
ASSET-BASED INCOME				
Private equity	**12,389**	20,610		
Hedge funds	**(323,797)**	100,508		
Real estate	**20,153**	26,257		
Treasury and other asset-based income	**72,883**	74,869		
Asset-based (loss) income (b)	**(218,372)**	222,244		
Gross operating (loss) income (a) + (b)	**(88,997)**	605,143		
Provisions	**(22,246)**	(5,410)	12	124
Interest expense	**(114,976)**	(159,896)		
Operating expenses	**(206,322)**	(266,065)	5	117
Net operating (loss) income before fair value changes of private equity and real estate co-investments	**(432,541)**	173,772		
Fair value changes of private equity and real estate co-investments (c)	**(348,086)**	(22,715)	18	130
NET (LOSS) INCOME	**(780,627)**	151,057		
Basic and fully diluted (loss) earnings per ordinary share ($)	**(1,120)**	212	19	130
TOTAL REVENUE (a) + (b) + (c)	**(437,083)**	582,428		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2009	2008	Note	Page
NET (LOSS) INCOME (AS ABOVE)	**(780,627)**	151,057		
Other comprehensive income				
Revaluation surplus on premises and equipment	**11,240**	–	18	130
Fair value changes — cash flow hedges	**12,122**	(2,446)	18	130
Fair value changes — available for sale investments	**–**	6,573	18	130
Others	**–**	(3,631)		
Other comprehensive income	**23,362**	496		
TOTAL COMPREHENSIVE (LOSS) INCOME	**(757,265)**	151,553		

The attached notes 1 to 28 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2009

$000s	Preference share capital	Ordinary share capital	Reserves: Share premium	Reserves: Statutory reserve	Reserves: General reserve	Reserves: Total reserves
Balance at June 30, 2007	200,000	200,000	501,670	97,116	50,000	648,786
Total comprehensive income	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Preference shares redemption	(200,000)	–	–	–	–	–
Transfer to statutory reserve	–	–	–	2,884	–	2,884
Purchased during the year	–	–	–	–	–	–
Sold during the year	–	–	–	–	–	–
Gain (loss) on sale of treasury shares	–	–	2,301	–	–	2,301
Dividends paid	–	–	–	–	–	–
Proposed dividend	–	–	–	–	–	–
Balance at June 30, 2008	–	200,000	503,971	100,000	50,000	653,971
Total comprehensive loss	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Depreciation transferred to retained earnings	–	–	–	–	–	–
Purchased during the year	–	–	–	–	–	–
Sold during the year	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(48,029)	–	–	(48,029)
Dividends paid	–	–	–	–	–	–
Preference share issuance proceeds	500,000	–	–	–	–	–
Share issue expenses	–	–	(947)	–	–	(947)
Balance at June 30, 2009	**500,000**	**200,000**	**454,995**	**100,000**	**50,000**	**604,995**

*Retained earnings other than unrealized fair value charges of private equity and real estate co-investments.

The attached notes 1 to 28 are an integral part of these consolidated financial statements.

			Fair value changes and revaluation reserve					
			Fair value changes			Revaluation reserve on premises and equipment	Total fair value changes and revaluation reserve	
Treasury shares	Retained* earnings	Proposed dividend	Private equity and real estate	Available for sale investments	Cash flow hedges			Total equity
(155,564)	443,248	75,724	(23,677)	–	(6,651)	–	(30,328)	1,381,866
–	147,426	–	–	6,573	(2,446)	–	4,127	151,553
–	(3,876)	–	3,876	–	–	–	3,876	–
–	22,715	–	(22,715)	–	–	–	(22,715)	–
14,032	(758)	–	–	–	–	–	–	(186,726)
–	(2,884)	–	–	–	–	–	–	–
(47,882)	–	–	–	–	–	–	–	(47,882)
14,083	–	–	–	–	–	–	–	14,083
(2,271)	(30)	–	–	–	–	–	–	–
–	–	(75,724)	–	–	–	–	–	(75,724)
–	(63,278)	63,278	–	–	–	–	–	–
(177,602)	542,563	63,278	(42,516)	6,573	(9,097)	–	(45,040)	1,237,170
–	(780,627)	–	–	–	12,122	11,240	23,362	(757,265)
–	(93,571)	–	93,571	–	–	–	93,571	–
–	348,086	–	(348,086)	–	–	–	(348,086)	–
–	475	–	–	–	–	(475)	(475)	–
(51,278)	–	–	–	–	–	–	–	(51,278)
30,344	–	–	–	–	–	–	–	30,344
48,029	–	–	–	–	–	–	–	–
–	–	(63,278)	–	–	–	–	–	(63,278)
–	–	–	–	–	–	–	–	500,000
–	–	–	–	–	–	–	–	(947)
(150,507)	16,926	–	(297,031)	6,573	3,025	10,765	(276,668)	894,746

INVESTCORP BANK B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2009

$000s	2009	2008	Note	Page
OPERATING ACTIVITIES				
Net (loss) income	(780,627)	151,057		
Adjustments to reconcile net income to net cash:				
Fair value changes	348,086	22,715		
Depreciation	7,245	6,699	5	117
Provisions for receivables and loans and advances	22,246	5,410	12	124
Amortization of transaction costs of borrowings	4,533	4,200		
Net (loss) income adjusted for non-cash items	(398,517)	190,081		
Changes in:				
Operating capital				
Receivables and prepayments	121,331	(195,830)	7	118
Loans and advances	97,265	(194,526)	8	119
Deposits from clients—short term	(148,539)	(56,087)	13	125
Unfunded deal acquisitions	(234,321)	185,406		
Payables and accrued expenses	(126,764)	(55,344)	14	125
Co-investments				
Hedge funds	1,406,327	(164,357)	9	119
Private equity	(116,059)	(293,538)	10	120
Real estate	(52,445)	24,714	11	123
Fair value of derivatives	18,342	(38,603)		
Other assets	32	213		
NET CASH FROM (USED IN) OPERATING ACTIVITIES	566,652	(597,871)		
FINANCING ACTIVITIES				
Deposits from financial institutions	(370,469)	216,015		
Deposits from clients—medium term	(36,395)	(28,787)	13	125
Medium-term revolvers drawn	557,500	240,000	15	126
Medium-term debt issued (net of transaction costs)	–	132,127	15	126
Medium-term debt repaid	(42,000)	–	15	126
Long-term debt repaid	(407,263)	(25,620)	16	127
Treasury shares purchased (ordinary)—net	(20,934)	(33,799)	17	127
Share issue expenses	(947)	–	17	127
Preference share issuance proceeds (redemeed)	500,000	(186,726)	17	127
Dividends paid	(63,278)	(75,724)		
NET CASH FROM FINANCING ACTIVITIES	116,214	237,486		
INVESTING ACTIVITY				
Investment in premises and equipment	(5,131)	(5,827)		
Net increase (decrease) in cash and cash equivalents	677,735	(366,212)		
Cash and cash equivalents at beginning	451,570	817,782		
Cash and cash equivalents at end	1,129,305	451,570		
Cash and cash equivalents comprise:			6	117
Cash balances with banks	35,100	63,192		
Cash in transit	380,988	130,971		
Deposits with financial institutions	713,217	257,407		
	1,129,305	451,570		

Cash and cash equivalents comprise cash and short-term funds, transitory funds, cash in transit, together with deposits with financial institutions and government securities that have contracted maturities of less than 90 days.

Additional cash flow information $000s	2009	2008
Interest paid	(123,354)	(166,077)
Interest received	21,498	37,179

The attached notes 1 to 28 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

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

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

The Bank is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability. The Bank has a primary listing on the Bahrain Stock Exchange ('BSE') and a secondary listing through Global Depositary Receipts (the 'GDRs') on the London Stock Exchange ('LSE'). Every 100 GDRs represent a beneficial interest in one underlying ordinary share of the Bank. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

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

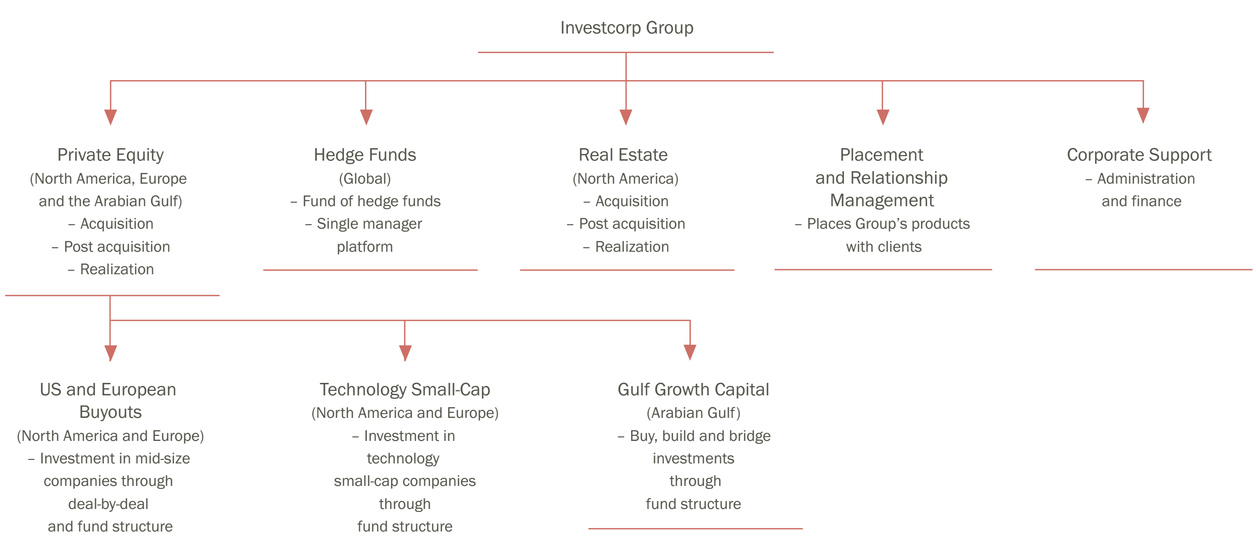
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2009 were authorized for issue in accordance with a resolution of the Board of Directors dated August 18, 2009.

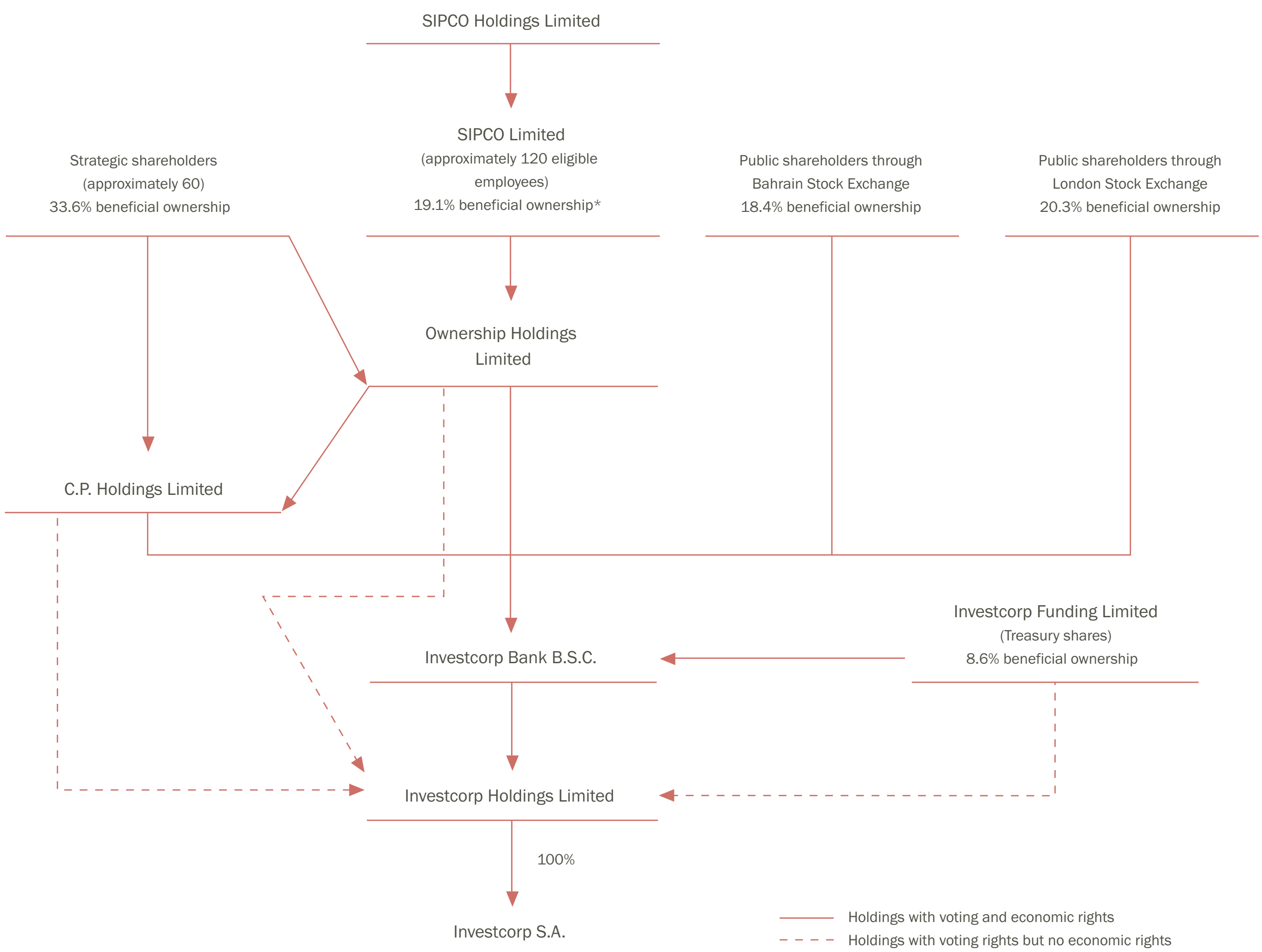
(ii) Activities

The Group's principal activity is providing products in three broad alternative investment asset classes to its client base and co-investing in these together with its clients. The alternative investment asset classes in which the Group specializes are private equity, hedge funds and real estate. Within the private equity asset class the Group offers three products namely, (a) US and European buyouts, (b) technology small-cap investments and (c) Gulf growth capital.

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 1.9% in shares that are held for future sale to management under the SIP 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 equivalent of treasury shares.

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

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

(iv) Subsidiary companies

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

The Bank has a 100% economic interest in Investcorp Holdings Limited ('IHL', incorporated in the Cayman Islands) through Series A 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. CPHL, OHL and Investcorp Funding Limited ('IFL') own ordinary shares of

IHL in the same proportion to their shareholding of Investcorp ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

IHL in turn has a 100% economic and voting interest in Investcorp S.A. ('ISA'), a financial holding company incorporated in Luxembourg. 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 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. (Luxembourg)	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
	Invifin S.A. (Luxembourg)	Company through which the Group retains its investment in debt instruments across its product classes
	Investcorp Investment Holdings Limited (Cayman Islands)	Company through which the Group retains its equity investments across its product classes
	Investcorp Management Services Limited (Cayman Islands)	Company that provides investment management and advisory services to client investment holding companies for private equity and real estate investments
	Investcorp Investment Adviser Limited (Cayman Islands)	Company that provides investment management and advisory services to the hedge funds program (HFP) and is a SEC registered investment advisor
	Investcorp Funding Limited (Cayman Islands)	Company that provides short-term funding to investee and client investment holding companies
	Investcorp Trading Limited (Cayman Islands)	Company that executes the Group's money market, foreign exchange and derivative financial contracts and invests in single manager funds
	Investcorp AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	Investcorp Financial & Investment Services S.A. (Switzerland)	Company that provides M&A advisory services for deal execution in Western Europe
	Investcorp International Limited (UK)	The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) provides M&A advisory services in the UK
	Investcorp International Holdings Inc. (USA)	The Group's principal operating subsidiary in the United States of America
	Investcorp International Inc. (USA)	Company that provides M&A advisory services for deal execution in North America
	N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and is a SEC registered broker dealer
	Investcorp Investment Adviser LLC (USA)	Company that provides investment management services in the United States for the HFP and is a SEC registered investment advisor

B. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The consolidated financial statements are prepared in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousand ($000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years except for the change in accounting policy as noted below.

Change in accounting policy

During the year, the Group changed its policy in respect of carrying value of premises and equipment. Certain classes of these assets have been revalued to their fair value in the year and are carried at their revalued amount less any accumulated depreciation and cumulative impairment losses. The revaluation surplus has been recognized in other comprehensive income and included as a separate component of equity as revaluation reserve.

Early adoption of International Financial Reporting Standards

IFRS 8 (Operating Segments) and revised IAS 1 (Presentation of Financial Statements) were both issued by the International Accounting Standards Board and needed to be applied for fiscal years beginning on or after January 1, 2009. The Group early adopted both these Standards during the fiscal year beginning July 1, 2007, as permitted by the Standards.

IFRS 8 relates to disclosure of segmental information and revised IAS 1 requires certain changes in the presentation of financial statements. As such, early adoption of these standards has no impact on the Group's results for the year ended, or financial position as at, June 30, 2009.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates:

- IAS 23 (Revised)—Borrowing costs, January 1, 2009;
- IFRS 2 Amendment—Vesting conditions and cancellations, January 1, 2009;
- IAS 27 Amendment—Cost of an investment in a subsidiary, jointly controlled entity or associate, January 1, 2009;
- 2008 Annual Improvements to IFRS, January 1, 2009;
- IFRS 7 Amendment—Improving disclosures about financial instruments, January 1, 2009;
- IFRS 3 (Revised)—Business combinations, July 1, 2009;
- IAS 27 Amendment—Consolidated and separate financial statements, July 1, 2009;
- IAS 39 Amendment—Eligible hedged items, July 1, 2009;
- IFRIC 15—Agreements for the construction of real estate assets, January 1, 2009;
- IFRIC 17—Distribution of non cash asset to owners, July 1, 2009.

The directors do not anticipate that the adoption of these Standards will have a material impact on the consolidated financial statements in the period of their initial application.

(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 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 fair value of Fair Value Through Profit or Loss ('FVTPL') private equity and real estate investments and impairment provisions for unquoted Available-For-Sale ('AFS') investments (see Notes 10 and 11).

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

Classification of investments

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

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

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short-term profit.

Investments acquired with the intention of a long-term holding period, such as in private equity, real estate or hedge funds, 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.

All other investments are classified as available-for-sale.

(iv) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

(v) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income under treasury and other asset-based income. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined.

(vi) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. Provisions are made against receivables as soon as they are considered doubtful.

(vii) Loans and advances

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

(viii) Co-investments in hedge funds

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 9.

(ix) Co-investments in private equity and real estate

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

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at cost 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. In the event that such third party evidenced reliable measure of fair value is not available, the investment is stated at its previous carrying value, net of any impairment provisions. The resulting change in value of these investments is recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Certain debt investments out of the Group's co-investments in private equity and real estate are classified as held-to-maturity investments and are carried at amortized cost, less provision for impairment, if any.

(x) Derecognition of financial instruments

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

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

(xi) Trade date accounting

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

(xii) Impairment and un-collectibility of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying holder of the 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.

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 relevant provision account in the consolidated statement of income.

Impairment is determined as follows:

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

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

(xiii) Premises and equipment

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

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

All other items are recorded at cost less accumulated depreciation.

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

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

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

(xiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 25).

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

(xv) Unfunded deal acquisitions

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions signed at the balance sheet date that have not been funded.

(xvi) Borrowings

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

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

(xvii) Treasury shares

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

(xviii) Dividends

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

(xix) Offsetting

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

(xx) Derivative financial instruments

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

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 20.

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

(xxi) Income and expenses

Interest income is recognized using the effective yield of the asset and is recorded as asset-based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees for private equity and real estate business are recognized when earned. Performance fees for the hedge funds business is accrued on a cumulative basis using the High Watermark methodology.

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

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

2. SEGMENT REPORTING

A. ACTIVITIES

(i) As an intermediary

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

(ii) As a principal

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

B. ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

The Group classifies its reporting segments on the basis of its three product asset classes and the individual lines of business within these that are responsible for each distinct product category. The following table shows the relationship between the Group's reporting segments, asset classes, lines of business and products.

Reporting segments	Asset classes	Lines of business (product categories)	Products
1) Private equity	1) Private equity	1) US and European buyouts	— Deal-by-deal offerings — Closed-end fund(s)
		2) Technology small-cap investments	— Closed-end fund(s)
		3) Gulf growth capital	— Closed-end fund(s)
2) Hedge funds	2) Hedge funds	4) Hedge funds	— Fund of hedge funds — Single managers
3) Real estate	3) Real estate	5) Real estate	— Equity investments — Mezzanine debt investments
4) Corporate support			— Liquidity/working capital/funding

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

(i) US and European buyouts ('buyouts')

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

(ii) Technology small-cap investments ('TSI')

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

(iii) Gulf growth capital ('GGC')

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

(iv) Hedge funds ('HF')

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

(v) Real estate ('RE')

The RE team, based in New York, arranges investments in US-based properties with strong cash flows and/or potential for attractive capital gains over a three to five year holding period. Several properties are assembled into diversified portfolios that are then placed individually with the Group's investor base in the 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. Activity fees comprise acquisition fees earned by the Group from investee companies on new private equity or real estate acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from Gulf clients at the time of placing new private equity or real estate transactions with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing advisory services for ancillary transactional activity, including refinancings, recapitalizations, restructuring and disposal. Management fees are earned from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments. Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle rate.

(ii) Asset-based income and unrealized fair value changes

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

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

D. ALLOCATION OF OPERATING EXPENSES

Operating expenses for each reporting segment comprise the respective lines of 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 private equity and real estate reporting segments are primarily in the form of proprietary co-investments by the Group in investments arranged by the respective lines of businesses, classified as FVTPL investments in the consolidated balance sheet. Assets directly attributable to the hedge funds reporting segment are primarily in the form of the Group's proprietary co-investment in hedge funds. All other assets that are common to the Group are recorded under corporate support.

F. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a Value-at-Risk (VaR) methodology to determine the amount of economic risk capital that is needed to support each reporting segment in its business growth objectives and also in conditions of extreme stress, and allocates equity to each reporting segment on this basis. Equity is allocated to each unit based on both the current amount of capital and an ex-ante assessment, before the beginning of each fiscal year, that takes into account the current size of the business, expected growth over the medium-term and the associated equity required to support the risks within each reporting segment through the VaR methodology. Having determined the assets directly attributable to each reporting segment, and the equity requirements, the Group allocates liabilities (debt funding) to each segment based on the relative maturity profile of the segment's assets. Longer-dated liabilities are generally allocated to the private equity and real estate reporting segments, considering their medium-long term investment horizon.

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

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheet as at June 30, 2009 and 2008 by reporting segment is as follows:

	June 30, 2009				
$000s	Private equity	Hedge funds	Real estate	Corporate support	Total
ASSETS					
Cash and short-term funds	–	–	–	416,088	416,088
Deposits with financial institutions	–	–	–	713,217	713,217
Positive fair value of derivatives	–	–	–	56,150	56,150
Receivables and prepayments	–	–	–	335,741	335,741
Loans and advances	–	–	–	224,103	224,103
Co-investments	903,391	614,481	283,207	–	1,801,079
Premises, equipment and other assets	–	–	–	73,986	73,986
Total assets	903,391	614,481	283,207	1,819,285	3,620,364
LIABILITIES AND EQUITY					
Liabilities					
Deposits from financial institutions	–	3,000	–	12,000	15,000
Deposits from clients — short-term	–	214,983	–	74,890	289,873
Negative fair value of derivatives	–	–	–	33,287	33,287
Unfunded deal acquisitions	–	–	–	–	–
Payables and accrued expenses	11,376	1,355	20,153	57,477	90,361
Deposits from clients — medium-term	–	–	–	83,212	83,212
Medium-term debt	35,098	204,433	37,580	1,358,404	1,635,515
Long-term debt	275,730	14,512	115,854	172,274	578,370
Total liabilities	322,204	438,283	173,587	1,791,544	2,725,618
Total equity	581,187	176,198	109,620	27,741	894,746
Total liabilities and equity	903,391	614,481	283,207	1,819,285	3,620,364

	June 30, 2008				
$000s	Private equity	Hedge funds	Real estate	Corporate support	Total
ASSETS					
Cash and short-term funds	–	–	–	194,163	194,163
Deposits with financial institutions	–	–	–	257,407	257,407
Positive fair value of derivatives	–	–	–	62,191	62,191
Receivables and prepayments	–	–	–	459,580	459,580
Loans and advances	–	–	–	341,106	341,106
Co-investments	1,029,142	2,020,808	337,038	–	3,386,988
Premises, equipment and other assets	–	–	–	64,892	64,892
Total assets	1,029,142	2,020,808	337,038	1,379,339	4,766,327
LIABILITIES AND EQUITY					
Liabilities					
Deposits from financial institutions	–	381,614	–	3,855	385,469
Deposits from clients — short-term	–	237,506	–	200,906	438,412
Negative fair value of derivatives	–	–	–	45,925	45,925
Unfunded deal acquisitions	111,363	–	122,958	–	234,321
Payables and accrued expenses	18,049	4,118	2,289	192,669	217,125
Deposits from clients — medium-term	–	64,282	–	55,325	119,607
Medium-term debt	75,681	969,429	34,447	36,838	1,116,395
Long-term debt	181,249	71,759	73,044	645,851	971,903
Total liabilities	386,342	1,728,708	232,738	1,181,369	3,529,157
Total equity	642,800	292,100	104,300	197,970	1,237,170
Total liabilities and equity	1,029,142	2,020,808	337,038	1,379,339	4,766,327

The consolidated statements of income for the years ended June 30, 2009 and 2008 by reporting segments are as follows:

	July 2008 – June 2009				
$000s	**Private equity**	**Hedge funds**	**Real estate**	**Corporate support**	**Total**
FEE INCOME					
Management fees	55,799	38,714	12,846	–	107,359
Activity fees	23,322	–	(1,607)	–	21,715
Performance fees	–	(579)	880	–	301
Gross fee income (a)	79,121	38,135	12,119	–	129,375
Expenses attributable to fee income	(102,091)	(50,459)	(16,820)	–	(169,370)
Net fee income	(22,970)	(12,324)	(4,701)	–	(39,995)
ASSET-BASED INCOME					
Interest income	229	–	2,030	17,213	19,472
Treasury and other asset-based (loss) income	12,160	(323,797)	18,123	55,670	(237,844)
Fair value changes	(241,810)	–	(106,276)	–	(348,086)
Gross asset-based (loss) income (b)	(229,421)	(323,797)	(86,123)	72,883	(566,458)
Provisions	–	–	–	(22,246)	(22,246)
Interest expense	(22,841)	(44,666)	(12,751)	(34,718)	(114,976)
Expenses attributable to asset-based income	(12,950)	(12,355)	(4,742)	(6,905)	(36,952)
Net asset-based (loss) income	(265,212)	(380,818)	(103,616)	9,014	(740,632)
Net (loss) income	(288,182)	(393,142)	(108,317)	9,014	(780,627)
Total revenue (a) + (b)	(150,300)	(285,662)	(74,004)	72,883	(437,083)

$000s	Private equity	Hedge funds	Real estate	Corporate support	Total
	July 2007 – June 2008				
FEE INCOME					
Management fees	66,023	61,167	9,274	–	136,464
Activity fees	181,021	–	40,462	–	221,483
Performance fees	–	24,487	465	–	24,952
Gross fee income (a)	247,044	85,654	50,201	–	382,899
Expenses attributable to fee income	(134,369)	(61,265)	(27,777)	–	(223,411)
Net fee income	112,675	24,389	22,424	–	159,488
ASSET-BASED INCOME					
Interest income	416	–	1,013	38,264	39,693
Treasury and other asset-based income	20,194	100,508	25,244	36,605	182,551
Fair value changes	(15,587)	–	(7,128)	–	(22,715)
Gross asset-based income (b)	5,023	100,508	19,129	74,869	199,529
Provisions	–	–	–	(5,410)	(5,410)
Interest expense	(38,238)	(86,875)	(18,683)	(16,100)	(159,896)
Expenses attributable to asset-based income	(13,293)	(21,593)	(5,146)	(2,622)	(42,654)
Net asset-based (loss) income	(46,508)	(7,960)	(4,700)	50,737	(8,431)
Net income	66,167	16,429	17,724	50,737	151,057
Total revenue (a) + (b)	252,067	186,162	69,330	74,869	582,428

Total revenue of $(150.3) million (2008: $252.1 million) from private equity asset class includes $17.0 million and $22.1 million (2008: $12.3 million and $18.8 million) relating to technology small-cap investments and Gulf growth capital respectively. The balance relates to US and European buyouts.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2008: nil). All of the Group's fee income arises from intermediary activities while the asset-based income includes $19.5 million (June 30, 2008: $39.7 million) interest income from items at amortized cost and $52.6 million (June 30, 2008: $46.8 million) from items held for trading.

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

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Note 23 (iii) presents the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	June 30, 2009				
$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	–	416,088	–	–	416,088
Placements with banks and other financial institutions	–	713,217	–	–	713,217
Positive fair value of derivatives	–	–	–	56,150	56,150
Receivables	–	308,241	–	–	308,241
Loans and advances	–	224,103	–	–	224,103
Co-investments					
Hedge funds	614,481	–	–	–	614,481
Private equity	867,521	–	35,870	–	903,391
Real estate					
Debt	–	44,130	–	–	44,130
Equity	239,077	–	–	–	239,077
Total financial assets	1,721,079	1,705,779	35,870	56,150	3,518,878
Non-financial assets					
Prepayments					27,500
Premises, equipment and other assets					73,986
Total assets					3,620,364
Financial liabilities					
Deposits from financial institutions	–	15,000	–	–	15,000
Deposits from clients*	–	373,085	–	–	373,085
Negative fair value of derivatives	–	–	–	33,287	33,287
Payables	–	83,102	–	–	83,102
Medium-term debt	–	1,635,515	–	–	1,635,515
Long-term debt*	–	578,370	–	–	578,370
Total financial liabilities	–	2,685,072	–	33,287	2,718,359
Non-financial liabilities					
Deferred income					7,259
Total liabilities					2,725,618

*Adjusted for related fair value hedges (See Note 20).

$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
	June 30, 2008				
Financial assets					
Cash and short-term funds	–	194,163	–	–	194,163
Placements with banks and other financial institutions	–	257,407	–	–	257,407
Positive fair value of derivatives	–	–	–	62,191	62,191
Receivables	–	431,436	–	–	431,436
Loans and advances	–	341,106	–	–	341,106
Co-investments					
Hedge funds	2,020,808	–	–	–	2,020,808
Private equity	990,806	–	38,336	–	1,029,142
Real estate					
Debt	–	15,593	–	–	15,593
Equity	321,445	–	–	–	321,445
Total financial assets	3,333,059	1,239,705	38,336	62,191	4,673,291
Non-financial assets					
Prepayments					28,144
Premises, equipment and other assets					64,892
Total assets					4,766,327
Financial liabilities					
Deposits from financial institutions	–	385,469	–	–	385,469
Deposits from clients*	–	558,019	–	–	558,019
Negative fair value of derivatives	–	–	–	45,925	45,925
Unfunded deal acquisitions	–	234,321	–	–	234,321
Payables	–	205,383	–	–	205,383
Medium-term debt	–	1,116,395	–	–	1,116,395
Long-term debt*	–	971,903	–	–	971,903
Total financial liabilities	–	3,471,490	–	45,925	3,517,415
Non-financial liabilities					
Deferred income					11,742
Total liabilities					3,529,157

*Adjusted for related fair value hedges (See Note 20).

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, 2009				June 30, 2008			
$ millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Private equity								
Closed-end committed funds								
— US and European buyouts	476	199	71	746	451	250	20	721
— Technology small-cap investments	419	67	14	500	424	64	12	500
— Gulf growth capital	875	70	6	951	956	109	35	1,100
Sub total	1,770	336	91	2,197	1,831	423	67	2,321
Closed-end invested funds								
— Technology small-cap investments	223	30	10	263	255	28	12	295
Deal-by-deal investments								
— US and European buyouts	2,540	714	443	3,697	3,148	832	555	4,535
Strategic and other investments	–	74	–	74	–	73	–	73
Total private equity	4,533	1,154	544	6,231	5,234	1,356	634	7,224
Hedge funds								
Fund of hedge funds	1,946	457	3	2,406	3,908	1,536	228	5,672
Single managers	1,148	388	10	1,546	1,641	529	77	2,247
Total hedge funds	3,094	845	13	3,952	5,549	2,065	305	7,919
Real estate								
Closed-end committed funds	253	27	4	284	953	152	3	1,108
Deal-by-deal investments	903	247	42	1,192	926	318	37	1,281
Strategic and other investments	–	8	–	8	–	5	–	5
Total real estate	1,156	282	46	1,484	1,879	475	40	2,394
Corporate support								
Client call accounts held in trust	67	–	–	67	143	–	–	143
Total	8,850	2,281	603	11,734	12,805	3,896	979	17,680
Summary by category:								
Closed-end committed funds	2,023	363	95	2,481	2,784	575	70	3,429
Closed-end invested funds	223	30	10	263	255	28	12	295
Hedge funds	3,094	845	13	3,952	5,549	2,065	305	7,919
Deal-by-deal investments	3,510	1,043	485	5,038	4,217	1,228	592	6,037
Total	8,850	2,281	603	11,734	12,805	3,896	979	17,680
Summary by segments:								
Private equity								
— US and European buyouts	3,016	913	514	4,443	3,599	1,082	575	5,256
— Technology small-cap investments	642	97	24	763	679	92	24	795
— Gulf growth capital	875	70	6	951	956	109	35	1,100
— Strategic and other investments	–	74	–	74	–	73	–	73
Hedge funds	3,094	845	13	3,952	5,549	2,065	305	7,919
Real estate	1,156	282	46	1,484	1,879	475	40	2,394
Corporate support	67	–	–	67	143	–	–	143
Total	8,850	2,281	603	11,734	12,805	3,896	979	17,680

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

Certain of the Group's clients entered into a Trust arrangement whereby their call account balances maintained with the Bank were transferred into individual Trust Fund accounts managed by a common Trustee. These Trust Funds are invested in highly liquid assets which have a credit rating no lower than that of Investcorp and are specifically ring-fenced to meet the amounts placed in Trust. Client monies held in Trust earn the return generated from the assets of the Trust, with a guaranteed minimum return equivalent to inter-bank based market rates.

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

5. OPERATING EXPENSES

$000s	2009	2008
Staff compensation	119,977	170,012
Other personnel costs	16,921	18,912
Professional fees	18,280	14,990
Travel and business development	12,015	15,302
Administration and research	14,415	21,070
Technology and communication	4,572	5,190
Premises	11,463	11,415
Depreciation	7,245	6,699
Other	1,434	2,475
Total	206,322	266,065

6. LIQUIDITY

$000s	June 30, 2009	June 30, 2008
Cash balances with banks	35,100	63,192
Cash in transit	380,988	130,971
Deposits with financial institutions	713,217	257,407
Cash and cash equivalents	1,129,305	451,570
Less: medium- and long-term debt maturing within three months	(142,000)	–
Net cash liquidity	987,305	451,570
Add: undrawn medium-term revolvers [see Note 15 (a)]	–	732,500
Net accessible liquidity	987,305	1,184,070
Co-investments in hedge funds	571,481	2,020,808
Net liquidity	1,558,786	3,204,878

The Group maintains access to sufficient on and off-balance sheet liquidity in order to meet the maturing debt and to ensure sufficient cash is available to fund private equity and real estate acquisitions, prior to syndication to clients.

Accessible liquidity therefore includes both invested amounts that can be realized for cash at very short notice, and undrawn committed medium-term revolvers that can be drawn at short notice and that are not repayable for at least three months from the draw down date.

If required, managed redemptions from the Group's co-investment in hedge funds provide a large source of additional back up liquidity, except for $43 million (2008: nil) which is not immediately available due to gating clauses imposed by the underlying fund managers.

Cash and short-term funds comprise the Group's cash, balances in nostro accounts and short-term government securities. Cash in transit mainly relates to proceeds for issuance of preference shares and redemptions from hedge funds for which notices have been issued, the proceeds of which have been received subsequent to the balance sheet date.

7. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2009	June 30, 2008
Subscriptions receivable	**111,116**	288,234
Capital issuance proceeds receivable	**110,495**	–
Receivables from investee companies	**76,487**	104,257
Investment disposal proceeds receivable	**3,188**	16,271
Hedge funds related receivables	**14,046**	25,529
Accrued interest receivable	**5,009**	7,035
Prepaid expenses	**27,500**	28,144
Other receivables	**19,807**	19,509
	367,648	488,979
Provisions (see Note 12)	**(31,907)**	(29,399)
Total	**335,741**	459,580

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

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

$110.5 million of receivables represents cash proceeds due from clients participating in the preference shares being issued by the Bank and are short term in nature.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of private equity and real estate investments.

Hedge funds related receivables represent amounts due from HFP funds for management and administrative services and performance fees. They also include redemption proceeds receivable from underlying hedge fund managers relating to the Group's co-investment in HFP through internal parallel vehicles.

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

8. LOANS AND ADVANCES

$000s	June 30, 2009	June 30, 2008
Advances to HFP funds and real estate funds	**11,985**	115,395
Advances to investment holding companies	**130,011**	152,885
Advances to employee investment programs	**121,604**	80,776
Other advances	**7,829**	19,638
	271,429	368,694
Provisions (see Note 12)	**(47,326)**	(27,588)
Total	**224,103**	341,106

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

Advances to HFP funds represent the amounts advanced to these funds to facilitate re-balancing of redemptions and subscriptions between various underlying fund managers. Advances to the real estate funds represent amounts invested on behalf of the Group's clients in the acquisitions made by the funds in the interim period prior to receipt of the associated capital call. These advances carry interest at market rates. In both cases, the advances are secured by the underlying investments in the associated fund(s), and hence represent a low risk to the Group.

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

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

9. CO-INVESTMENTS IN HEDGE FUNDS

Co-investments in hedge funds comprise a portion of the Group's liquidity deployed 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 liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments to several emerging hedge fund managers on its single manager platform. An emerging manager is typically one who is just starting his or her firm, but may also include an established manager at low levels of AUM.

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

$000s		June 30, 2009	June 30, 2008
Diversified Strategies Fund ('DSF') and parallel vehicles	A cash management substitute targeting 300 – 500bp spread over LIBOR	**196,790**	658,980
Balanced Fund ('IBF')	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500 – 700bp over LIBOR	**30,415**	741,515
Single manager platform	Investments with single managers that have been seeded on Investcorp's platform	**384,615**	496,709
Other hedge funds investments	Mix of small investments across several theme funds	**2,661**	123,604
Total balance sheet co-investments		**614,481**	2,020,808
Leverage through structured products	Non-recourse leverage provided by third parties as part of structured products around the HFP	**230,308**	45,155
Total gross investments		**844,789**	2,065,963

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

10. CO-INVESTMENTS IN PRIVATE EQUITY

$000s	June 30, 2009	June 30, 2008
US and European buyouts [See Note 10 (a)]	769,392	921,821
Technology small-cap investments [See Note 10 (b)]	46,194	34,208
Gulf growth capital [See Note 10 (c)]	13,696	–
Strategic and other investments [See Note 10 (d)]	74,109	73,113
Total co-investment in private equity	903,391	1,029,142

10(a). US AND EUROPEAN BUYOUTS

The Group's US and European buyout investments are classified as FVTPL investments.

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

During the current period management has predominantly chosen DCF multiples to be the most appropriate in fair valuing the investments. Management believes that under current illiquid market conditions with few to nil M&A transactions multiples based on comparable listed companies or M&A transactions would not have been appropriate in fair valuing the investments.

The carrying values of the Group's co-investments in US and European buyout deals are:

$000s Vintage*	June 30, 2009	June 30, 2008
Vintage 1997 (1997 – 2000)	181,343	184,531
Vintage 2001 (2001 – 2004)	85,014	214,539
Vintage 2005 (2005 – 2008)	381,006	522,751
Vintage 2009 (N&W)**	122,029	–
Total	769,392	921,821

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

** N&W was acquired in late 2008 but is shown separately in vintage 2009.

Summary by sector and location:

$000s	June 30, 2009 North America	Europe	Total	June 30, 2008 North America	Europe	Total
Consumer products	**22,355**	**–**	**22,355**	87,224	–	87,224
Industrial products	**38,920**	**313,392**	**352,312**	45,650	278,006	323,656
Technology and telecom	**164,248**	**–**	**164,248**	164,205	–	164,205
Industrial services	**80,807**	**52,284**	**133,091**	146,884	70,765	217,649
Distribution	**77,830**	**19,556**	**97,386**	80,867	48,220	129,087
Total	**384,160**	**385,232**	**769,392**	524,830	396,991	921,821

The table below highlights the different components of changes in carrying value of co-investments in US and European buyout deals during the year:

$000s	At beginning	Net new acquisitions	Fair value movements	Movements relating to realizations/ placements*	Other movements**	At end
June 30, 2009	**921,821**	**146,256**	**(246,953)**	**(62,007)**	**10,275**	**769,392**
June 30, 2008	706,954	254,644	(29,024)	(66,755)	56,002	921,821

* Movements relating to placements refer to deals acquired in prior years.

** Other movements include add-on fundings and foreign currency translation adjustments.

As indicated earlier, during the current period management has predominantly chosen multiples implied by discounted cash flow analysis to be the most appropriate in fair valuing the investments. As of June 30, 2009 the fair value was $769.4 million (June 30, 2008: $921.8 million) for the Group's aggregate unquoted US and European buyout co-investment portfolio. The associated range of fair values estimated by the management for a +/– change in the implied EBITDA multiple of 0.5x was $685.1 million to $865.0 million (June 30, 2008: $828.1 million to $1,002.3 million). The Group's sensitivity to net income for any such increase or decrease in fair value is a corresponding increase of $95.6 million (June 30, 2008: $80.5 million) or decrease of $84.3 million (June 30, 2008: $93.7 million) as applicable. Nonetheless, the actual amount that is realized in a future realization transaction may differ from the current estimate of fair value and may still be outside management's estimates of the range around it, given the inherent uncertainty surrounding valuations of unquoted investments.

10(b). TECHNOLOGY SMALL-CAP INVESTMENTS

Similar to US and European buyouts, the Group's technology small-cap investments are classified as FVTPL investments.

The fair value of unquoted technology small-cap investments is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for US and European buyout investments as described in Note 10(a).

The carrying values of the Group's co-investments in technology small-cap deals at June 30, 2009 are:

$000s	Communication infrastructure	Wireless data	Digital content	Enterprise software	Other	June 30, 2009 Total
Technology Fund I						
North America	528	1,922	201	1,136	521	4,308
Sub-total	528	1,922	201	1,136	521	4,308
Technology Fund II						
North America	5,563	450	3,714	2,005	–	11,732
Europe	–	–	14,343	–	–	14,343
Sub-total	5,563	450	18,057	2,005	–	26,075
Technology Fund III						
North America	–	5,121	–	–	–	5,121
Europe	–	–	–	10,690	–	10,690
Sub-total	–	5,121	–	10,690	–	15,811
Total	6,091	7,493	18,258	13,831	521	46,194

The carrying values of the Group's co-investments in technology small-cap deals at June 30, 2008 are:

$000s	Communication infrastructure	Wireless data	Digital content	Enterprise software	Other	June 30, 2008 Total
Technology Fund I						
North America	1,063	2,971	244	4,043	1,134	9,455
Sub-total	1,063	2,971	244	4,043	1,134	9,455
Technology Fund II						
North America	7,511	1,009	3,557	2,007	–	14,084
Europe	6	–	4,270	–	–	4,276
Sub-total	7,517	1,009	7,827	2,007	–	18,360
Technology Fund III						
Europe	–	–	–	6,393	–	6,393
Sub-total	–	–	–	6,393	–	6,393
Total	8,580	3,980	8,071	12,443	1,134	34,208

The table below highlights the different components of changes in carrying value of co-investments in technology small-cap deals during the year:

	Carrying value					
$000s	At beginning	New acquisitions	Fair value movements	Movements relating to realizations	Other movements*	At end
June 30, 2009	34,208	11,623	1,836	–	(1,473)	46,194
June 30, 2008	18,547	9,248	(1,142)	–	7,555	34,208

*Other movements include foreign currency translation adjustments and add-on fundings.

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 these investments.

10(c). GULF GROWTH CAPITAL

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

Similar to US and European buyouts, the Group's Gulf growth capital investments are classified as FVTPL investments.

The fair value of unquoted Gulf growth capital investments is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses a DCF valuation methodology similar to that used for US and European buyout investments as described in Note 10(a).

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 these investments.

10(d). STRATEGIC AND OTHER INVESTMENTS

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

1. Investments made for strategic reasons;

2. Investments made for relationship reasons, e.g., an opportunity introduced by an employee or a counterparty relationship; and

3. Instruments obtained on disposal of exited private equity and real estate deals or portfolios.

These are primarily held as AFS investments, except for investments amounting to $38.2 million (June 30, 2008: $34.8 million) that are classified as FVTPL.

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 these investments.

11. CO-INVESTMENTS IN REAL ESTATE

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

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

The debt investments in real estate properties are classified as held-to-maturity ('HTM') investments.

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2009 are:

$000s	Number of	Region					June 30,
Portfolio type	properties	East	Midwest	Southeast	Southwest	West	2009
Office	15	76,835	–	–	–	11,089	87,924
Hotels	15	17,685	8,828	1,718	7,168	–	35,399
Retail	34	5,231	1,407	1,125	4,687	213	12,663
Industrial	4	5,594	–	–	–	4	5,598
Core plus total	68	105,345	10,235	2,843	11,855	11,306	141,584
Mezzanine debt	n/a	38,630	49	48	107	522	39,356
Opportunistic	12	27,575	–	30,761	–	35,590	93,926
Strategic and other	n/a	8,341	–	–	–	–	8,341
Total	**80**	**179,891**	**10,284**	**33,652**	**11,962**	**47,418**	**283,207**

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2008 are:

$000s Portfolio type	Number of properties	Region East	Midwest	Southeast	Southwest	West	June 30, 2008
Office	16	106,526	362	–	–	21,173	128,061
Hotels	15	26,146	7,471	10,434	11,934	–	55,985
Retail	34	2,710	2,364	1,200	6,727	213	13,214
Industrial	4	5,373	–	–	–	–	5,373
Diversified	–	–	–	–	–	–	–
Residential	–	–	–	–	–	–	–
Core plus total	69	140,755	10,197	11,634	18,661	21,386	202,633
Mezzanine debt	n/a	13,077	182	176	394	489	14,318
Opportunistic	14	26,571	–	28,446	–	60,441	115,458
Strategic and other	n/a	4,629	–	–	–	–	4,629
Total	83	185,032	10,379	40,256	19,055	82,316	337,038

The table below highlights the different components of changes in carrying value of co-investments in real estate portfolios during the year:

$000s	Carrying value At beginning	Net new acquisitions	Fair value movements	Movements relating to realizations/ placements	Other movements*	At end
June 30, 2009	**337,038**	**16,225**	**(106,276)**	**(13,651)**	**49,871**	**283,207**
June 30, 2008	368,880	212,078	(7,128)	(262,657)	25,865	337,038

*Other movements include add-on fundings.

The associated range of fair values estimated by the management for a +/– change in capitalization rates of 1% was $180.7 million to $346.9 million (June 30, 2008: $316.9 million to $363.4 million). The Group's sensitivity in net income to any such increase or decrease in fair value is a corresponding increase of $63.7 million (June 30, 2008: $26.4 million) or decrease of $102.5 million (June 30, 2008: $20.2 million) as applicable.

12. PROVISIONS

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

$000s	Receivables	Loans and advances	Total
	(see Note 7)	(see Note 8)	
Balance at July 1, 2007	23,989	27,588	51,577
Charge for the year	5,410	–	5,410
Balance at June 30, 2008	29,399	27,588	56,987
Charge for the year	2,508	19,738	22,246
Balance at June 30, 2009	**31,907**	**47,326**	**79,233**

13. DEPOSITS FROM CLIENTS

$000s	June 30, 2009	June 30, 2008
SHORT-TERM:		
Call accounts	**72,564**	185,640
Short-term deposits	**21,049**	80,517
Transitory balances	**196,260**	172,255
Total deposits from clients — short-term	**289,873**	438,412
MEDIUM-TERM:		
Medium-term deposits	**23,956**	21,134
Investment holding companies' deposits	**26,682**	73,762
Discretionary and other deposits	**32,574**	24,711
Total deposits from clients — medium-term	**83,212**	119,607
Total	**373,085**	558,019

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

Call accounts comprise amounts left on deposit by clients that are not subject to the Trust arrangement described in Note 4 for future participation in the Group's investment products.

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

Investment holding companies' deposits represent excess cash deposited by the investment holding companies in the interim period prior to utilization or onward distribution.

Discretionary and other deposits represent deposits held on behalf of various affiliates, including strategic shareholders and employees.

All deposits bear interest at market rates.

14. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2009	June 30, 2008
Accrued expenses — employee compensation	**28,638**	116,962
Vendor and other trade payables	**34,473**	42,346
Exit escrow proceeds	**8,890**	26,596
Deferred income	**7,259**	11,742
Accrued interest payable	**11,101**	19,479
Total	**90,361**	217,125

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

Exit escrow proceeds represent amounts received from exits completed at the balance sheet date that are 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.

15. MEDIUM-TERM DEBT

The table below shows the total medium-term facilities, net of the transaction costs of borrowings, outstanding at year end.

$000s	June 30, 2009	June 30, 2008
Medium-term revolvers [See Note 15 (a)]	797,500	240,000
Medium-term debt [See Note 15 (b)]	846,500	888,500
Transaction costs of borrowings	(8,485)	(12,105)
	1,635,515	1,116,395

15(a). MEDIUM-TERM REVOLVERS

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

		June 30, 2009			June 30, 2008		
$000s	Maturity	Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year structured facility	October 2008	–	–	–	175,000	–	–
5-year Eurodollar facility	July 2010	150,000	122,534	150,000	150,000	33,333	–
5-year Eurodollar facility	December 2011	500,000	421,027	500,000	500,000	207,500	200,000
5.5-year Eurodollar facility	July 2012	40,000	30,795	40,000	40,000	20,000	40,000
5-year Eurodollar facility	April 2013	107,500	107,500	107,500	107,500	–	–
Total		797,500	681,856	797,500	972,500	260,833	240,000

These facilities carry LIBOR-based floating rates of interest when drawn and fixed rate of commitment fees when undrawn.

15(b). MEDIUM-TERM DEBT

		June 30, 2009		June 30, 2008	
$000s	Maturity	Average outstanding	Current outstanding	Average outstanding	Current outstanding
5-year Eurodollar facility	June 2009	26,219	–	42,000	42,000
5-year Eurodollar facility	July 2009	142,000	142,000	142,000	142,000
5-year Eurodollar facility	December 2009	350,000	350,000	350,000	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	50,000	50,000
5-year floating rate medium-term note	June 2012	19,000	19,000	19,000	19,000
5-year Eurodollar facility	April 2013	135,500	135,500	15,179	135,500
Total		872,719	846,500	768,179	888,500

These facilities carry LIBOR-based floating rates of interest.

$120 million of the $142 million Eurodollar facility due in July 2009 was rolled over on maturity to December 2009.

16. LONG-TERM DEBT

$000s	Final maturity	June 30, 2009 Average outstanding	June 30, 2009 Current outstanding	June 30, 2008 Average outstanding	June 30, 2008 Current outstanding
PRIVATE NOTES					
$143 million private placement	October 2008	35,750	–	143,000	143,000
$55 million private placement	May 2009	22,917	–	55,000	55,000
GBP 25 million private placement	January 2010	12,683	2,624	32,800	26,240
$40 million private placement	December 2010	29,063	21,250	40,000	40,000
$15 million private placement	May 2011	6,250	–	15,000	15,000
$50 million private placement	July 2011	20,833	–	50,000	50,000
GBP 20 million private placement	September 2011	14,146	–	29,522	29,522
$75 million bi-lateral placement	October 2011	57,813	50,000	69,962	62,500
$42 million private placement	November 2011	17,500	–	42,000	42,000
$20 million private placement	November 2011	20,000	20,000	20,000	20,000
$20 million private placement	April 2012	20,000	20,000	20,000	20,000
$71.5 million private placement	May 2012	61,073	53,625	71,500	71,500
$35 million private placement	December 2013	35,000	35,000	35,000	35,000
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
		735,356	584,827	1,006,112	992,090
Foreign exchange translation adjustments			53,187		34,674
Fair value adjustments			(55,774)		(50,078)
Transaction costs of borrowings			(3,870)		(4,783)
Total			578,370		971,903

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

17. SHARE CAPITAL AND RESERVES

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

	June 30, 2009 No. of shares	June 30, 2009 Par value $	June 30, 2009 $000	June 30, 2008 No. of shares	June 30, 2008 Par value $	June 30, 2008 $000
Authorized share capital						
— Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
— Preference and other shares	500,000	1,000	500,000	500,000	1,000	500,000
			1,500,000			1,500,000
Issued share capital						
— Ordinary shares	800,000	250	200,000	800,000	250	200,000
— Preference shares						
Issued prior to June 30, 2009	117,000	1,000	117,000	–	–	–
Issued post June 30, 2009	383,000	1,000	383,000	–	–	–
	500,000		500,000			
			700,000			200,000

A distribution schedule of each class of shares, setting out the number of shares and beneficial shareholders and percentage of total outstanding shares in the following categories is set out below:

	June 30, 2009			June 30, 2008		
Ordinary shares	No. of shares	No. of shareholders	% of total outstanding shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	278,299	371	35%	314,000	393	39%
1% up to less than 5%	104,317	11	13%	52,166	4	7%
5% up to less than 10%	87,497	2	11%	86,720	2	11%
10% up to less than 20%	83,058	1	10%	83,058	1	10%
More than 20%	162,731	1	20%*	167,146	1	21%*
Treasury shares	84,098	1	11%	96,910	1	12%
	800,000	387	100%	800,000	402	100%

*Represents 20% (June 30, 2008: 21%) shares held by the custodian of the GDR Depositary.

	June 30, 2009			June 30, 2008		
Preference shares	No. of shares	No. of shareholders	% of total outstanding shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	43,520	36	9%	–	–	–
1% up to less than 5%	61,480	7	12%	–	–	–
5% up to less than 10%	25,000	1	5%	–	–	–
10% up to less than 20%	70,000	1	14%	–	–	–
More than 20%	300,000	3	60%	–	–	–
	500,000	48	100%	–	–	–

Capital management

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

Preference shares

During the year, the Group obtained regulatory approvals to raise $500 million of preference share capital. At the balance sheet date, 117 Series B preference shares were issued amounting to $117million. A further $383 million has been reflected as preference share capital, with regulatory approval, since binding subscriptions from investors have been received prior to June 30, 2009 and subsequently related proceeds were obtained by the Group for the issuance of 283,000 additional Series B and 100,000 Series C preference shares. Share certificates for these subscriptions will be issued following the completion of relevant legal formalities.

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

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

The preference shares are callable 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 Series B preference shares is June 30, 2014.

During the previous year, in accordance with the terms of issue, the Bank redeemed Series A preference shares in full at their par value plus accrued dividend after obtaining necessary Board and regulatory approvals.

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes net gains resulting from the sale of treasury shares held by the Bank. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB.

Statutory reserve

The Bahrain Commercial Companies Law, amended in 2001, 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. Accordingly, the Bank had transferred 10% of its consolidated net income for the previous years to statutory reserve which accumulated to $100 million. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law.

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a resolution of shareholders at a general meeting and approval of the CBB.

Treasury shares

Treasury shares represent ordinary shares held by the Bank and its subsidiaries. Ordinary shares held as treasury include 15,298 shares that are held by SIPCO Limited for future sale to management under the SIP Plan.

Unrealized fair value changes and reserves

This consists of (i) unrealized fair value of FVTPL private equity and real estate co-investments transferred from retained earnings, (ii) fair value changes for AFS investments recognized directly in equity, (iii) fair value changes of cash flow hedges recognized directly in equity and (iv) revaluation reserve of premises and equipment recognized directly in equity.

As of June 30, 2009 the Group had an accumulated deficit, including unrealized fair value changes of private equity and real estate co-investments, of $280.1 million (June 30, 2008: retained earnings of $500 million).

18. UNREALIZED FAIR VALUE CHANGES AND REVALUATION RESERVES

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

	Fair value changes and revaluation reserve						
	FVTPL Investments						
$000s	Private equity	Real estate	Sub-total	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2007	(29,750)	6,073	(23,677)	–	(6,651)	–	(30,328)
Net realized loss recycled to statement of income	–	–	–	–	736	–	736
Net unrealized (losses) gains for the year	(15,587)	(7,128)	(22,715)	6,573	(3,182)	–	(19,324)
Transfer of realized losses to retained earnings	4,234	(358)	3,876	–	–	–	3,876
Balance at June 30, 2008	(41,103)	(1,413)	(42,516)	6,573	(9,097)	–	(45,040)
Net realized loss recycled to statement of income	–	–	–	–	6,563	–	6,563
Net unrealized (losses) gains for the year	(241,810)	(106,276)	(348,086)	–	5,559	11,240	(331,287)
Transfer of realized losses and depreciation to retained earnings	89,844	3,727	93,571	–	–	(475)	93,096
Balance at June 30, 2009	**(193,069)**	**(103,962)**	**(297,031)**	**6,573**	**3,025**	**10,765**	**(276,668)**

Refer to Note 20 for fair valuation of cash flow hedges.

19. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

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

$000s	2009	2008
Net (loss) income attributable to ordinary shareholders	**(780,627)**	151,057
Weighted average ordinary shares	**696,987**	712,933
Basic and fully diluted (loss) earnings per ordinary share — on weighted average shares ($)	**(1,120)**	212
Proposed dividend per ordinary share ($)	**–**	90

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding AFS co-investments and cash flow fair value changes, revaluation reserves and proposed dividend, by the number of ordinary shares outstanding at year end, is $522.95 per share (June 30, 2008: $1,673.21 per share).

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

— the hedging instrument, the underlying hedged item, the nature of the risk being hedged and the risk management objective and strategy must be formally documented at the inception of the hedge;

— it must be clearly demonstrated that the hedge, through changes in value of the hedging instrument, is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item;

— the effectiveness of the hedge must be capable of being reliably measured; and

— the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

The Group's management classifies hedges into two categories: (a) fair value hedges that hedge exposure to changes in fair value of a recognized asset or liability; and (b) cash flow hedges that hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognized asset or liability or a forecasted transaction highly probable to occur.

The following table illustrates the accounting treatment of fair value changes relating to various types of effective hedges:

Type of hedge	Changes in fair value of underlying hedged item relating to the hedged risk	Changes in fair value of hedging instrument
Fair value hedges	Recorded in the consolidated statement of income, and as a corresponding adjustment to the carrying value of the hedged item on the consolidated balance sheet.	Recorded in the consolidated statement of income, with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives.
Cash flow hedges	Not applicable	Recorded in equity with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives. Any unrealized gains or losses previously recognized in equity are transferred to the consolidated statement of income at the time when the forecasted transaction impacts the consolidated statement of income.

Other derivatives

The Group does not actively engage in proprietary trading activities in derivatives. However, on occasions, the Group may need to undertake certain derivative transactions to mitigate economic risks under its asset-liability management and risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

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

$000s	2009			2008		
Hedged item description	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures						
Euro	–	–	–	432,762	2,443	(6,367)
Pounds Sterling	–	–	–	116,150	998	(590)
Japanese Yen	436,444	6,383	(145)	29,475	19	(1,427)
ii) Cashflow hedges						
Forecasted transactions	–	–	–	49,131	277	(723)
Coupon on long-term debt	78,934	1,336	–	83,272	85	(3,868)
Total forward foreign exchange contracts	515,378	7,719	(145)	710,790	3,822	(12,975)
Interest rate risk being hedged using interest rate swaps						
i) Fair value hedges — fixed rate debt	553,732	13,753	(431)	737,347	13,545	(5,829)
ii) Cashflow hedges — floating rate debt	250,000	–	(1,405)	500,000	–	(5,310)
Total interest rate hedging contracts	803,732	13,753	(1,836)	1,237,347	13,545	(11,139)
Currency and interest rate risk being hedged using cross currency swaps						
i) Fair value hedges	–	–	–	311,905	37,557	–
Total currency and interest rate hedging contracts	–	–	–	311,905	37,557	–
Total — hedging derivatives	1,319,110	21,472	(1,981)	2,260,042	54,924	(24,114)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	216,788	3,683	(3,854)	390,251	1,609	(1,609)
Total — derivatives on behalf of clients	216,788	3,683	(3,854)	390,251	1,609	(1,609)
C) OTHER DERIVATIVES						
Interest rate swaps	384,750	15,877	(17,367)	500,000	–	(6,520)
Interest rate caps	601,000	–	–	1,000,000	18	–
Forward foreign exchange contracts	695,992	10,502	(10,052)	975,434	5,630	(13,672)
Currency option	2,251	33	(33)	2,251	10	(10)
Equity options	100,000	4,583	–	–	–	–
Total — other derivatives	1,783,993	30,995	(27,452)	2,477,685	5,658	(20,202)
Total — derivative financial instruments	3,319,891	56,150	(33,287)	5,127,978	62,191	(45,925)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2009:

	June 30, 2009				
	Notional amounts by term to maturity				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	226,617	209,827	–	–	436,444
Interest rate swaps	–	5,572	110,195	437,965	553,732
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	78,934	–	–	–	78,934
Interest rate swaps	250,000	–	–	–	250,000
Derivates on behalf of clients:					
Forward foreign exchange contracts	164,764	865	51,159	–	216,788
Other derivatives:					
Interest rate swaps	–	–	334,750	50,000	384,750
Interest rate caps	601,000	–	–	–	601,000
Forward foreign exchange contracts	572,077	3,392	120,523	–	695,992
Currency option	–	–	2,251	–	2,251
Equity options	–	100,000	–	–	100,000
	1,893,392	319,656	618,878	487,965	3,319,891

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2008:

	June 30, 2008				
	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	317,181	261,206	–	–	578,387
Interest rate swaps	–	75,084	204,848	457,415	737,347
Cross currency swaps	–	–	–	311,905	311,905
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	132,403	–	–	–	132,403
Interest rate swaps	250,000	250,000	–	–	500,000
Derivates on behalf of clients:					
Forward foreign exchange contracts	320,317	25,838	44,096	–	390,251
Other derivatives:					
Interest rate swaps	–	–	500,000	–	500,000
Interest rate caps	–	399,000	601,000	–	1,000,000
Forward foreign exchange contracts	975,434	–	–	–	975,434
Currency option	–	–	2,251	–	2,251
	1,995,335	1,011,128	1,352,195	769,320	5,127,978

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2009 were $8.4 million (June 30, 2008: $10.3 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $9.7 million (June 30, 2008: $9.8 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, 2009				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk					
Coupon on long-term debt	(6,744)	(6,744)	(53,953)	(215,811)	(283,252)
Interest rate risk					
Interest on medium-term debt	(1,125)	–	–	–	(1,125)
	(7,869)	(6,744)	(53,953)	(215,811)	(284,377)

	June 30, 2008				
$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	49,131	–	–	–	49,131
Coupon on long-term debt	(8,784)	(12,924)	(61,652)	(208,140)	(291,500)
Interest rate risk					
Interest on medium-term debt	(1,881)	(10,980)	(22,187)	–	(35,048)
	38,466	(23,904)	(83,839)	(208,140)	(277,417)

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2009 was $6.6 million (June 30, 2008: $0.7 million).

21. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	June 30, 2009	June 30, 2008
Investment commitment issued for pending acquisitions (net)	–	104,818
Investment commitments to closed-end committed funds	173,782	482,396
Other investment commitments	6,750	9,513
Total investment commitments	180,532	596,727
Non-cancelable operating leases	72,854	85,116
Capital expenditure commitments	–	20
Guarantees and letters of credit issued to third parties	175,530	187,964
Capital guarantees	5,876	5,876

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

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

Capital expenditure commitments relate to the Group's contracted but unbilled amounts in respect of various system upgrades.

Guarantees and letters of credit issued to third parties primarily relate to real estate investments. They include backstop guarantees provided in support of performance obligations of investee companies and to facilitate investee companies' ongoing operations and leasing of equipment and facilities.

Guarantees amounting to $85.3 million (June 30, 2008: $85.5 million) relate to supporting performance obligations of operating partners and investee companies.

Capital guarantees have been issued by the Group for providing principal protection on a distinct class of shares issued in connection with the Investcorp Balanced Fund, a product of HFP. These guarantees expire without any cost to the Group at the earliest of (i) cumulative returns to investors since inception exceeding 15% at any time; (ii) the investor redeeming his shares at any time prior to seven years; and (iii) seven years from the issue date of the guarantee. The Group has instituted appropriate risk management mechanisms to actively monitor and manage the risk arising from these capital guarantees, using option-pricing models prescribed by the Basel guidelines and the local regulators for measuring market risk. Based on these value-at-risk models, the Group does not carry any significant risk exposure as a result of these capital guarantees at the balance sheet date.

In addition to the above, the Group acts as a guarantor of last resort to facilitate third party financing for various employee investment programs (see Note 25). Eligible employees, in their individual capacities, are provided financing from third party lenders on a selective basis and subject to certain risk-based criteria, determined by the lenders, for their participation in the investment programs. At the balance sheet date, eligible employees have drawn down $16.4 million (June 2008: $13 million) out of a maximum $75 million (June 30, 2008: $75 million) available under this facility. These loans to employees are fully secured by (i) a pledge of all securities representing their investments in the program; and (ii) assignment of all other rights, claims and interests in connection therewith. As such this guarantee represents a minimal risk to the Group.

The analysis of contractual maturities for commitments and contingent liabilities has been disclosed in Note 23 (ii).

22. CAPITAL ADEQUACY

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

For the measurement of risk weighted exposures, the Group has chosen:

- standardized approach for credit risk of all exposures [see Note 23 (i)].
- the VaR model for market risk [see Note 23 (iv)].
- basic indicator approach for operational risk [see Note 23 (v)].

During the current year the Bank changed the classification of its hedge funds exposure from trading book to banking book as per the directives of the CBB. This has resulted in measurement of the risk weighted exposure based on standardized approach for credit risk rather than the VaR model used for market risk.

The table below summarizes the regulatory capital and the risk asset ratio calculation in line with the rules detailed above.

$000s	June 30, 2009	June 30, 2008
Gross Tier 1 capital	894,746	1,237,170
Less: regulatory deductions	(20,363)	–
Tier 1 capital — net	874,383	1,237,170
Tier 2 capital	10,827	–
Regulatory capital base under Basel II (a)	885,210	1,237,170

	June 30, 2009		June 30, 2008	
Risk weighted exposure $000s	Principal/ notional amounts	Risk weighted equivalents	Principal/ notional amounts	Risk weighted equivalents
Credit risk				
Claims on sovereigns	125,077	–	20,030	–
Claims on non-central government public sector entities	277,742	–	25,242	–
Claims on banks	734,306	146,861	453,913	90,783
Claims on corporates	408,531	408,531	714,946	714,946
Co-investments (excluding hedge funds)	–	–	1,366,180	2,085,575
Co-investments (including hedge funds)	1,801,079	2,781,038	–	–
Other assets	184,059	183,967	74,875	74,771
Off-balance sheet items				
Commitments and contingent liabilities	451,196	268,736	888,416	843,529
Derivative financial instruments	3,319,891	19,005	5,127,978	17,996
Credit risk weighted exposure		3,808,138		3,827,600
Market risk				
Market risk weighted exposure (excluding hedge funds)		7,900		–
Market risk weighted exposure (including hedge funds)		–		2,359,868
Operational risk				
Operational risk weighted exposure		600,847		546,597
Total risk weighted exposure (b)		4,416,885		6,734,065
Risk asset ratio (a)/(b)		20%		18.4%
Minimum required as per CBB regulatory guidelines under Basel II		12.0%		12.0%

23. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), the Group's primary risk management decision-making body, comprising members of senior management drawn from all key areas of the Group, guides and assists with overall management of the Group's risk profile on an enterprise wide basis.

The Group's primary risk management objective is to support its business objectives with sufficient risk capital. The Group employs risk models to determine the capital needed to cover unexpected loss from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 22). The economic capital requirement for each reporting segment is determined using a dynamic VaR approach. For this purpose dynamic VaR is calculated by using a five-year planning horizon, 99% one tailed confidence level and by recognizing diversification benefits across asset classes. In addition to the dynamic VaR approach, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

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

(i) Credit risk

The Group is exposed to credit risk on its short-term funds, placements, fair value of derivatives, receivables, loans and advances, debt investments and guarantees. The Group manages credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 20). With respect to the credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate credit risks through documented netting arrangements with counterparties where possible.

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

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

Internal rating categories are summarized as follows:

High—there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard—whilst there is a high likelihood that the asset will be recovered, therefore representing a low risk to the Group, the asset may not be collateralized.

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

Short-term funds, placements and derivatives are only with those counterparties that meet the minimum standard external rating and hence carry a minimal credit risk. The table below analyzes the Group's other credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2009

$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	415,996	–	–	–	–	415,996	164,711
Deposits with financial institutions	713,217	–	–	–	–	713,217	332,529
Positive fair value of derivatives	–	56,150	–	–	–	56,150	21,711
Receivables	–	196,283	111,116	32,749	(31,907)	308,241	271,228
Loans and advances	–	197,745	–	73,684	(47,326)	224,103	113,664
Co-investments—debt	–	44,130	–	–	–	44,130	31,350
Guarantees	–	197,810	–	–	–	197,810	202,325
Total	1,129,213	692,118	111,116	106,433	(79,233)	1,959,647	

June 30, 2008

$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	194,059	–	–	–	–	194,059	101,041
Deposits with financial institutions	257,407	–	–	–	–	257,407	418,155
Positive fair value of derivatives	62,191	–	–	–	–	62,191	57,631
Receivables	202,340	–	225,868	32,627	(29,399)	431,436	305,914
Loans and advances	320,827	–	–	47,867	(27,588)	341,106	208,386
Co-investments – debt	15,593	–	–	–	–	15,593	10,187
Guarantees	206,840	–	–	–	–	206,840	125,988
Total	1,259,257	–	225,868	80,494	(56,987)	1,508,632	

*Fair value of collaterals relating to impaired exposures is nil (June 30, 2008: $2.2 million).

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

$000s	June 30, 2009	June 30, 2008
Up to 1 month	4,808	53,839
> 1 up to 3 months	2,611	102,063
> 3 up to 6 months	553	29,369
> 6 months up to 1 year	3,783	31,211
Over 1 year	99,361	9,386
Total	111,116	225,868

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, 2009 amounts to $763 million (June 30, 2008: $224 million).

(ii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources and maintained long-dated maturities of liabilities. The Group manages assets with liquidity in mind, and monitors liquidity on a daily basis (see Note 6).

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

June 30, 2009

$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
ASSETS							
Cash and short-term funds	416,088	–	–	–	–	–	416,088
Placements with banks and other financial institutions	713,217	–	–	–	–	–	713,217
Positive fair value of derivatives	4,436	8,301	8,797	1,233	868	32,515	56,150
Receivables and prepayments	118,899	47,594	169,248	–	–	–	335,741
Loans and advances	13,306	23,073	187,724	–	–	–	224,103
Co-investments in hedge funds	69,685	391,412	141,513	11,871	–	–	614,481
Private equity co-investments	–	18,424	860,808	24,159	–	–	903,391
Real estate co-investments	–	38,414	244,793	–	–	–	283,207
Premises, equipment and other assets	142	–	22,304	40,289	11,251	–	73,986
Total assets	1,335,773	527,218	1,635,187	77,552	12,119	32,515	3,620,364
LIABILITIES							
Deposits from financial institutions	15,000	–	–	–	–	–	15,000
Deposits from clients — short-term	289,873	–	–	–	–	–	289,873
Negative fair value of derivatives	11,771	170	13,389	–	–	7,957	33,287
Payables and accrued expenses	39,170	51,191	–	–	–	–	90,361
Deposits from clients — medium-term	–	–	83,212	–	–	–	83,212
Medium-term debt	22,000	470,000	1,143,515	–	–	–	1,635,515
Long-term debt	–	40,392	161,017	–	–	376,961	578,370
Total liabilities	377,814	561,753	1,401,133	–	–	384,918	2,725,618
Net gap	957,959	(34,535)	234,054	77,552	12,119	(352,403)	
Cumulative liquidity gap	957,959	923,424	1,157,478	1,235,030	1,247,149	894,746	

	June 30, 2008						
$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
ASSETS							
Cash and short-term funds	194,163	–	–	–	–	–	194,163
Placements with banks and other financial institutions	257,407	–	–	–	–	–	257,407
Positive fair value of derivatives	7,618	3,452	5,396	–	–	45,725	62,191
Receivables and prepayments	407,236	43,453	8,891	–	–	–	459,580
Loans and advances	159,757	31,927	149,422	–	–	–	341,106
Co-investments in hedge funds	500,856	1,280,508	233,620	5,221	603	–	2,020,808
Private equity co-investments	157,218	–	871,924	–	–	–	1,029,142
Real estate co-investments	70,916	46,792	219,330	–	–	–	337,038
Premises, equipment and other assets	174	–	15,610	–	28,947	20,161	64,892
Total assets	1,755,345	1,406,132	1,504,193	5,221	29,550	65,886	4,766,327
LIABILITIES							
Deposits from financial institutions	385,469	–	–	–	–	–	385,469
Deposits from clients	551,158	–	6,861	–	–	–	558,019
Negative fair value of derivatives	18,372	10,947	11,358	–	–	5,248	45,925
Unfunded deal acquisitions	234,321	–	–	–	–	–	234,321
Payables and accrued expenses	83,810	120,014	13,301	–	–	–	217,125
Medium-term debt	–	61,250	1,055,145	–	–	–	1,116,395
Long-term debt	–	209,796	382,908	33,853	–	345,346	971,903
Total liabilities	1,273,130	402,007	1,469,573	33,853	–	350,594	3,529,157
Net gap	482,215	1,004,125	34,620	(28,632)	29,550	(284,708)	
Cumulative liquidity gap	482,215	1,486,340	1,520,960	1,492,328	1,521,878	1,237,170	

Contractual maturity of financial liabilities on an undiscounted basis

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

	June 30, 2009						
$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	15,077	–	–	–	–	–	15,077
Deposits from clients	272,475	79,320	22,243	–	–	–	374,038
Payables and accrued expenses	39,170	51,191	–	–	–	–	90,361
Medium-term debt	25,360	481,188	1,172,015	–	–	–	1,678,563
Long-term debt	2,532	65,930	247,631	87,641	175,282	463,005	1,042,021
	354,614	677,629	1,441,889	87,641	175,282	463,005	3,200,060
Derivatives							
Contracts settled on a gross basis:							
Contractual amounts payable	1,026,484	214,177	164,208	–	–	–	1,404,869
Contractual amounts receivable	(1,020,109)	(217,524)	(174,443)	–	–	–	(1,412,076)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(208)	5,537	18,737	9,885	(9,764)	(512)	23,675
Commitments	1,717	44,376	173,450	33,843	–	–	253,386
Guarantees	162,886	19,048	15,876	–	–	–	197,810
Total undiscounted financial liabilities	525,384	743,244	1,639,717	131,369	165,518	462,493	3,667,724

	June 30, 2008						
$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	389,568	–	–	–	–	–	389,568
Deposits from clients	553,583	–	–	7,323	–	–	560,906
Unfunded deal acquisitions	234,321	–	–	–	–	–	234,321
Payables and accrued expenses	64,331	118,727	1,287	1,559	–	–	185,904
Medium-term debt	5,022	3,784	57,560	1,146,917	–	–	1,213,283
Long-term debt	13,926	156,928	95,457	512,694	280,544	442,483	1,502,032
	1,260,751	279,439	154,304	1,668,493	280,544	442,483	4,086,014
Derivatives							
Contracts settled on a gross basis:							
Contractual amounts payable	1,670,809	430,043	5,240	100,022	593,741	–	2,799,855
Contractual amounts receivable	(1,654,079)	(425,890)	(2,033)	(68,734)	(520,119)	–	(2,670,855)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	1,483	(667)	(1,413)	(6,822)	(1,070)	27,282	18,793
Commitments	1,582	42,965	592,035	45,261	–	–	681,843
Guarantees	110,906	11,358	40,823	43,753	–	–	206,840
Total undiscounted financial liabilities	1,391,452	337,248	788,956	1,781,973	353,096	469,765	5,122,490

(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, 2009 Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure
GEOGRAPHICAL REGION			
North America	1,058,119	191,934	1,250,053
Europe	127,953	–	127,953
Middle East	561,460	5,876	567,336
Other	14,305	–	14,305
Total	1,761,837	197,810	1,959,647

$000s	June 30, 2008 Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure
GEOGRAPHICAL REGION			
North America	496,836	200,964	697,800
Europe	614,346	–	614,346
Middle East	189,593	5,876	195,469
Other	1,017	–	1,017
Total	1,301,792	206,840	1,508,632

$000s	June 30, 2009 Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure
INDUSTRY SECTOR			
Banking and finance	1,351,954	83,136	1,435,090
Consumer products	19,760	–	19,760
Consumer services	12,083	–	12,083
Distribution	8,616	–	8,616
Industrial products	45,916	–	45,916
Real estate	94,136	61,250	155,386
Technology and telecom	28,678	19,048	47,726
Others	200,694	34,376	235,070
Total	1,761,837	197,810	1,959,647

	June 30, 2008		
$000s	Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure
INDUSTRY SECTOR			
Banking and finance	540,215	153,714	693,929
Consumer products	24,428	–	24,428
Consumer services	12,627	–	12,627
Distribution	7,217	–	7,217
Industrial products	83,168	–	83,168
Real estate	246,869	37,250	284,119
Technology and telecom	77,714	10,000	87,714
Others	309,554	5,876	315,430
Total	1,301,792	206,840	1,508,632

(iv) Market risk

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

The Group uses an internal model to calculate VaR for measuring unexpected future losses that may arise from adverse market movements. The Group's risk management team conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the CBB (see Note 22). Back testing is carried out for foreign exchange risk by comparing VaR based on a ten-day holding period with the daily profit and loss and for equity price risk related to co-investments in hedge funds by comparing VaR based on a one-month holding period with the actual performance for the month. The objective is to ensure that the assumptions used for computing VaR are reasonable and result in a VaR number that does not understate economic and regulatory risk capital requirements.

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

(iv) (a) Foreign currency risk

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

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

$000s	June 30, 2009		June 30, 2008	
Long (Short)	**Net hedged exposure**	**Net unhedged exposure**	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	**–**	**39,140**	–	8,519
Euro	**221,919**	**(1,182)**	252,245	(2,401)
Pounds Sterling	**(22,087)**	**(768)**	(71,227)	1,760
Japanese Yen	**(409,332)**	**(86)**	(371,561)	(831)
	(209,500)	**37,104**	(190,543)	7,047

*Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a ten-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk.

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	2009	2008
Average FX VaR	27	203
Year end FX VaR	50	34
Maximum FX VaR	114	3,683
Minimum FX VaR	3	5

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $4.7 million (June 30, 2008: $1.2 million), which earn interest at an effective rate approximating 10% (June 30, 2008: 10%) per annum.

- Deposits from clients amounting to $26.9 million (June 30, 2008: $95 million) on which interest is paid at an effective rate of 2.0% (June 30, 2008: 4.1%) per annum reflecting the underlying maturity structure.

- Long-term debt amounting to $50 million (June 30, 2008: $462.3 million) on which interest is paid at an effective rate of 8.1% (June 30, 2008: 7.9%) per annum reflecting the underlying maturity structure.

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

$000s	Sensitivity to net income for +200 basis points	
Currency	June 30, 2009	June 30, 2008
Euro	(8,702)	(8,062)
Pounds Sterling	(1,317)	(616)
Japanese Yen	1,737	698
US Dollar	(21,026)	(35,903)
Others	391	(564)
Total	(28,917)	(44,447)

(a) Figures in parenthesis above represent loss.

(b) The impact of a negative 200 basis points change would be opposite and approximate the above values.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end. The Group actively manages its interest rate gap exposure, with a bias towards floating rates.

(iv) (c) Equity price risk

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

Co-investments in hedge funds

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

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

$000s	2009	2008
Average VaR	59,109	64,704
Year end VaR	34,526	70,861
Maximum VaR	86,365	75,551
Minimum VaR	34,526	49,263
Maximum hedge funds exposure	2,069,564	2,139,578
Minimum hedge funds exposure	614,481	1,948,970

Co-investments in private equity and real estate

The Group manages the equity price risk of its co-investments in private equity and real estate on a portfolio basis as well as at the individual investment level.

The sensitivity of the Group's co-investments in private equity and real estate to changes in multiples/discount rates has been discussed in Notes 10(a) and 11.

(v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

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

As part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk.
- It uses best-in-class qualitative standards expected under the Basel II Standardized Approach.
- Financial controls and risk management with involvement from internal audit have jointly conducted control risk self assessment (CRSA) workshops with each line of business head, identifying and highlighting various operational risk aspects.
- An operational risk framework is in place with a dedicated unit within risk management.
- The team works with all departments to identify key operational risks and has set up appropriate controls infrastructure.

- Identification of key risk indicators, key risk controls, observations of loss data, definitions and structures related to operational risk at each business level have been completed.

- Where necessary, a mitigation plan is in place to improve the control environment and its ownership allocated to the 'operational risk specialist' of the relevant line of business.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Fair value of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value, except for fixed rate liabilities carried at amortized cost. The fair value of such liabilities amount to $1,993.6 million as compared to carrying value of $2,213.9 million.

25. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide a competitive total compensation package for employees versus comparable financial services firms operating in similar geographic locations. This is achieved through a combination of cash salaries, variable bonuses dependant upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks. Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders. The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly three such programs, as described below.

In addition, the Group accounts for employee termination benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $0.6 million (2008: $0.5 million).

Programs for investment profit participation

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

Similarly, the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling period. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for investment participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including private equity investments, real estate investments and the hedge funds program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group. In some instances, the Group, together with third party lenders, also provides financing at market rates to eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to employees as of June 30, 2009 is $146.4 million (June 30, 2008: $165.9 million), of which $16.4 million (June 30, 2008: $13.0 million) was from third parties. Third party financing for these investment participation programs has full recourse to the employee's underlying plan investments, and, only as a last resort, is guaranteed by the Group (see Note 21).

Share ownership program

SIPCO sponsors a share incentive plan ('SIP Plan') under which eligible employees receive a portion of their annual performance incentive compensation in the form of a beneficial interest in the ownership of the Bank via shares of SIPCO. These shares have different vesting periods. The restricted shares are awarded at fair value, determined with reference to the market price of the GDRs of the Bank. Accordingly, the Group does not incur any additional costs or expenses in relation to the SIP Plan, since these awards occur at the fair value of the shares. It is important to note that the SIP Plan is therefore a fully paid up employee share ownership program, whereby employees effectively pay fair value for purchasing the shares. Unlike other employee share incentive programs, the SIP Plan does not issue share options to employees.

The table below provides the details of movements in the Bank's shares held by employees under the SIP plan.

$000s	June 30, 2009	June 30, 2008
Held by employees at the beginning of the year	124,784	138,298
Purchased by employees	44,807	5,736
Sold by employees	(32,195)	(19,250)
Held by employees at the end of the year	137,396	124,784

26. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of directors and senior managers in the ordinary and preference shares of the Bank are set out below:

	Number of shares	
	June 30, 2009	June 30, 2008
Ordinary shares		
Directors	44,949	44,025
Senior managers*	137,396	124,784
Total	182,345	168,809
Preference shares		
Directors	16,900	–
Total	16,900	–

*These shares are held through SIPCO as stated in Note 1A (iii) and are not available for trading.

Of the directors' shareholding in ordinary shares, 8,253 (June 30, 2008: 8,253) are held directly and the remaining are held through various holding companies within the Group's ownership structure [see Note 1A (iii)], and are as a result subject to substantial transfer and trading restrictions.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings, including those in their capacities as employees, for the year ended June 30, 2009 amounted to $6.3 million (June 30, 2008: $13.5 million). Total dividends for the directors during the year, including preference share dividends, amounted to nil (June 30, 2008: $7.4 million).

Further, of the staff compensation for the year set out in Note 5, $46.3 million (2008: $72.8 million) is attributable to senior management (excluding directors that are included above). The directors and senior management's remuneration is short-term in nature.

27. RELATED PARTY TRANSACTIONS

For the Group, related parties include its investee companies, companies that hold clients' investments (clients' investment holding companies), client fund companies associated with HFP and the ultimate parent company through which the employees invest in beneficial ownership of the Bank's ordinary shares. It also includes major shareholders, directors and senior management of the Bank, their immediate families and entities controlled, jointly controlled or significantly influenced by such parties. Income is earned or expense is incurred in the Group's transactions with such related parties in the ordinary course of business. The Group's management approves the terms and conditions of all related party transactions.

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

In addition to the compensation and benefits to employees and senior management and directors' remuneration disclosed in Notes 25 and 26, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		June 30, 2009	June 30, 2008
Management fees	Investee companies	**19,724**	18,858
	Client companies	**41,974**	47,797
	Client companies associated with the HFP	**42,619**	65,710
Activity fees	Investee companies	**19,775**	83,171
Performance fees	Client companies associated with the HFP	**(579)**	24,487
	Client companies	**881**	465
Asset-based income	Investee companies	**21,367**	26,805
	Client companies	**7,328**	7,620
Interest expense	Client companies	**(2,113)**	(2,991)
Provisions	Employee investment programs	**(16,210)**	–

The balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2009			June 30, 2008		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	**3,052**	**55,870**	**–**	3,559	66,156	–
Investee companies	**60,382**	**–**	**–**	89,010	–	–
Investment holding companies	**84,110**	**199,491**	**173,782**	193,562	40,901	482,396
Client fund companies associated with the HFP	**18,513**	**–**	**–**	51,719	–	–
Directors and senior management	**466**	**6,136**	**–**	3,988	3,215	–
	166,523	**261,497**	**173,782**	341,838	110,272	482,396

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $459 million as at June 30, 2009 (June 30, 2008: $317.3 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 as part of which it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the above table to the extent they result from transactions with related parties.

28. RECLASSIFICATIONS

During the current year the Group has reclassified certain items in the financial statements to improve presentation. Such reclassifications do not have any impact on net equity or profit or loss of the Group in prior years.

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