INVESTCORP

Against continued headwinds from volatile global markets, Investcorp has rebounded with an impressive net income of $102.2 million in our fiscal year ending June 30, 2010. We are fully equipped and determined to continue on an upward path in the year ahead. Our standing in the Gulf region remains in place supported by our distinctive brand and strong reputation.

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MISSION

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

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

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

MESSAGE TO SHAREHOLDERS

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 27th fiscal period ended June 30, 2010.

Against continued headwinds from the still volatile global financial environment, Investcorp has rebounded well and generated a strong profit for the year.

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

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

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

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

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

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

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

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

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

Out of the net income of $102.2 million for the current fiscal year, Investcorp is proposing to pay $57.4 million in preference share dividends. Investcorp's Board of Directors is proposing appropriations, subject to regulatory and shareholders' approval, of $1,410,000 as Directors' remuneration, of which $625,000 is payable in the form of ordinary shares and $785,000 is payable in the form of cash.

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

Signed on behalf of the Board of Directors.

Abdul Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

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CLIENT RELATIONSHIP MANAGEMENT

This year we continued to provide alternative investment products to private and institutional clients and maintained our traditional high levels of client service. In the continuing difficult and volatile market environment, we increased the frequency of meetings, providing clients with advice on asset allocation strategies and giving frequent updates on the valuations and performance of their portfolios. Our clients remain predominantly in the six Gulf Cooperation Council countries, but also include a number of international institutions.

We raised $1.4 billion in new assets this year, demonstrating that our clients see considerable opportunities in alternative assets post-crisis and are able and willing to invest.

In corporate investment, we placed the All-Pak add-on investment to Berlin Packaging, placed an additional investment in Moneybookers and concluded the partial placement of Veritext, which was acquired late in the fiscal year. We also completed the residual placement of CEME. In hedge funds, we raised substantial funds into our platform from institutional clients. In real estate investment we placed the Best Western Mezzanine debt and US Retail Properties V Portfolio and marketed the W South Beach investment.

In the wake of the global financial crisis, our clients focused on investments largely delinked from the macro environment where returns were less driven by multiple arbitrage or timing of financial markets and more based on investing skills. They looked for transparency around risk and alignment of interests, and, due to their improved understanding of risk-return and liquidity trade-offs, demanded flexibility in asset mix, good judgment in timing and strong risk management.

While the environment continued to provide challenges, there were interesting new investment opportunities, and performance and value creation in alternative assets resumed. The Gulf Cooperation Council countries showed resilience. A robust outlook for long-term growth drove business and investment confidence in the region. The US and Europe saw positive economic momentum but this was clearly a new normalcy rather than a return to pre-crisis conditions.

CORPORATE INVESTMENT

This year we have maintained investment discipline during highly volatile market conditions. We deployed $346 million of equity in new and add-on acquisitions.

Opportunities increased for corporate investment in the US and Europe but good assets remained highly priced and we declined to pursue some transactions where high valuations meant that the ultimate return profile would have been lower than we were willing to accept. We acquired Veritext, an investment for direct placement with clients, and several of our portfolio companies made acquisitions to grow value. We preserved value for clients through support investments in several well performing companies within our corporate investment portfolio that had short term issues.

There were strong opportunities in technology small-cap investment although we saw a slightly decreased number that fit our criteria. We made investments in CSIdentity and OpSec Security through Technology Fund III, and made an additional investment in Moneybookers. There was a marked improvement in the quality of investment opportunities in the Gulf region. We made an investment in Gulf Cryo, through the Gulf Opportunity Fund I, and reached agreement on an investment in a MENA company operating in the agro-industry sector.

In spite of the difficult economy, we were able to deliver value through realizations. We completed the exit of Avecia's Biologics business and a highly successful sale of American Tire Distributors.

HEDGE FUNDS

Hedge funds are now fully recognized as a viable asset class for the institutional and investor community. Performance has rebounded strongly over the fiscal year, and most strategies present attractive opportunities and potential strong returns with little or no leverage. The issues that affected hedge funds early in the economic crisis are now firmly in the past. Capital is flowing back and hedge fund assets are poised to grow sharply. This is a result of demand from investors, especially at an institutional level, who recognize, post-crisis, the value of absolute return strategies.

We raised $1.1 billion for our hedge funds platform this year. The focus was on separately managed accounts, driven by our clients' inclination for improved transparency and risk management. Our long-standing experience in separate accounts, ahead of the industry trend, proved particularly persuasive to investors. Approximately half of our client hedge fund assets under management of $3.8 billion is now managed in this format and just over a third of assets is in our single manager program.

During the year our hedge funds co-investment portfolio significantly outperformed the industry, returning approximately 10% on a gross basis even though the second half of the fiscal year was a period of extreme market volatility. The portfolio benefited from our sophisticated asset allocation framework and manager selection.

With financial dislocations and deflationary risks at unprecedented levels, successful hedge fund providers were those who positioned their portfolios for the volatile environment and responded to investor demand for alignment and transparency. The most successful were able to demonstrate that they were delivering clear added value through alpha generation.

Despite the difficult environment, there were still investment opportunities in US real estate. However, finding and executing them required true specialist real estate knowledge as well as financial investing skills. Investment managers had to be flexible on timing, sector and geography, use the appropriate investment approach for the market conditions and look at both equity and debt investments. Managing real estate assets to create and preserve value was also of critical importance this year.

REAL ESTATE INVESTMENT

The lingering recessionary environment in the US, limited activity in the debt markets and a challenging operating environment have meant that there have been few attractive new real estate investment opportunities this year. The exit environment has also been difficult. We took a measured approach during this period of turmoil and deployed $69 million of acquisition (equity and debt) funding in three new real estate investments.

We made two investments in US regional retail centers. We acquired the Deerbrook Marketplace shopping center, and procured a mezzanine loan secured by the Cole Credit Property Trust Retail Portfolio I. These direct investments were combined to form a new investment portfolio, US Retail V, for placement with clients. During the year we created a new opportunity for our investors, making a debt investment in an existing high quality asset, the W Hotel at South Beach, Florida. We also made two realizations, closing on the sale of the final properties in the Empire Mountain Village portfolio, and selling a first mortgage loan from the Investcorp Real Estate Credit Fund.

We also concentrated on preserving and/or regenerating value in current real estate assets through aggressive management and strategic capital investment.

FINANCIAL REVIEW

EXECUTIVE SUMMARY

BUSINESS ENVIRONMENT

Following the unprecedented stress to world economic and financial markets of the past two years, the world economy is showing signs of recovery. Our investors, particularly in our core Gulf market, see considerable opportunities in alternative assets post-crisis and are able and willing to invest. The post-crisis environment in the US and Europe is providing interesting opportunities for our investment activity there, and the relative economic resilience and strong long-term growth in the Gulf is also highly supportive to investment activity in that region.

There was strong global growth in the first half of calendar year 2010 (H2 FY10). Balanced against increased financial turbulence, global growth is now forecast by the IMF to be 4.5% during the second half of the 2010 calendar year, before falling back slightly in calendar 2011. However, emerging markets growth has been much stronger, while recovery in advanced economies has been slower-moving.

Despite growing optimism for the beginning of a sustainable turnaround in the economy, market conditions remain difficult and the road to full economic recovery is expected to be long and bumpy. Volatility is likely to remain unusually high. Massive monetary and fiscal stimulus has boosted growth, albeit possibly only temporarily. This is clearly a 'new normalcy' rather than a return to pre-crisis conditions, and has implications for markets and investing.

In the wake of the crisis, investors have come to understand the value of strong risk-adjusted performance in their portfolios. They are focusing on investments that are largely delinked from the macro environment where returns are less driven by multiple arbitrage or timing of financial markets and more based on investing skills. They are also looking for transparency in investments, around risk and alignment of interests, and, due to an improved understanding of the risk-return and liquidity trade-offs, are demanding flexibility in asset mix, good judgment in timing and strong risk management.

The Gulf

The countries of the Gulf Cooperation Council (GCC) were not spared from the effects of the global financial crisis, but have shown resilience and the outlook is robust. Growth prospects were reduced in the medium-term and real GDP in the region contracted to 0.3% during calendar year 2009 from 7% per year between 2003 and 2008. However, the overall impact has been cushioned by robust government spending, underpinned both by the estimated $850 billion fiscal surplus, accumulated between 2003 and 2008, and by firmer oil prices. Real GDP growth for the region is forecast at 4–5% for calendar years 2010 and 2011, supported by solid oil revenues following a recovery in the global demand for energy and by a return in foreign direct investment flows. Fiscal policy is expected to remain expansionary with the objective of boosting non-oil sector activity. These factors are driving business and investment confidence and are complemented by economic diversification and liberalization.

Countries within the GCC have very different characteristics. For example, Saudi Arabia, which accounts for 42% of the region's real GDP, has emerged relatively unaffected by the economic crisis, and its growth for 2010 is estimated to be 3.7%. There are some risks associated with the local financial and real estate sectors, but these are expected to be confined within specific countries or regions. The total liabilities of Dubai which people sometimes mistakenly view as a proxy for the GCC, account for only 9% of the total GDP for the GCC.

Wealth creation in the GCC will continue to be strong, both for HNWIs and institutions. Gulf investors are broadly anticipating a relatively swift economic recovery and are regaining their appetite for investment. The regional pattern of short-term economic resilience and strong long-term growth is also favorable to investment opportunities in the Gulf region. Government policy measures are strengthening the private sector and improving the local ecosystem for investment.

The US and Europe

The US and Europe are seeing positive economic momentum, but the environment continues to provide challenges. There are growth constraints and risks around pressure on the public sector fiscal position. Both markets continue to face particular headwinds from sovereign debt overhang. The European recovery faces particular obstacles with concern about debt sustainability in the UK and high deficit/high debt countries in the Euro Area. The aggressive fiscal austerity programs undertaken in the UK and across the Euro Area are likely to dampen potential recovery and could tip some economies back into recession. Financial sector repair and regulatory reform are at various stages and reform uncertainty is adding pressure. However, regulation may also create opportunities for advantaged participants in the financial sector.

Against this backdrop, US and European investors are becoming more discerning. In a difficult political, as well as economic, environment, institutional investors are being cautious and deliberate. They are demanding investments de-linked from the macro environment, in particular those that outperform public equities. Our evidence is that institutional investors believe that it is the established institutionalized providers that can best deliver the level of robust risk management, value creation and transparency they require. Reputation and brand is now a strong consideration for them when investing.

Trends in the US and European investment landscape are also providing investment opportunities and once again making it possible for alternative assets to show strong performance and value creation.

FINANCIAL PERFORMANCE

Income

Investcorp's FY10 net income was $102.2 million. This strong result reflects an increase in flow of deal acquisitions and exits and a returning Gulf investor appetite for attractive corporate and real estate investments, combined with substantial inflows into our hedge fund platform from institutional clients. It is an impressive turnaround from the loss of $780.6 million in FY09 and a rapid recovery from the challenges of our last fiscal year. It proves the robustness of our business model and the enduring power of our Gulf franchise and relationships.

Gross operating income in FY10 was $365.1 million, compared to a loss of $89.0 million in FY09 demonstrating a significant increase in fee income and asset-based income.

Gross fee income in FY10 was $218.9 million, significantly higher than the $129.4 million reported for FY09, reflecting a stable source of recurring management fee income and an increased level of activity and performance fees from investment acquisitions, placements and realizations. Management fees fell slightly to $104.3 million from $107.4 million in FY09. Although client assets under management increased by 10% to $9.7 billion during the year, they have not yet reached the levels achieved before the steep redemption outflows in hedge funds seen towards the end of 2008 and early 2009. Activity fees, at $68.7 million, have grown significantly, although they are below pre-crisis peak levels. A significant increase in performance fees to $46.0 million reflects strong performance in hedge funds and corporate investment exit activity, achieved despite the difficult economic environment, and recognition of deferred income relating to corporate investment exit activity in prior years.

Gross asset-based income, excluding the impact of fair value adjustments on corporate and real estate co-investments, was $146.1 million, compared to a loss of $218.4 million in FY09. This dramatic increase was primarily driven by strong positive returns on hedge fund co-investments, but also a result of capital gains from successful corporate investment exit activity.

The fair value of our corporate investment co-investments increased by $97.0 million, reflecting the inherent strength of Investcorp's portfolio and the stabilization of industry valuations in line with public equity markets trends. Continued caution with respect to US commercial real estate valuations resulted in a reduction in fair values for our real estate co-investments of $101.4 million. This produced a small aggregate unrealized fair value reduction of $4.4 million, compared to unrealized losses of $348.1 million in FY09.

The recessionary cycle that began in H2 FY08 had an adverse impact on the average yield on balance sheet co-investments through to the end of FY09. However, the combined balance sheet co-investment yield, at 3.8% for H1 FY10 and 0.9% for H2 FY10, was positive. Corporate investment yields, at 5.6% for H1 FY10 and 7.2% in H2 FY10, were positive for the first time since H1 FY08. Hedge fund yields were strongly positive at 11.9% in H2 FY09 and 15.0% in H1 FY10, but were affected by very volatile market conditions in H2 FY10. Fair value declines in real estate kept the combined balance sheet co-investment yield below our long-term target of 8–10%.

Operating expenses this year were 8% lower at $188.8 million, compared to $206.3 million in FY09, reflecting a decrease in fixed operating expenses of 19%. This was partially offset by higher variable compensation accruals in line with the positive net income in FY10. Interest expense fell by 50% to $58 million as a result of significant deleveraging over the last 18 months and continued low LIBOR rates.

Balance sheet

Total assets decreased from $3.6 billion at June 30, 2009 to $3.4 billion at June 30, 2010, reflecting a further repayment of medium-term debt as part of the planned deleveraging. Co-investment assets in corporate investment, hedge funds and real estate remained steady at $1.8 billion. Co-investments as a multiple of book equity fell to 1.8x from 2.0x. At June 30, 2010, Investcorp's co-investment assets represented 19% of total assets under management of $12.7 billion, the same level as at June 30, 2009. Our medium-term target is to reduce co-investment levels under 10%.

Financial leverage, defined as liabilities divided by equity and adjusted for transitory balances, decreased from 1.7x at June 30, 2009 to 1.6x at June 30, 2010. It remains well below covenant threshold levels of 3.55x.

Investcorp maintained a conservative approach to liquidity in FY10, carrying high levels of immediately accessible cash. Accessible liquidity, defined as cash plus committed undrawn facilities, was $0.9 billion at June 30, 2010, compared to $1.1 billion at June 30, 2009. The fall primarily reflects the net repayment of $335 million of medium and long-term debt maturities. Total liquidity at June 30, 2010 was $1.4 billion, comprising $0.9 billion held in cash and cash equivalents and $0.5 billion held in hedge fund co-investments. The level of total liquidity is substantially in excess of minimum threshold levels of $750 million and is adequate to cover all debt maturing over the next three years.

During the year, Moody's Investor Service confirmed Investcorp's existing credit ratings at Ba2, but maintained a negative outlook due to their ongoing concerns about the macro economic outlook. Fitch Ratings affirmed Investcorp's rating at BB+. They removed the Rating Watch Negative they had placed on our rating in May 2009, noting that an increase in client AUM and further reductions in balance sheet leverage and co-investment levels would be likely to improve future ratings.

MANAGEMENT ACTIONS

During FY10 management has focused on four areas:

Recovering from the challenges of FY09, returning to profit and delivering a solid performance and net income for FY10. This was decisively achieved, with FY10 net income of $102.2 million.

Maintaining a balance sheet with high liquidity, strong capital base and stable long-term funding to support our strategic objectives and provide the platform for us to take advantage of the recovery in the global economy. Total liquidity is strong at $1.4 billion. Our Tier 1 capital adequacy ratio stands at 22.9%, well above the BIS capital adequacy guideline of 8% and the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the best capitalized banks globally. During the year, Investcorp closed a new $575 million multi-currency loan agreement with 14 close relationship banks to refinance loans scheduled to mature in 2010 and 2011. This refinancing was successfully completed in the face of the pressure on banks globally to reduce their lending balance sheets and curtail cross-border lending.

Creating value for our clients through portfolio management and realizations. While our portfolio companies felt the effects of the economic slowdown, many returned to growth in H1 FY10 and most of the companies in our portfolio grew EBITDA or remained relatively flat compared to FY09. This was achieved by focusing on operational improvements and debt management and we supported a number of accretive add-on acquisitions to grow or preserve value and limit risk. In spite of the difficult economy, we were able to deliver value through realizations. We made two exits during the year from our US and European corporate investment portfolio, with total realization proceeds of $448 million, and two real estate realizations, with total proceeds, including distributions from income producing properties, of $97 million.

Continuing to penetrate the institutional investor market for hedge funds. To this end we continued several strategic initiatives, started during FY09, designed to improve client servicing and delivery capabilities in hedge funds. We raised $1.1 billion for our hedge funds platform this year with a focus on managed accounts where our particular experience has been ahead of the industry trend.

ACTIVITY UPDATE

During FY10 we were active in making investments but remained disciplined during highly volatile market conditions.

During the year we deployed $346 million of equity in corporate investment in new and add-on investments. In US and European corporate investment, deal flow increased in the second half of the fiscal year and we saw an increasing number of opportunities that met appropriate risk-reward thresholds. But good assets remained highly priced and we declined to pursue a number of opportunities where high valuations meant that the ultimate return profile would have been lower than we were willing to accept. Overall, Investcorp deployed $150 million in new and add-on acquisitions. We acquired Veritext Holding Company, a direct investment for placement with clients. Several of our portfolio companies made acquisitions to grow value as part of their consolidation investment strategies funded both from the companies' own resources and from additional investment by Investcorp as in the case of Berlin Packaging which acquired All-Pak. We also preserved value for clients by making support investments in some of the well performing companies within our US and European corporate investment portfolio that had short-term issues, specifically Icopal, N&W and Randall-Reilly.

In corporate investment—technology, there was strong deal flow although we saw a slight decrease, in the second half of the fiscal year, in the number of opportunities that fit our particular criteria. In this sector Investcorp deployed $86 million of acquisitions and follow-on funding during FY10. We made investments in CSIdentity and OpSec Security plc through Technology Fund III. We made an additional investment in Moneybookers, half as a direct investment placed with clients and half through Technology Fund II.

In corporate investment—Gulf, we continued to see opportunities, particularly from Saudi Arabia, Turkey and the UAE and observed a marked improvement in the quality of investment opportunities in the region. We made an investment in Gulf Cryo, through the Gulf Opportunity Fund I, and reached agreement on a further investment in a MENA company operating in the agro-industry sector, expected to close in FY11. Overall, in corporate investment—Gulf, Investcorp acquired, or reached agreement to acquire, investments totaling $110 million.

US real estate investment was affected by the lingering recessionary environment, by limited activity in the debt markets and by a challenging operating environment. Transaction volume remained significantly down during the fiscal year, and we maintained a measured approach during this period of turmoil. Overall, in US real estate Investcorp deployed $69 million of acquisition (equity and debt) funding during FY10 in three new real estate investments. Two were in retail shopping centers, which were placed with clients as a single portfolio, US Retail V, and the third was a debt investment in the W Hotel at South Beach, Florida.

In spite of the difficult economy, we were able to deliver value through realizations. We made two exits during the year from our US and European corporate investment portfolio. We completed the exit of Avecia's Biologics business and completed a highly successful sale of American Tire Distributors. We made two real estate realizations, closing on the sale of the final properties in the Empire Mountain Village portfolio, and selling a first mortgage loan from the Investcorp Real Estate Credit Fund.

PORTFOLIO COMMENTARY

Corporate investment

Corporate investment—US & Europe. At June 30, 2010 the carrying value of Investcorp's balance sheet co-investment in US and European corporate investment was $890 million. This compared with $769 million at June 30, 2009. The total co-investment amount represents 49.3% of total balance sheet co-investments at June 30, 2010, compared with 42.7% at June 30, 2009. The five largest investments represent 58% of the total portfolio and 52% of shareholders' equity at June 30, 2010.

Overall, we believe the portfolio is well positioned, with companies that have the competitive advantage and relative resilience that comes from being market leaders in their sectors all having strong cash flow characteristics. We believe that each of our original investment theses remain valid, although it may take longer to achieve them.

Portfolio companies, both in the US and in Europe, felt the effects of the economic slowdown. However, we have focused on value creation and preservation, and starting H1 FY10, most saw signs of stabilization. Aggregate EBITDA for the portfolio at June 30, 2010 was approximately $1.12 billion, an increase of 2.8% over $1.09 billion at June 30, 2009. Within our total portfolio of 21 companies, 14 either grew EBITDA or remained relatively flat compared to FY09. Eleven grew more than 5%.

The global economic conditions have challenged many companies, even where these companies have fundamentally sound businesses. While our focus has been on active management and support, we have occasionally made difficult but prudent decisions not to provide support capital where the risk-reward profile was insufficient. This year one portfolio company, EnviroSolutions, filed for Chapter 11 bankruptcy protection after a rapid deterioration in its financial position.

Corporate investment—technology. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment—technology at June 30, 2010, was approximately $72 million. Investcorp's clients participate through dedicated technology funds in which Investcorp is a co-investor. The $230 million Investcorp Technology Ventures Fund I was raised in 2001, is fully invested and is in harvest mode. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully deployed, with $291 million invested and $9 million held in reserve for follow on investments. The $500 million Investcorp Technology Ventures Fund III was raised in 2008 and is currently 39% deployed across five investments.

Corporate investment—Gulf. The carrying value of Investcorp's balance sheet co-investment exposure in this sector at June 30, 2010, was $18 million. In corporate investment—Gulf, Investcorp's clients have the opportunity to participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. Investcorp's $929 million Gulf Opportunity Fund I is at a relatively early stage of its investment cycle with 36% invested across four investments.

Hedge funds

During FY10 Investcorp's hedge funds portfolio significantly outperformed the hedge funds industry's HFRI Composite Index, returning approximately 10% on a gross basis even though the second half of the fiscal year was a period of extreme market volatility.

This reflected sophisticated asset allocation and manager selection. The portfolio benefited from an overweight position in distressed/credit and convertible arbitrage strategies. Balancing this, the underweight position in long/short equity strategies detracted from value in the first half of the fiscal year. Portfolio insurance detracted from performance in the first half, but contributed during the volatile months in the second half of the fiscal year. Convertible arbitrage and multi-strategy managers considerably outperformed while event driven managers were relative under performers.

Investcorp's co-investment hedge funds portfolio is constructed so that a significant part of it is available for monetization in a three to six-month window. Client portfolios are constructed with similar guidelines in an effort to ensure that, during a stress period, the liquidity needs of one portfolio do not negatively impact others. At June 30, 2010 approximately two-thirds of Investcorp's co-investment portfolio was contractually available within a three-month window, and more than 90% of the portfolio within a 12-month window. This is believed to provide a sufficient cushion in a situation where one or more managers impose gates on investor redemptions. A large portion of the portfolio is invested through separate accounts in which we control a significant portion of the underlying assets. This substantially reduces gating risk, and further helps the liquidity position.

Our co-investment hedge funds portfolio is invested in several fund of fund products, one customized account and five single managers. Total gross exposure was approximately $880 million at June 30, 2010, of which $265 million is invested in five managers on our single manager seeding platform.

Real estate

At June 30, 2010, Investcorp's real estate balance sheet co-investment portfolio totaled $217 million, compared with $283 million at June 30, 2009. This consisted of $183 million of equity investments and $34 million of debt investments. The total real estate co-investment amount represents 12.0% of total balance sheet co-investments at June 30, 2010, compared with 15.7% at June 30, 2009.

Of the 22 active real estate investment portfolios, at June 30, 2010, 11 were on or ahead of plan, and 11 were behind plan. The challenging portfolios were weighted to those holding hotels, condominium developments and offices in struggling regions where the economic environment has generally slowed.

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

In addition to the deal-by-deal offering of investments in US commercial real estate, Investcorp's clients have the opportunity to make debt investments through a fund format, and we have raised two funds to invest in and originate commercial real estate debt, in which Investcorp is a co-investor. The $108 million US Mezzanine Fund I, created in FY07, is fully deployed. The $176 million Investcorp Real Estate Credit Fund, created in FY08, is also fully deployed. A third real estate debt fund is in fundraising.

FUNDRAISING

Assets under management

Total assets under management, including proprietary co-investments, has increased in FY10 from $11.7 billion to $12.7 billion. Proprietary co-investment assets have increased from $2.3 billion to $2.4 billion. Client assets under management increased by 10% to $9.7 billion.

Client placement

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

In corporate investment deal-by-deal investments we placed the All-Pak add-on investment to Berlin Packaging, placed the additional investment in Moneybookers and made the partial placement of Veritext, which was acquired late in FY10. We also completed the residual placement of CEME that was partly placed in FY09. In real estate investment we placed the Best Western Mezzanine debt and US Retail Properties V Portfolio and marketed the W South Beach investment. In hedge funds we transitioned two institutional investors with significant mandates to customized accounts. In addition we collected capital calls on various closed-end funds raised in the past three years and also collected outstanding receivables.

Closed-end funds

This year, Investcorp initiated fundraising for a new real estate debt fund.

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.

Open-end hedge funds

At June 30, 2010, hedge fund assets under management stood at $4.7 billion, $3.8 billion of client assets and $0.9 billion of gross proprietary co-investments. More than 90% of hedge fund assets under management are now from institutional clients including pension funds, insurance companies, endowments and foundations, and fund of hedge funds. This shift towards institutional clients has resulted in a more stable asset base for our hedge funds business.

FY10 has seen an increase in accounts that are customized for specific clients. These are typically either diversified multi-strategy portfolios or single strategy portfolios. Approximately half of our hedge fund assets under management is now managed for clients in a customized account format. The percentage of assets in commingled fund of fund products has decreased to 18%. Assets in single managers stand at 34%. Both customized accounts and single managers remain critical to hedge funds growth strategy.

This year, Investcorp continued several initiatives, started during FY09, designed to improve further its client servicing and delivery capabilities in hedge funds.

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 on Investcorp's corporate, real estate and hedge fund co-investments as well as invested liquidity; plus (iii) the impact of **unrealized fair value adjustments** on corporate and real estate co-investments.

Net income (loss) ($ millions)	**FY10**	FY09	% Change B/(W)
Fee income	**218.9**	129.4	69%
Asset-based income (loss)	**146.1**	(218.4)	>100%
Gross operating income (loss)	**365.1**	(89.0)	>100%
Provisions	**(11.7)**	(22.2)	48%
Interest expense	**(58.0)**	(115.0)	50%
Operating expenses	**(188.8)**	(206.3)	8%
Net operating income (loss)	**106.5**	(432.5)	>100%
Unrealized FV adjustments	**(4.4)**	(348.1)	99%
Net income (loss)	**102.2**	(780.6)	>100%
Total revenue	**360.7**	(437.1)	>100%

Gross operating income in FY10 was $365.1 million (FY09: $89.0 million loss) reflecting both a significant increase in fee income and positive asset-based income. Unrealized mark-to-market adjustments in the fair value of corporate and real estate investments stabilized at a small loss of $4.4 million compared to an aggregate downward adjustment of $348.1 million in FY09. Operating expenses were 8% lower at $188.8 million (FY09: $206.3 million), reflecting a decrease in fixed operating expenses of 19% that was partially offset by higher variable compensation accruals in line with the positive net income in FY10. Interest expense fell by $57 million or 50% as a result of continued low interest rates, the absence of distortions to LIBOR benchmarks in FY10 compared to FY09 and the lower level of outstanding debt as a result of continued deleveraging of the balance sheet per plan.

The overall net income of $102.2 million reflects a strong turnaround from the loss of $780.6 million in FY09. This rapid rebound to profitability following last year's large one-off losses marks a return to the 25-year track record of profitability and growth.

FEE INCOME

Gross fee income earned in FY10 was $218.9 million, significantly higher than the $129.4 million reported for FY09. Management fees fell 3% to $104.3 million from $107.4 million in FY09. Although client AUM increased by 10% to $9.7 billion during the year, average client AUM was lower compared to FY09 as we continue to rebuild hedge fund client AUM following the heavy redemptions seen in the last quarter of calendar 2008 and early 2009. Activity fees of $68.7 million are still below pre-crisis levels of $200 million per annum, but have grown significantly following the lows seen in FY09. Performance fees of $46.0 million reflect the strong performance for clients in hedge funds, increased exit activity in corporate investment over the year and recognition of deferred income relating to corporate investment exit activity in prior years.

Summary of fees ($ millions)	**FY10**	FY09	% Change B/(W)
Management fees	**104.3**	107.4	(3%)
Activity fees	**68.7**	21.7	>100%
Performance fees	**46.0**	0.3	>100%
Fee income	**218.9**	129.4	69%

ASSET-BASED INCOME

Gross asset-based income, excluding the impact of fair value adjustments on corporate and real estate co-investments, was $146.1 million (FY09: loss of $218.4 million). The increase in gross asset-based income in FY10 was primarily due to strong positive returns on hedge fund co-investments in contrast with the losses experienced in H1 FY09. Gross asset-based income was also boosted by capital gains from successful corporate investment exits.

Treasury income includes interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk on long-term liabilities. The decline in liquidity income reflected the year-on-year fall in average LIBOR yields available on money market products as well as lower average levels of carried liquidity following the net repayment of $335 million of debt during the year.

Asset-based income (loss) ($ millions)	**FY10**	FY09	% Change B/(W)
Corporate investment	**25.3**	12.4	>100%
Hedge funds	**91.3**	(323.8)	>100%
Real estate	**11.5**	20.2	(43%)
Treasury and liquidity income	**18.1**	72.9	(75%)
Gross asset-based income (loss)	**146.1**	(218.4)	>100%
Unrealized FV adjustments	**(4.4)**	(348.1)	99%

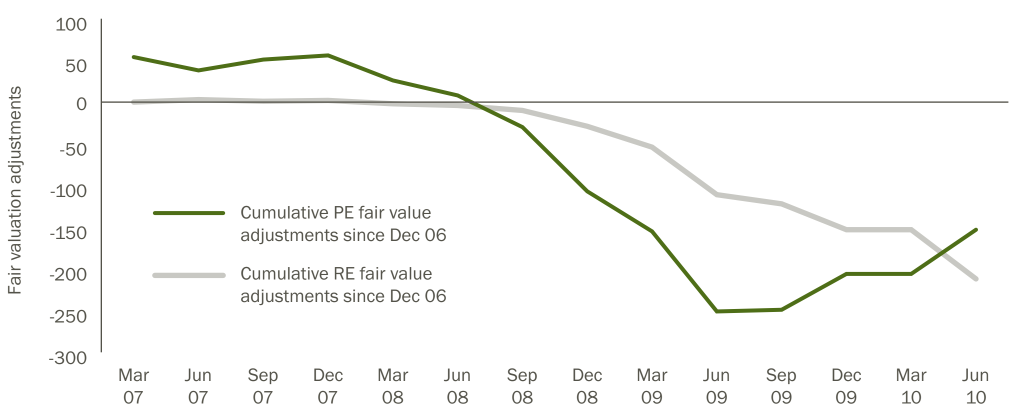
UNREALIZED FAIR VALUE ADJUSTMENTS

Unrealized losses related to mark-to-market valuations of Investcorp's corporate and real estate co-investments amounted to $4.4 million compared to unrealized losses of $348.1 million in FY09. The fair value of our corporate investment co-investments increased by $97.0 million reflecting a stabilization of, and turnaround in, valuations in line with the trends seen in public equity markets and within the private equity industry. Real estate co-investments continue to be valued conservatively in line with the current dynamics within the US commercial real estate market, resulting in a reduction in fair values by $101.4 million down to levels from where we expect to see some stabilization and a possible rebound.

The chart below shows the trend in cumulative fair value adjustments since December 2006. It illustrates the steep declines in private equity industry valuations since December 2007 and in real estate valuations since June 2008. The trough for private equity industry valuations was reached in June 2009, while the difficult market continued to affect US commercial real estate valuations, although we are seeing signs of stabilization now. The cumulative unrealized fair value adjustments for real estate represent a 48% net decline from the original cost of the portfolio.

Cumulative private equity (PE) and real estate (RE) fair valuation adjustments since Dec 06

($ millions)



The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half-year periods, 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 impacted asset-based income yield adversely through to the end of FY09. Corporate investment yields this year have returned to positive territory for the first time since H1 FY08. Hedge fund yields continued their strong momentum from the end of FY09 through to the first half of FY10, but have felt the impact of market conditions over the last several months. The combined yield across all co-investments was positive for the year, although fair value declines in real estate have kept it well below long-term targets of 8–10%.

Asset yields	H1 FY08	H2 FY08	H1 FY09	H2 FY09	**H1 FY10**	**H2 FY10**
Corporate investment	2.9%	(2.2%)	(11.1%)	(16.2%)	**5.6%**	**7.2%**
Real estate	2.9%	1.9%	(3.8%)	(20.7%)	**(12.1%)**	**(22.5%)**
Hedge funds*	6.7%	(0.9%)	(20.4%)	11.9%	**15.0%**	**(0.3%)**
Average co-investment yield**	4.2%	0.9%	(11.8%)	(4.1%)	**3.8%**	**0.9%**

*Non $ weighted returns

**Includes treasury and liquidity income

ASSET-BASED INCOME BY ASSET CLASS

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

CI asset-based income KPIs ($ millions)	**FY10**	FY09	% Change B/(W)
Realized asset-based income	**25**	12	>100%
Unrealized FV adjustments	**97**	(242)	>100%
Average co-investments (excluding U/W)	**959**	841	14%
Absolute yield for period	**13%**	(27%)	40%

HF asset-based income KPIs ($ millions)	**FY10**	FY09	% Change B/(W)
Asset-based income	**91**	(324)	>(100%)
Non $ weighted returns (net)	**15%**	(11%)	26%
Average co-investments	**606**	1,341	(55%)
Absolute yield for period (net)	**15%**	(24%)	39%
3-month LIBOR	**0.3%**	2.0%	(1.7%)
Spread to 3-month LIBOR	**14.7%**	(26.2%)	40.9%

RE asset-based income KPIs ($ millions)	**FY10**	FY09	% Change B/(W)
Realized asset-based income	**11**	20	(43%)
Unrealized FV adjustments	**(101)**	(106)	5%
Average co-investments	**263**	347	(24%)
Absolute yield for period	**(34%)**	(25%)	(9%)

INTEREST EXPENSE

Total interest expense of $58.0 million in FY10 was 50% lower than in FY09. The average level of interest-bearing liabilities declined by 21% over the year in line with the continued planned de-leveraging of Investcorp's balance sheet. Average short-term debt fell by more than half to $277 million, and average medium and long-term debt fell by 13% to $2,002 million.

Interest expense ($ millions)	FY10	FY09	FY10 vs FY09 H/(L)
Average short-term interest-bearing liabilities	277	569	(292)
Average medium and long-term interest-bearing liabilities	2,002	2,315	(312)
Average interest-bearing liabilities	2,279	2,884	(605)
Interest expense	58.0	115.0	(57.0)
Average LIBOR rate set (1 month)	0.3%	1.6%	(1.3%)
Spread to LIBOR rate set (1 month)	2.3%	2.4%	(0.1%)
Cost of funding	2.5%	3.9%	(1.4%)

Average US$ LIBOR rates fell 1.3% year-on-year and Investcorp maintained a short tenor re-pricing strategy throughout FY10. Average borrowing margins to LIBOR remained relatively stable. Higher margins payable on medium-term debt raised during the year will begin to increase average margins in FY11 and FY12 as the new forward start facilities are progressively drawn down. We expect that this future increase in average margins will be mitigated by a further steady fall in the overall level of interest-bearing liabilities.

The table below breaks down the change in interest expense into its component parts. The main drivers of lower interest expense in FY10 were lower absolute US$ LIBOR rates and lower levels of interest-bearing liabilities.

Interest expense variance ($ millions)	FY10 vs FY09
Due to lower average interest-bearing debt	24.1
Due to lower base LIBOR rates	29.8
Due to decrease in average funding spreads	3.1
Total variance	**57.0**

OPERATING EXPENSE

Fixed operating expenses (operating expenses excluding accruals for variable incentive compensation) declined by 19% from $154 million in FY09 to $125 million in FY10. The overall decrease from FY09 is a result of the continuing cost management initiatives. Staff compensation for FY10, excluding variable compensation accruals, represented 38% (FY09: 44%) of total fixed operating expenses, and compensation costs decreased by 30% year-on-year as a result of headcount reductions in December 2008.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees, travel and business development, and administration and infrastructure costs. These expenses are down nearly 10% year-on-year reflecting the greater operating efficiencies from cost management initiatives undertaken last year.

Opex metrics ($ millions)	FY10	FY09
Staff compensation (including incentive compensation)	111	120
Other opex	78	86
Fixed opex	189	206
Full time employees (FTEs) at end of period	320	317
Staff compensation per FTE ('000)	348	378
Other opex per FTE ('000)	243	272
Total staff cost/total opex	68%	66%
Opex/(net income + opex)	65%	n.m.

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 unit ($ millions)	Fee income			Asset-based income and unrealized FV changes			Total		
	FY10	FY09	Change	FY10	FY09	Change	FY10	FY09	Change
Corporate investment	156.1	79.1	97%	122.3	(229.4)	>100%	278.4	(150.3)	>100%
Hedge funds	43.5	38.1	14%	91.3	(323.8)	>100%	134.8	(285.7)	>100%
Real estate	19.3	12.1	60%	(89.9)	(86.1)	(4%)	(70.6)	(74.0)	5%
Corporate	–	–	–	18.1	72.9	(75%)	18.1	72.9	(75%)
Revenue contribution	218.9	129.4	69%	141.8	(566.5)	>100%	360.7	(437.1)	>100%
Operating expenses	(149.4)	(169.4)	12%	(39.4)	(37.0)	(7%)	(188.8)	(206.3)	8%
Interest expense	–	–	–	(58.0)	(115.0)	50%	(58.0)	(115.0)	50%
Provision for impairment	–	–	–	(11.7)	(22.2)	48%	(11.7)	(22.2)	48%
Net income (loss)	69.5	(40.0)	>100%	32.7	(740.6)	>100%	102.2	(780.6)	>100%

Revenue contributions in corporate investment and hedge funds were positive in FY10 showing a substantial reversal from market-driven valuation losses incurred in FY09. Corporate investment benefited from an increase in the level of transaction activity and a continued rebound in valuations. Hedge funds reported strong asset-based income and an increase in fee income from performance fees earned on client AUM. The revenue contribution from real estate was negative due to further fair value declines on Investcorp's co-investment in real estate.

BALANCE SHEET

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY10	FY09
Total assets	$3.4 billion	$3.6 billion
Financial leverage*	1.6x	1.7x
Liabilities/equity	2.4x	3.0x
Shareholders' book equity	$1.0 billion	$0.9 billion
Regulatory risk asset ratio (Basel II)	22.9%	20.0%
Residual maturity—medium and long-term facilities	68 months	61 months

*Adjusted for transitory balances

ASSETS

At June 30, 2010, total assets were $3.4 billion, a decrease of $0.2 billion from the previous fiscal year end (June 30, 2009: $3.6 billion). Cash liquidity has fallen slightly, reflecting a further repayment of interest bearing medium-term debt. Co-investment assets have remained steady at $1.8 billion.

Assets ($ millions)	FY10	FY09	% Change H/(L)
Cash and equivalents	840	1,129	(26%)
Other liquid assets*	63	n.m.	n.m.
HF co-investments	537	614	(13%)
CI and RE co-investments	1,270	1,187	7%
Other	707	690	3%
Total assets	3,417	3,620	(6%)
Co-investment assets	1,807	1,801	0%

*Non cash equivalent

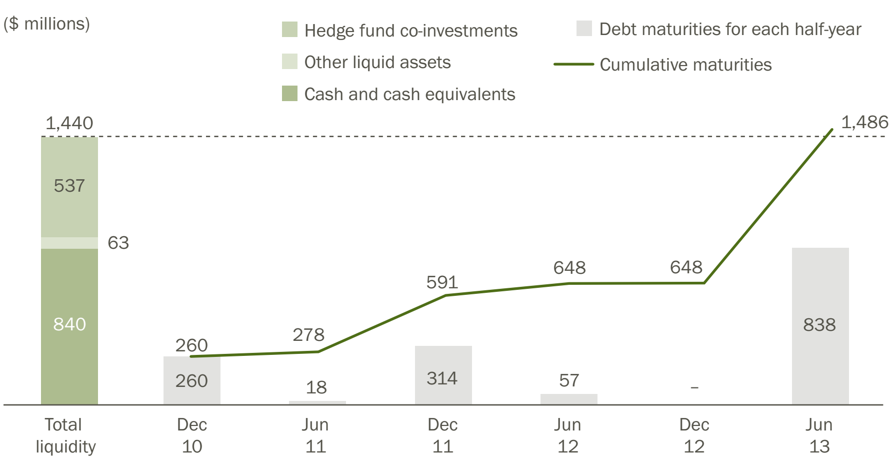
Co-investments in corporate investment, hedge funds and real estate as a multiple of book equity fell to 1.8x from 2.0x. Investcorp continues to be a significant co-investor alongside its clients in each of the lines of business, accounting for 19% of total AUM at June 2010. A gradual reduction of co-investment levels to under 10% of total AUM is targeted over the medium-term.

LIQUIDITY

Investcorp maintained a conservative approach to liquidity in FY10, carrying high levels of immediately accessible cash invested in a combination of government treasuries, at-call money funds and short-tenor money market assets. Accessible liquidity (cash plus undrawn revolvers) at June 30, 2010 was $0.9 billion (June 30, 2009: $1.1 billion). Revolving facilities were fully drawn throughout the fiscal year. The fall in accessible liquidity since June 2009 primarily reflects the net repayment of $335 million of medium and long-term debt. Total liquidity at June 30, 2010 was $1.4 billion, comprising $0.9 billion held in cash and other liquid assets and $0.5 billion held in hedge fund co-investments. More than three-quarters of hedge fund liquidity is contractually available within a six-month period. The level of total liquidity is in excess of our minimum threshold of $750 million.

Liquidity cover

($ millions)



LIABILITIES

Total liabilities decreased by 11% during FY10 from $2.7 billion at June 30, 2009 to $2.4 billion at June 30, 2010 primarily reflecting the repayment of medium-term debt facilities. Financial leverage, defined as liabilities adjusted for transitory balances divided by equity, was 1.6x at June 30, 2010 (FY09: 1.7x) and remains well below threshold ratios of 3.55x.

Liabilities ($ millions)	FY10	FY09	Change H/(L)
Client and other deposits	247	305	(57)
Medium-term debt and deposits	617	927	(310)
Medium-term revolvers—drawn	795	792	3
Long-term debt	592	578	13
Other	172	124	48
Total liabilities	**2,423**	2,726	(303)

During the year, we closed a new $575 million multi-currency forward start loan agreement to refinance loans maturing in 2010 and 2011. The financing was arranged with 14 close relationship banks and structured as a multi-tranche facility consisting of term loans and revolving credit facilities with a maturity in March 2013. Approximately $200 million of the facility was drawn in March and the balance will be gradually drawn down over the period to December 2011. This refinancing was successfully completed despite the particularly difficult macro environment, the pressure on banks globally to reduce their lending balance sheets and curtail cross-border lending, and against a backdrop of a series of negative headlines from the region on debt restructuring.

CREDIT RATINGS

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 2010
Moody's Investor Service	Ba2 Negative outlook	Rating and outlook confirmed in Feb 2010
Fitch Ratings	BB+ Negative outlook	Rating and outlook confirmed in Jan 2010

In February 2010, Moody's confirmed our existing credit ratings at Ba2 but remained cautious, primarily due to its continuing concerns about the macro-economic outlook. In January 2010 Fitch Ratings affirmed Investcorp's rating at BB+ and removed the Rating Watch Negative they had placed on our rating in May 2009. Fitch noted that an increase in client AUM and a further reduction in balance sheet leverage and co-investment levels would support an improved rating.

BOOK EQUITY

Net book equity (including fair value adjustments) at June 30, 2010 was $994 million. The increase from June 30, 2009 primarily reflects our positive performance during the fiscal year adjusted for the net impact from purchase and sale of treasury shares.

Equity ($ millions)	FY10	FY09	Change H/(L)
Ordinary shareholders' equity*	700	671	29
Preference share capital	509	500	9
Proposed preference share dividends	57	–	57
Fair value and revaluation adjustments	(272)	(277)	5
Net book equity	**994**	894	99

*Excludes FV changes and revaluation reserve

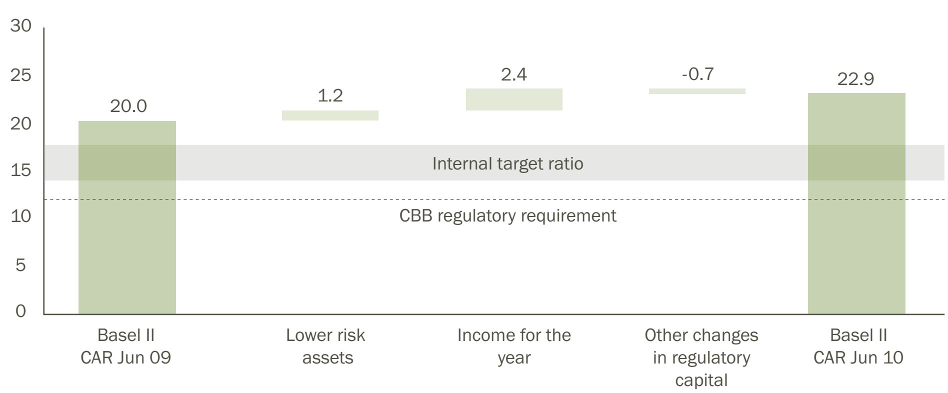
Investcorp received commitments in excess of the $500 million of preference shares that could be issued under its Memorandum and Articles of Association. An amendment approved by the shareholders at an Extraordinary General Meeting held in September 2009 enabled Investcorp to issue additional preference shares to cover this oversubscription, as well as to issue shares to employees. Additional preference shares for a total of $15 million were issued, including $11 million for employees. $6 million of shares issued to employees were un-vested at June 30, 2010, and hence not included in net book equity in the above table.

REGULATORY CAPITAL UNDER BASEL II

The Basel II Capital Adequacy Ratio (CAR) at June 30, 2010 was 22.9% (FY09: 20.0%). This is comfortably in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%. The increase in the Basel II ratio primarily reflects a combination of lower risk weighted assets and the increase in book capital from earnings.

Regulatory CAR

(%)



In FY10, the Basel Committee on Banking Supervision issued new Basel III proposals to strengthen the resilience of the global banking sector. These focused on the quality and amount of capital, tighter leverage ratios, a minimum 30-day liquidity coverage ratio and principles for enhancing corporate governance. If the proposals are implemented in their current form by the CBB, we do not believe that they would impose any additional requirements on Investcorp's capital or liquidity.

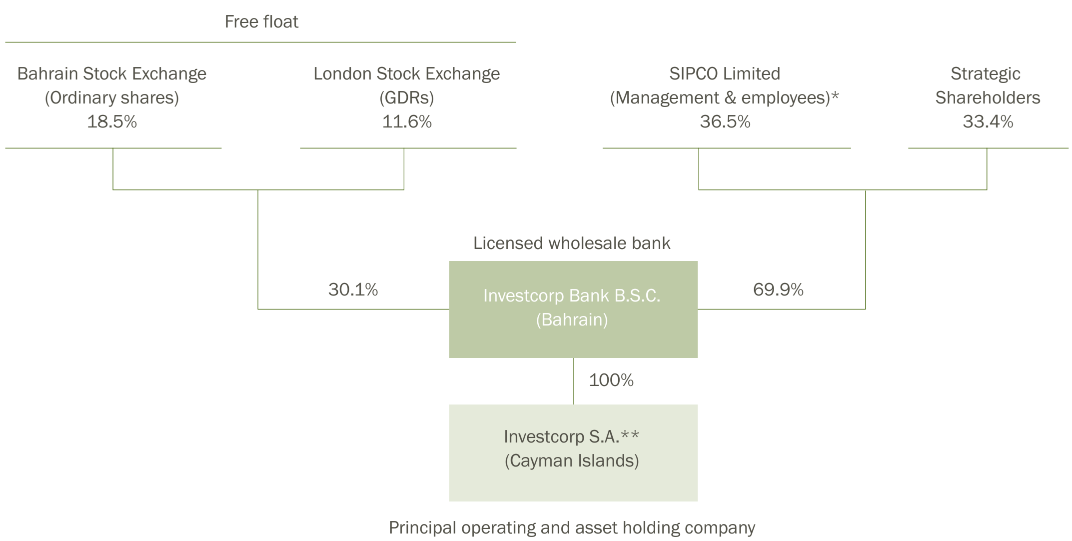
The relevant risk weights across each asset category, applied at June 30, 2010 are summarized below and are unchanged since June 30, 2009.

Asset class/segment	Basel II methodology June 2010	Basel II risk weight FY10
Corporate investment	Standardized approach (STA)	150%
Real estate	Standardized approach (STA)	200%
Hedge funds	Banking book	150%
CI and RE underwriting	Standardized approach (STA)	100%
Operational risk	Basic indicator approach (BIA)	15%

SHAREHOLDER BASE

At June 30, 2010, Investcorp remains a management controlled company, with management controlling the voting of 69.9% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 30.1% is split between owners holding 18.5% in ordinary shares on the Bahrain Stock Exchange, and owners holding 11.6% represented by GDRs on the London Stock Exchange. During the year, an affiliate of Investcorp purchased from two holders an aggregate of 7.92 million GDRs, equivalent to 9.9% of issued ordinary share capital.

Ownership structure



* Includes 15.5% in shares and GDRs that are held for future sale to management under the SIP Plan and third parties. These are classified as Treasury shares on the Bank's balance sheet. The Group has approval from the Central Bank of Bahrain (CBB) to hold up to 40% of shares for the SIP plan.

** As of May 2010, Investcorp S.A. has re-domiciled to the Cayman Islands.

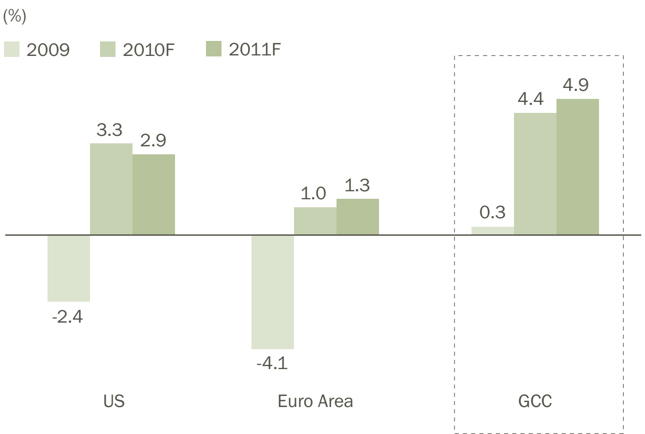
MARKET CONTEXT

In the aftermath of the global financial crisis, and with financial dislocations and deflationary risks remaining at unprecedented levels, current and emerging investment conditions and investor sentiment are critical to understanding Investcorp's performance and future prospects. Our performance is based on our ability to meet the evolving investment needs of clients and the opportunities for us to do so depend on the economic and investment climate in the markets in which we operate — the Gulf, the US and Europe — and on the inter-relationship between the three.

THE GENERAL ENVIRONMENT, INVESTOR SENTIMENT AND ATTITUDES TO ALTERNATIVE INVESTMENTS

Following the unprecedented stress to world economic and financial markets of the past two years, there has clearly been positive economic momentum this year, and the world economy is showing signs of recovery. There was strong growth in the first half of calendar year 2010 (H2 FY10). Balanced against increased financial turbulence, global growth is now forecast by the IMF to be 4.5% during the second half of the 2010 calendar year, before falling back slightly in calendar 2011. However, global growth rates mask considerable differences between, and within, advanced and emerging economies. Emerging markets growth has been much stronger, while recovery in advanced economies has been slower. The US has had a stronger start than Europe and other advanced economies, although within Europe there are pronounced differences by market.

GDP growth forecast for US, Euro area and GCC

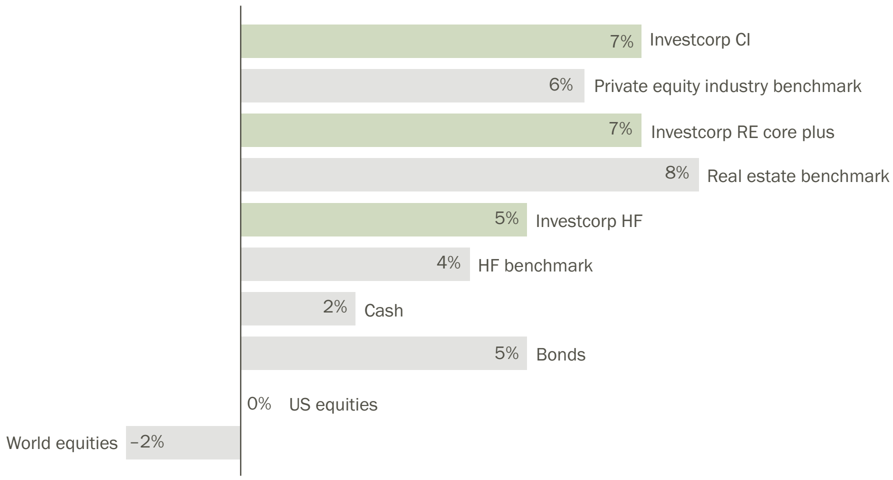


Source: IMF WEO July 2010 and IIF GCC Regional Overview May 2010

Despite growing optimism for the beginning of a sustainable turnaround in the economy, market conditions remain difficult and volatile. This is unlikely to change in the immediate future, and the road to full economic recovery is expected to be long and bumpy. Massive monetary and fiscal stimulus has boosted growth, possibly only temporarily. The recovery in consumer spending has been weak due to the subdued recovery in employment, combined with private sector deleveraging and higher taxation. Credit demand is weak as bank lending standards and consumer credit standards remain tight and businesses are cautious about taking on new debt in the face of an uncertain environment. These factors are dampening the speed of recovery, while increased concerns about deflation have had an impact on pricing power and earnings growth.

After the rebound in equity and other financial markets in calendar year 2009, global equity markets have begun once again to demonstrate significantly increased volatility. Equities are still, generally, showing very poor risk-adjusted returns for the past 10-year period, while fixed income risk-adjusted investment potential is affected by credit/liquidity concerns, most recently at the sovereign level.

Alternatives outperform over long-term



2001–2009 annualized returns in %
Sources: HFR FoF Diversified, IBSF, Thomson Reuters, S&P500, MSCI World ($ hedged), Citigroup WGBI ($ hedged), 3 month T-Bills, NAREIT and Investcorp estimates

Overall, the market outlook for asset prices is that there will be continued volatility. Accommodative monetary policy, resulting in high liquidity, is supportive at present, but longer term options are limited by risks to currency and debt markets. If, or when, support is withdrawn, economies may well falter or struggle to make recovery self-sustainable.

At Investcorp we believe that policy-makers have learned lessons from the recent global economic crisis, and will eventually bring about a self-sustaining recovery through a combination of prudent deficit spending and accommodative monetary policy. Reaching this recovery may not be straightforward or easy. Mixed signals from economic data and volatility in financial markets, is likely to remain unusually high for the foreseeable future. This challenging environment has implications for markets and investing. While the specter of another Great Depression is now gone, market volatility and tight credit are clearly a 'new normalcy' rather than a return to pre-recession conditions.

Against this backdrop, investors' search for meaningful return and diversification has recommenced, but with three distinct characteristics. Investors are now focusing on investments that are largely delinked from the macro environment and where returns are less driven by multiple arbitrage or timing of financial markets and more based on operational and investing skills. They are also looking for transparency in investments, around risk and alignment of interests. Finally, investors now have an improved understanding of the risk-return and liquidity trade-offs, so are demanding flexibility in asset mix within alternatives, good judgment in timing and strong risk management.

Overall, the global financial crisis has highlighted relative performance and other benefits of intelligently-selected alternative investments, and investors are re-developing an appetite for them. In the wake of the crisis, investors have come to understand the value of investment providers who demonstrably provide strong risk-adjusted performance in their portfolios. Investing in this environment remains challenging and, we believe, affirms the differentiating value of alternative investment providers with the expertise and experience to navigate these waters.

The Gulf

The six countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) were not spared some of the effects of the global financial crisis, but have shown resilience. Weak demand for oil worldwide, due to the slowdown in the global economy, initially resulted in lower oil revenues and credit contracted. Overall, real GDP growth contracted to 0.3% in calendar year 2009 from 7% per year between 2003 and 2008, as the GCC region was affected by the global recession. Within the region, however, there were marked differences by market. The overall impact of the global financial crisis on GCC economic activity has been cushioned by robust government spending. Fiscal expansion and countercyclical policy measures have included support for the finance sector and the normalization of global trade and capital flows.

GCC government policy responses to financial crisis

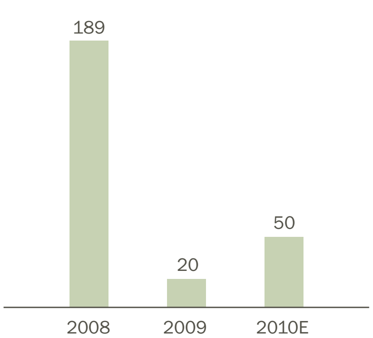
	Deposit guarantee	Liquidity support	Capital injection	Equity purchase	Monetary easing	Fiscal stimulus
Bahrain		✓			✓	✓
Kuwait	✓	✓	✓	✓	✓	
Oman		✓		✓	✓	
Qatar		✓	✓	✓		✓
Saudi Arabia	✓	✓			✓	✓
UAE	✓	✓	✓		✓	✓

Source: IIF GCC Regional Overview May 2010

Government spending has been underpinned both by the estimated $850 billion fiscal surplus accumulated by GCC countries during 2003–2008 and by firmer oil prices that remained above the GCC average fiscal budget break-even point during the crisis and have since rebounded.

GCC fiscal surplus

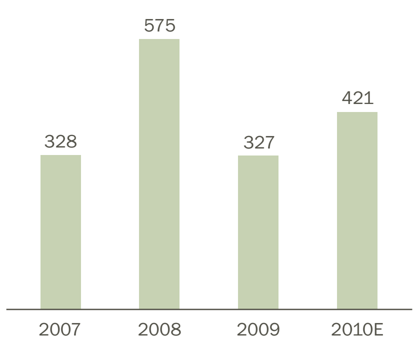
($ billions)



Source: Zawya

GCC oil and gas revenues

($ billions)



Source: IIF September 2009

In 2009, the GCC countries accounted for 21% of global oil production and 37% of proven global oil reserves. They also accounted for 9% of global gas production and 23% of proven global gas reserves. The region's revenue from the sale of oil and gas was $327 billion in the 2009 calendar year and is expected to rise to $421 billion in 2010 and to $457 billion in 2011.

Real GDP growth is forecast at 4-5% for the region for calendar years 2010 and 2011. This growth is expected to be supported by the continuing rebound in oil prices together with the increase in production following a recovery in the global demand for oil. It will also be supported by foreign direct investment flows that are expected to return to 2009 levels. Fiscal policy is expected to remain expansionary with the objective of boosting non-oil sector activity.

Marked differences by market are expected to continue. The largest market in the GCC, Saudi Arabia, has emerged relatively unaffected by the economic crisis. Its real GDP growth for 2010 is estimated to be 3.7%. At $353 billion, its real GDP is 42% of that of the GCC countries as a whole and its five year $400 billion public investment program, adopted in 2008, has resulted in massive investments in the social sector and infrastructure. In Qatar, the economy has been growing at a particularly fast pace stimulated by expansion in the production of natural gas and public sector investment in the broader economy. Overall real GDP growth for Qatar is forecast at 18.5% in 2010 and 14.3% in 2011. Oman is also expected to show strong economic growth projected at 4.7% in both 2010 and 2011. Real GDP in Bahrain is forecasted to grow by 3.5% during 2010 and 4.0% in 2011, driven by its financial services industry.

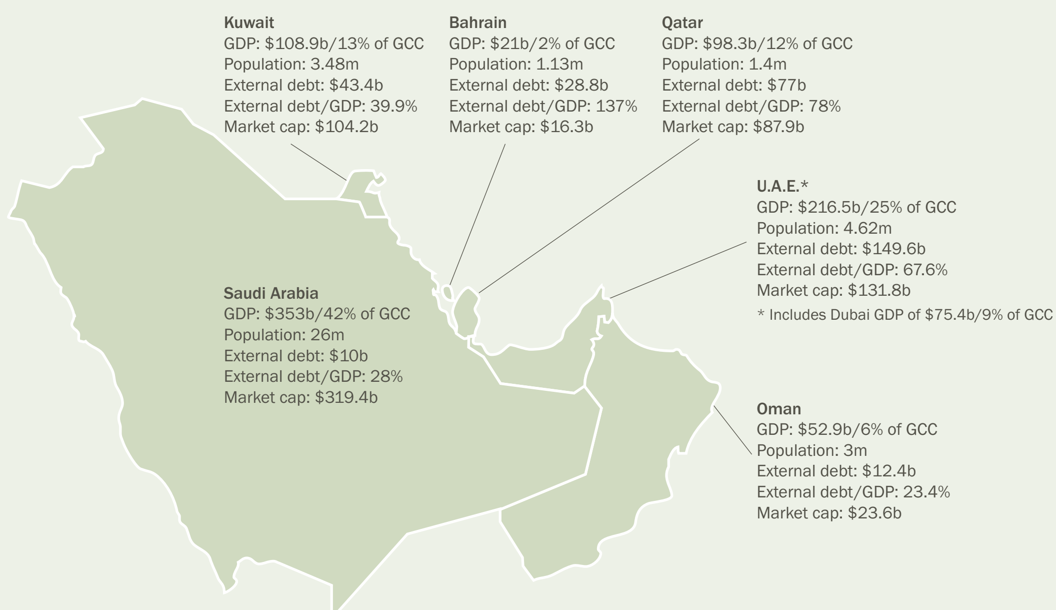
GDP growth in GCC countries

%	2007	2008	2009	2010F	2011F
Bahrain	8.1	6.1	2.9	3.5	4.0
Kuwait	2.5	6.4	(2.7)	3.1	4.8
Oman	7.7	12.3	3.4	4.7	4.7
Qatar	13.7	15.8	9.0	18.5	14.3
Saudi Arabia	2.0	4.3	0.1	3.7	4.0
UAE	6.1	5.1	(0.7)	1.3	3.1

Source: IMF, WEF May 2010

There are risks that the financial and real estate sectors could have some negative impact on GDP growth, but these would be expected to be confined within specific GCC countries. The financial crisis resulted in a sharp correction in Dubai's real estate asset prices, but there continues to be underlying demand for both commercial and residential real estate in other GCC markets. The aftershocks of Dubai's debt crisis in late 2009 were felt across the region and attracted global attention. However, this region needs to be put in context, as the emirate accounts for only 9% of total GDP for the GCC and Dubai has now taken a number of proactive steps to resolve its particular issues.

Overview of the six Gulf Cooperation Council countries



All GDP refers to nominal GDP
Source: IIF GCC Regional Overview May 2010 and IIF UAE May 2010

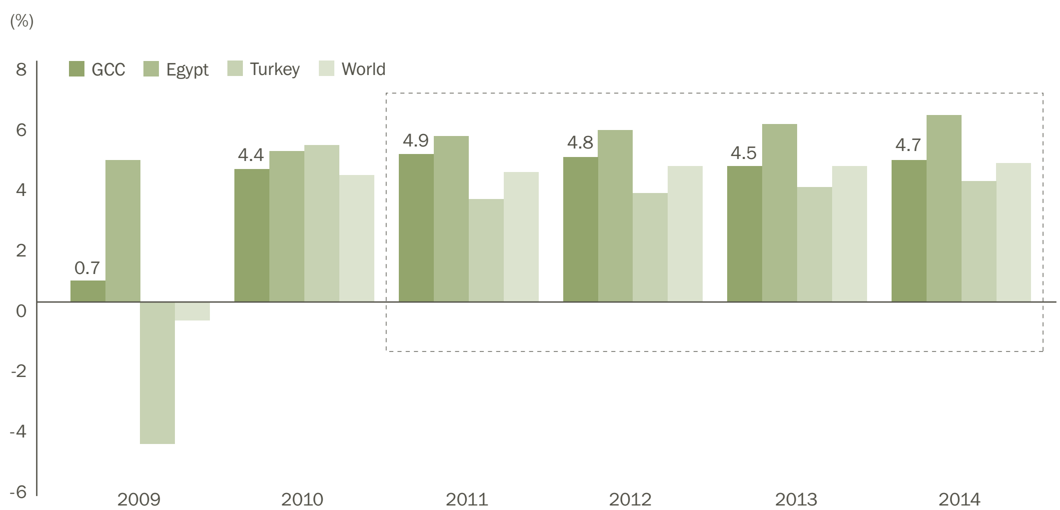
Overall, solid oil revenues are driving GDP, which is boosting business and investment confidence, and this is complemented by economic diversification and liberalization.

Supported by continued energy revenue, wealth creation in the GCC is expected to continue to be strong, both for HNWIs and institutions. Gulf investors are broadly anticipating a relatively swift economic recovery and have been recovering their appetite for investment and re-assessing asset allocation. Investors are also looking for meaningful diversification, so their interest in alternatives is increasing.

We believe that the preferences of Gulf investors have changed significantly as a result of the crisis, both in terms of products and providers. We are seeing an increased demand for products that provide current yield, better capital preservation, and exposure to both MENA and Western opportunities. Gulf investors now demand greater transparency, better risk management, improved reporting and higher touch service from their investment providers. They are also re-assessing their financial relationships and investment providers in favor of the most reputable and financially strong. These characteristics are very much in line with Investcorp's investment and client service models, in particular our unique, and highly transparent, deal-by-deal placement model and our record of product innovation.

Strong long-term growth and short-term economic resilience as well as continuing government stimulus plans are supporting economic expansion and stimulating growth. This continues to drive a need for private growth capital investing in the region. Governments are also promoting policy measures such as liberalization and improved legal infrastructure and corporate governance that are strengthening the private sector and the local ecosystem for growth capital investing. Local investment demand is also underpinned by favorable demographics.

Middle East medium-term growth forecasts



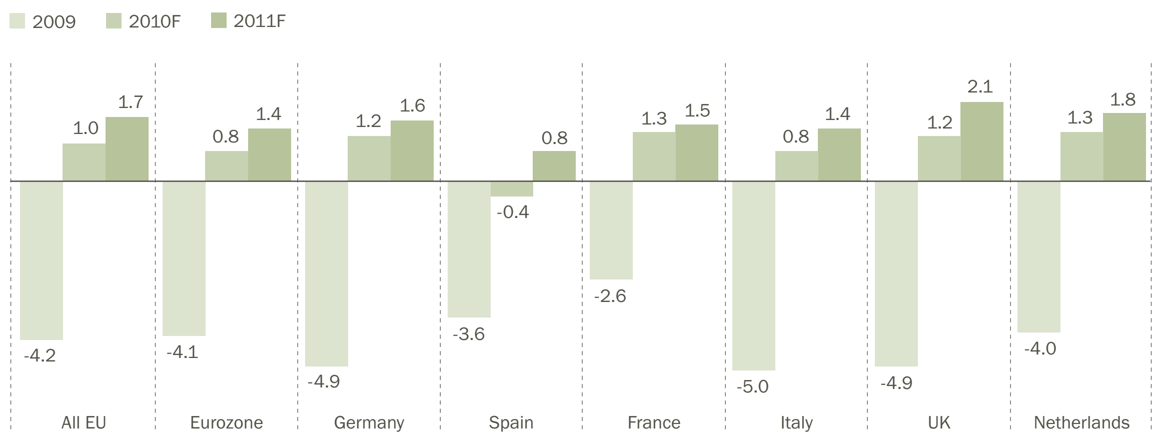
Source: IMF Global Financial Stability Report April 2010 and Investcorp estimates

There have also been some specific beneficial changes post-crisis. Regional valuations have adjusted and are broadly below pre-crisis levels, creating an increased number of attractive opportunities—in both control and non-control strategic investments—for growth capital investors who have available funds. Recent credit tightening means that GCC family conglomerates, entrepreneurs and management teams are increasingly open to third-party equity. The crisis has also increased the recognition of the importance of stronger corporate governance and institutionalization. Local competition has eased as some local players have faced balance sheet constraints and portfolio challenges. However, this attractive investment environment still has special challenges such as the need to 'self source' proprietary opportunities, resource-intensive due diligence and long closing periods. These favor established players with regional experience. The opportunity for mezzanine capital is also supported by strong fundamental economics, not least the demand for expansion capital and private equity industry activity in the region.

The US and Europe

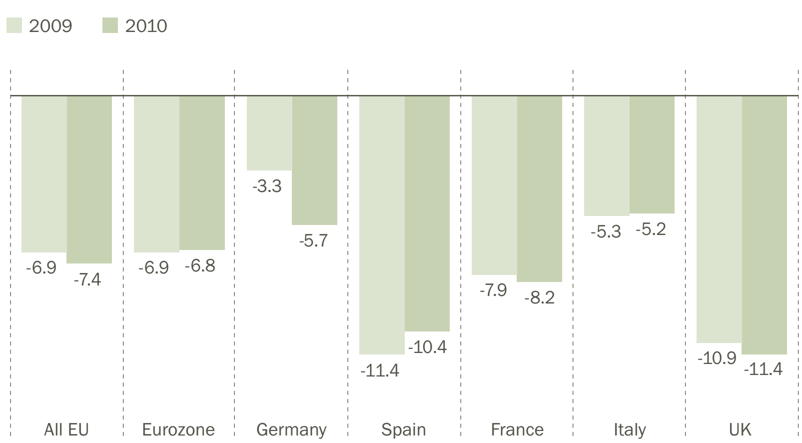
The US and Europe are seeing positive economic momentum but the environment continues to provide many challenges. Growth constraints and risks are around pressure on the public sector fiscal position. This is particularly true in parts of Europe, but there are also challenges for the US. Both economies continue to face headwinds from sovereign debt overhang as well as from the global economy. European recovery faces particular obstacles. There is market concern about debt sustainability in the UK and in high deficit/high debt countries in the Euro Area. The aggressive fiscal austerity programs undertaken in the UK and across the Euro Area are likely to dampen potential recovery and could even tip some economies, for example in Southern Europe, back into recession.

Slower recovery outlook for Europe



Figures show annual change in GDP %
All EU is 27 European countries and Eurozone is 16 countries
Source: Eurostat

Increased European government deficit burden



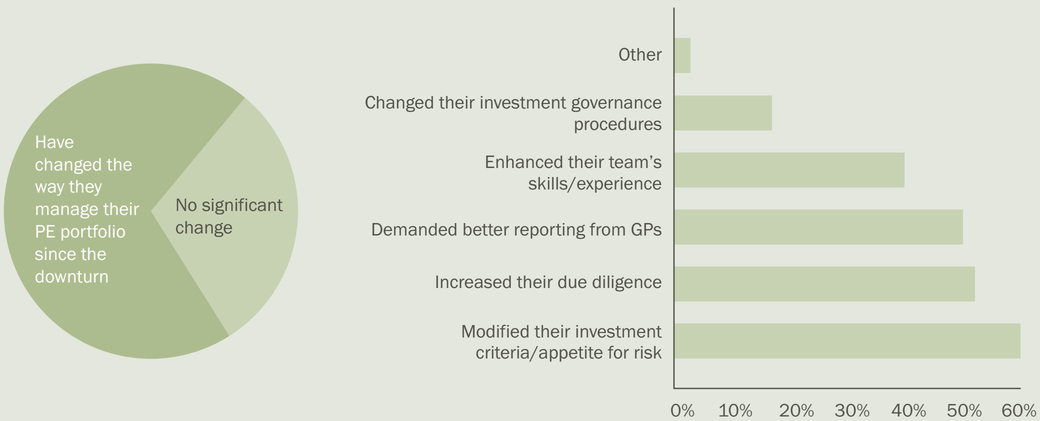
Figures show government budget deficit as % of GDP
All EU is 27 European countries and Eurozone is 16 countries
Source: IMF WEO Apr 2010

Financial sector repair and regulatory reform are in various states of progress and uncertainty is adding pressure. There is market concern that the potential cumulative impact of regulatory change on the financial sector and the global economy might undermine the engines of growth by adding to constraints on leverage and some forms of asset gathering. However, regulation may also create opportunities for advantaged participants in the financial sector.

A variety of industry reports and surveys are providing evidence that, against this economic backdrop, investors are becoming more discerning. In a difficult political, as well as economic, environment, institutional investors in the US and Europe are being cautious and deliberate. They are demanding investments de-linked from the macro environment, in particular those that generate strong returns outperforming public equities.

Evidence of how investor demands are changing comes in the private equity industry. Two thirds of LPs polled in the Winter 2009 – 2010 Coller Capital Global Private Equity Barometer said that they had modified the way in which they managed their private equity investments since the downturn. They had changed their investment criteria, evaluated their risk appetite, increased their due diligence and insisted on better reporting of activities.

Changes in the way LPs manage PE portfolios



Source: Coller Capital Global Private Equity Barometer (winter 2009–10) and Bain & Co, Global Private Equity Report 2010

Institutional investors now believe that it is the established institutionalized providers that can deliver this level of robust risk management, value creation and transparency, plus sophisticated client service, and reputation and brand are now a strong consideration for them when investing.

Against this economic backdrop, we are seeing trends in the US and European investment landscape that are providing investment opportunities and making it possible for alternative assets to show strong performance and value creation.

Corporate investment — US & Europe

There has been a clear pick up in transactional flow over the fiscal year as vibrant capital markets and improving credit markets made transactions viable again. Investment opportunities re-appeared as historic and new needs for capital emerged.

The M&A market returned as a result of sector consolidation. The IPO window began to open in early FY10 and we saw a cautious return of strategic buyers to the market. Both provided exit opportunities for the best-performing companies.

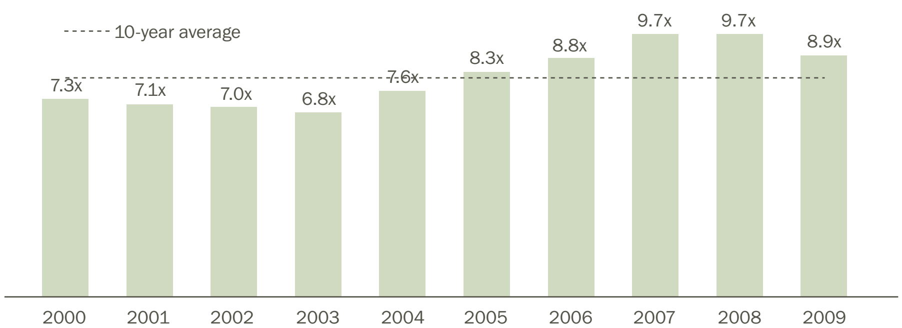
As the economy stabilized so did the performance of private equity industry-owned companies, although weak growth and deflationary pressure continued to throw up challenges for some.

Pricing remained high. Purchase price multiples have come down from 2007 peak levels, although purchase price levels today are materially higher than the levels of the 2000–2001 downturn.

US purchase price multiples back around 10-year average

Source: S&P Q4 2009 US Leveraged Buyout Review; average purchase price multiples for companies with EBITDA > $50m

European purchase price multiples slightly higher than average

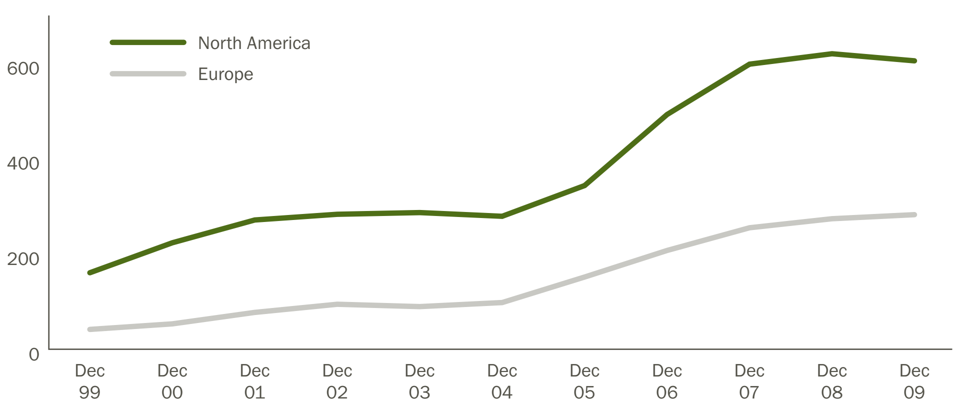


Source: S&P 2009 European Leveraged Buyout Review; average LBO purchase price multiples of PF trailing EBITDA

Many potential sellers were unwilling, and not yet forced, to dispose of assets at minimal return, which limited supply. Meanwhile, as a result of record levels of fundraising in 2005–2008, the capital overhang, at double that of the last recession has kept demand high. It has been a seller's market, and the relatively few quality assets that have come for sale have attracted high bids and valuations.

'Dry powder': committed but unspent private equity industry funds by region of focus

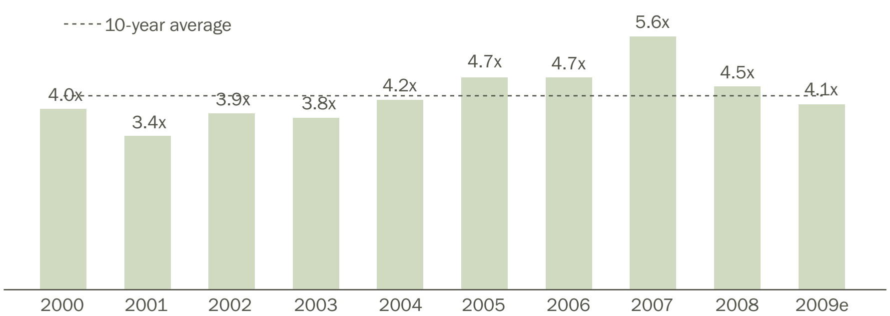
($ billions)



Source: 2010 Preqin Global Private Equity Report

The investing environment improved as the leveraged loan market returned for medium-sized transactions.

Average leverage multiples in US and European corporate investment



Source: S&P Leveraged Lending Review

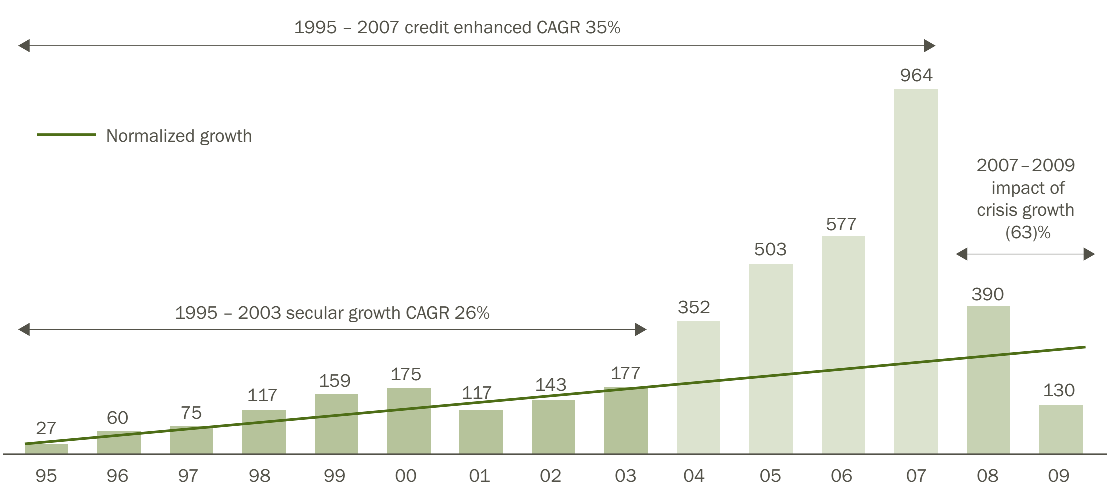
Aggressive financing multiples started to appear. The high yield market was volatile but open for strong credits. The environment also improved for advantaged players because weaker players were unable to access capital, had portfolios with performance issues or were not fully invested by the end of their investment period.

Finding opportunities in this economic recovery has required applying previous experience in combination with fresh thinking. We believe that this has been necessary to spot discontinuities and trend breaks. It has also been vital in judging correctly where previous investment assumptions held by the private equity industry are still valid and where there have been significant shifts.

There are some long-term assumptions that are still valid. We believe that the best model for generating outsized returns in a portfolio is through hands-on operational improvements by a controlling active owner. The market has proved to be cyclical, however the private equity industry has consistently achieved long-term outperformance over public markets.

Private equity industry growth through prism of three cycles

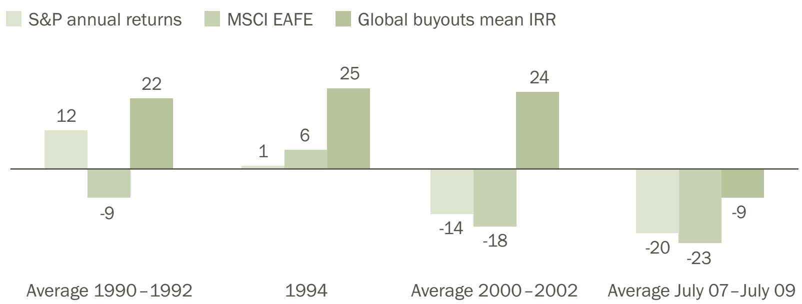
($ billions)



Global private equity deal volume
Source: Goldman Sachs, Thomson Financial — Global Financial Sponsor Merger Volume

This outperformance over public markets has continued during downturns. Early action with portfolio companies remains critical to offset cyclicality, add-on acquisitions can drive tremendous value creation, and this remains particularly true in a downturn. Finally, it remains true that high cash flow companies can provide downside protection through continued deleveraging, even in weakened economic environments.

Corporate investment more resilient in downturns



Annualized returns in %. Includes Western Europe and US private equity — excluding venture
Source: Cambridge Associates

We believe, however, that there are many crucial factors that are different in this recovery. There are fewer multiple arbitrage opportunities than in the last recession as purchase price multiples are at or above the average seen in the past decade. Absolute return expectations are anticipated to be lower compared with previous post-recession periods, but lower leverage and focus on free cash flow present significantly higher risk-adjusted returns during this cycle. Genuinely adding value post-acquisition has become central, with the focus on solid returns through the cycle resulting from initiatives that can add value and improve the risk/return profile of investments. Disruptions in some business sectors or niches, such as those resulting from insolvencies, are creating opportunities in fragmented sectors, and investment is also expanding into relatively underpenetrated sectors such as financial services, healthcare, energy and power.

In the current environment, focus on the middle market is producing better performance. This is because much of the value creation comes from operational improvements at the company level and there are more opportunities to implement these in middle market companies. There are also more exit options available to companies of this size.

Midmarket and small corporate investments outperform

(%)

Returns are combination of realized and unrealized returns for the period/fund
Source: 2010 Preqin Global Private Equity

We believe that successful investment managers in this sector must blend skill and experience to identify and invest in companies with the appropriate characteristics to be successful in this new economic normalcy. They must be able to find the right companies, in the right industries at the right prices. They must also be able to source, finance, complete and exit investments in the face of challenging conditions. They may need to use more flexible deal structures, make smaller, less frequent investments and have the ability to be opportunistic on investment and exit timing. They must also understand how to create value during the investment holding period.

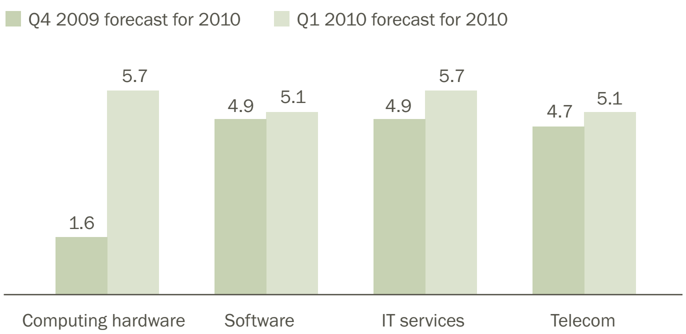
Corporate investment—technology

The technology sector performed relatively well in the downturn and has been leading the economic recovery.

Worldwide technology spending is now growing as spending priorities have shifted to supporting growth and midsize technology companies have seen revenue improvement this calendar year.

Forecasts for worldwide IT spending in 2010

(%)



Source: Gartner, 'Dataquest Insight: 4Q09 Forecast Shows Little Change in IT Spending Outlook,' Feb 2010 and 'IT Spending Forecast, 1Q10 Update: Signs of Improvement,' Apr 2010

Large technology companies with relatively strong balance sheets have been evaluating potential mergers and acquisitions, given opportunities at reasonable valuations. However, competition for investments has increased as larger technology funds, hampered from executing larger transactions by lack of leverage, and traditional venture capital firms, faced with a poor outlook for earlier-stage venture capital investments, have sought growth capital opportunities and moved into the mid/small-cap sector.

However, good investment opportunities remain in this sector. The exit environment has been improving, the IPO window has begun to open, and strategic buyers have returned. Buyers are seeing companies that were marketed unsuccessfully over the past 12–24 months returning for sale on more favorable terms. However, sellers need to practice good judgment and sell at the right valuations.

In this environment, we believe that technology investment managers need specialized skills and experience in undertaking complex transactions in this sector as well as a true niche focus and understanding. They must remain highly selective in acquisitions and focus on defensible businesses that are appropriately priced.

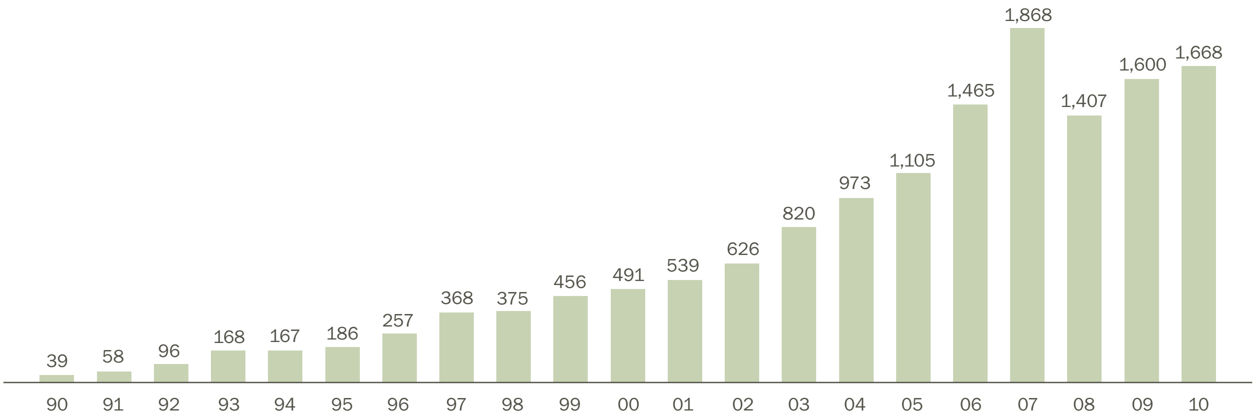
Hedge funds

Hedge funds are now fully recognized as a viable asset class. The issues that affected hedge funds early in the economic crisis, such as redemption pressures, gating/side pockets, fraud, lack of liquidity, short-selling bans and hedge fund closures, are now firmly in the past. While the hedge fund industry may yet see increased regulation, we believe that the main regulatory focus over the short to medium-term will be the banking sector.

Hedge fund assets are poised to grow sharply, as capital is flowing back. During the 2011 calendar year, total industry assets are expected to recover to the high, seen in the second quarter of the 2008 calendar year, of $1.9 trillion assets under management. This is being driven by demand from investors, especially at an institutional level, who recognize, post-crisis, the value of absolute return strategies.

Estimated hedge fund industry assets since 1990

($ billions)



Source: HFRI

Post-crisis we are seeing several definite trends from hedge fund investors. Investors are demanding transparency of holdings in underlying portfolios so that they can identify true risks and can match the liquidity provisions of underlying funds with the provisions fund of fund managers offer to their own investors. This is driving a strong inclination towards separately managed accounts. Our investors also want evidence of greater alignment between the fund manager and investors, and the level of co-investment by the manager is an important indicator for this. Absolute levels of fees are not an investor concern where managers are demonstrably adding alpha. Hedge fund performance has rebounded strongly over the fiscal year, and most strategies present attractive opportunities and potential strong returns with little or no leverage. Thus there have been compelling opportunities for hedge fund investing with more to come.

In this mix, we believe that successful hedge fund providers will be those who have positioned their portfolios for the volatile environment and can respond to investor demand for alignment and transparency. The most successful will be able to demonstrate that they are delivering clear added value through alpha generation. Demystifying hedge funds using research to help quantify hedge fund alpha, substantiate how it is generated and systematically track and identify investment opportunities, are key factors.

US commercial real estate

The environment for US commercial real estate has continued to be challenging this year. The lingering recessionary operating environment, debt market dislocation and valuation uncertainties have resulted in limited attractive new investments and a difficult exit environment. There was a perception that the environment slightly improved in the final quarter of FY10, with some signs of market thawing and an increase in transaction and financing activity. Valuations are higher than a year ago due to capital market improvements, but still significantly off the peak. Operating fundamentals in most property types are still challenged and net operating income has declined across the board due to recessionary impacts. However the level of challenge is not consistent across sectors and regions. There has been some regional differentiation with markets such as New York, Washington DC and Texas showing more stability. There are signs of rental rate stabilization in some major markets and in property types such as hotels, but performance is well below recent highs.

There is capital flow around stable, high quality assets with reliable cash flow. For these assets there is strong competition and, in the flight to quality, buyers are accepting lower returns. Speculative and opportunistic investing is still relatively dormant due to low levels of available debt and modest near term growth expectations. Financing is available at conservative levels with debt levels increasing and pricing decreasing. The CMBS market has become active, albeit at very low volumes. The outlook for commercial real estate remains cautiously optimistic over the medium-term as positive impacts from an improved economic environment, from limited new supply and from manageable leverage levels will drive improved performance.

With this backdrop, there are investment opportunities in the sector. The sales environment is active for well located assets in major markets. Cyclical lows in asset pricing are generally thought to have hit bottom in most major US markets. Buying opportunities include appropriately priced credit investments in cash generating properties with existing or newly underwritten debt, and in attractively priced quality assets in stable sub-markets and regions. Difficulties in refinancing assets are eventually expected to lead to opportunities in distressed and restructuring situations. There is $1.4 trillion of commercial real estate debt scheduled to mature over the next five years, and industry estimates are that up to $600 billion will not be able to be refinanced or will need to be restructured, although this will be a slow process. Debt maturities, and lack of available financing for certain assets, is leading to opportunities to take mezzanine positions and equity stakes in recapitalization of investments by distressed borrowers who require capital to de-lever and support debt re-financing. Weakness and volatility in real estate debt markets are expected to generate good risk-adjusted investment opportunities.

We believe that successful real estate investment managers today must have a depth and breadth of specialist real estate knowledge in addition to financial investing skills. This experience is necessary to source, finance, complete and exit investments in this challenging environment. Investment managers must be flexible and opportunistic on timing, sector and geography and be able to focus on both equity and debt investments. Value creation focused asset management is also of critical importance in this environment. This requires emphasis on achieving expense savings, retaining existing tenants, maximizing revenue and maintaining asset quality.

THE GENERAL ENVIRONMENT — OUTLOOK

On the demand side, we are confident that our investors, particularly in our core Gulf market, see considerable opportunities in alternative assets post-crisis and are able and willing to invest. We believe that they will prefer providers who understand and meet their requirements and have also demonstrated depth of expertise, specialization and a long track record of successful investing through market cycles. From the supply perspective, the post-crisis environment in the US and Europe is providing interesting opportunities for our investment businesses there. Increased business activity in the Gulf is also highly supportive to our investment businesses in the region.

At Investcorp we believe that investing successfully and preserving value in this new environment is challenging and providers of alternative investment assets, now more than ever, need specialist skills and experience to spot and exploit the genuine opportunities.

INVESTMENT ACTIVITY

Overall, during FY10, we have been active in making disciplined investments within volatile market conditions. We continue to believe that alternative investments remain the best model for generating alpha in a portfolio through long-term value creation and that they meet the requirements of our clients for superior risk-adjusted returns. However we, and our clients, understand that only a fraction of the universe of opportunities will measure up in the current environment.

Corporate investment — US & Europe. Deal flow increased in the second half of the fiscal year and we saw an increasing number of interesting opportunities that met appropriate risk-reward thresholds for our clients. However good assets remained highly priced and we declined to pursue a number of opportunities where high valuations meant that the ultimate return profile would have been lower than we were willing to accept. We focused on four industries where our expertise and relationships give us proprietary insight and provide us with an edge in sourcing, screening and winning the best deals. These were (i) growth industrials and distribution; (ii) business services; (iii) consumer and retail; and (iv) media and education. We also pursued new focus areas and niches in growth industries. We continued to target European and North American businesses in the middle market that have strong cash flow characteristics and are leaders in high growth sub-sectors. We believe these are the types of companies where value can be best created through the execution of Investcorp's value enhancement model, which provides active management to achieve operational improvements. We were opportunistic by looking at situations where we could provide growth capital for private companies looking for acquisitions, the buy-back of portfolio company debt at highly accretive discounts and investment in add-on acquisitions. This fiscal year Investcorp deployed $150 million in new and add-on acquisitions.

Corporate investment — technology. There was strong deal flow although we saw a slight decrease, in the second half of the fiscal year, in the number of opportunities that fit our particular criteria. We continued to seek control oriented investments in profitable and growing small to medium sized European and North American IT and telecom companies through growth buyouts, corporate carve outs and take private transactions. We also continued to support organic and add-on growth of businesses in our current portfolio. In view of the uncertain economic environment we remained focused on identifying defensible businesses that were priced appropriately. Overall, in this sector Investcorp deployed $86 million of acquisitions and follow-on funding during FY10.

Corporate investment — Gulf. We have continued to see deal opportunities, particularly from Saudi Arabia, Turkey and the UAE. This year we observed a marked improvement in the quality of investment opportunities in the region, driven partly by a climate characterized by restricted access to debt and equity capital markets, by liquidity constrained sellers and by more reasonable valuation expectations. We continued to see opportunities where companies are facing generational or management challenges that make them more amenable to partnerships or to exiting their equity positions, as well as companies looking to strengthen balance sheets, market position and corporate governance in preparation for an IPO when market sentiment improves. We targeted three types of investment in MENA and Turkey: (i) majority and minority buyout opportunities; (ii) 'build' opportunities investing in green field ventures; and (iii) 'bridge' opportunities to make investments where the opportunity comes from matching Western and Asian expertise or technology with players in the MENA region. We also targeted our preferred sectors of healthcare, education, oil & gas services, and financial services. Despite the maturing investment environment, we rely on our local market expertise to be highly selective and mitigate risks through, for example, extended due diligence and prudent structuring of transactions. Overall during FY10, in corporate investment in the Gulf, Investcorp acquired, or reached an agreement to acquire, investments totaling $110 million.

US real estate. Investment has been affected over the year by the lingering recessionary environment, by limited activity in the debt markets making it difficult to re-finance most assets, and by an unfavorable operating environment. This has resulted in limited availability of new investment opportunities and a more difficult exit environment due to the mismatch between buyer and seller pricing expectations. Transaction volume has therefore remained significantly down during the fiscal year, and we maintained a measured approach. Nonetheless, we continued to target equity and debt investments in properties in carefully selected sectors and markets within the US where we felt good risk-adjusted returns remained achievable. In equity investment, we targeted high quality and stable assets with strong fundamentals where these were attractively valued. In debt investment, we looked to originate or acquire mezzanine debt and subordinated debt where we saw the opportunity for an attractive risk-adjusted return. Overall, in US real estate Investcorp deployed $69 million of acquisition (equity and debt) capital during FY10.

INVESTMENTS TO CREATE NEW OPPORTUNITIES

In May 2010 we agreed to acquire **Veritext Holding Company,** a leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations, and regulatory agencies in the United States, for an aggregate transaction value of approximately $226 million. Veritext has its headquarters in New Jersey, USA, and operates in the stable and growing legal services industry. The company provides technology and services to capture witness testimony during a deposition, which is critical during the discovery phase of US civil litigation. This was a direct investment for placement with clients.

We made two investments in the technology small-cap sector that highlighted our expectations for growth in the market for solutions that secure personal and corporate identities, as well as intellectual property. These transactions underline Investcorp's ability to identify promising technology sectors for its clients and source the right transactions as an advantaged buyer. In December 2009 we made an investment of $30 million in **CSIdentity** through Technology Fund III. CSIdentity provides proprietary software solutions and data-sets for the identity theft protection market in the United States. In March 2010 Investcorp acquired a substantial equity stake in **OpSec Security plc,** a maker of anti-counterfeiting protection technologies and services, through Technology Fund III for a total investment of $25 million.

In November 2009, we made our third growth capital investment in the MENA region, taking a 20% stake in **Gulf Cryo,** a leading industrial gases company founded in Kuwait in 1953 by the Al Huneidi family. The Middle East is one of the fastest growing worldwide markets for industrial gases and it is a resilient industry sector with growth expected to be driven by the continuing industrial development in the region. This acquisition is an example of the high quality investment opportunities available in the region in partnership with distinctive and leading local names. It was also an affirmation that Investcorp is the partner of choice for leading family businesses in the region. This investment was made through the Gulf Opportunity Fund I. We also reached agreement on a fourth investment, a $50 million investment in a MENA-based company operating in the agro-industry sector. Final closing and funding of the deal is expected to occur in Q1 FY11. This investment will also be made through the Gulf Opportunity Fund I.

During April 2010, Investcorp made two real estate investments in US regional retail centers. We acquired **Deerbrook Marketplace,** a 348,542 square foot retail shopping center in the greater Houston, Texas area of the United States. Texas has been impacted notably less than other US regions by the economic downturn. Investcorp also originated a $17 million mezzanine loan secured by the **Cole Credit Property Trust Retail Portfolio I,** a 599,209 square foot, 22-property, single-tenant portfolio with properties in 11 central, eastern and southern US states. The borrower is of extremely high quality. This was the first multi-borrower commercial mortgage backed securities (CMBS) transaction since 2008, and signaled the return of a market for real estate debt. These direct investments were combined to form a new investment portfolio, US Retail V, for placement with clients.

During the year we took an opportunity, in a situation where it was necessary to restructure the debt and equity in an existing high quality asset, to create a new opportunity for our investors. In May 2010, we made an investment of $34 million to acquire certain discounted mezzanine loan interests in **W South Beach,** a recently constructed first-class condominium hotel development of 419 units in over 505,000 square feet on a prime oceanfront site in Miami. Investcorp and co-investors had developed this hotel in 2004. Investcorp and its investors very successfully recapitalized this investment in September 2007, returning all original invested capital plus a profit. Since then, in the poor economic and mortgage market environment the existing owners had been unable to close sales of condominium units fast enough to generate sufficient proceeds to retire all outstanding senior debt within the scheduled maturity dates. Our new investment has enabled the completion of a complex financial restructuring, which established a stable, mid-term capital structure and extended senior debt maturities by up to three years.

INVESTMENTS TO GROW VALUE IN THE PORTFOLIO

This year several of the companies in our portfolio acquired companies to grow value as part of their consolidation investment strategies. These add-on acquisitions enabled our portfolio companies to grow revenues by developing larger market share, by finding new markets, by providing improved service or by extending their product range. These acquisitions were funded both from the companies' own cash resources and by additional investment by Investcorp.

In February 2010, **Berlin Packaging** acquired All-Pak, a leading packaging distribution and design company. The acquisition enabled Berlin to increase its market share by 40% and establish its position as the second largest company in the multi-billion dollar wholesale packaging distribution market in the United States. The All-Pak acquisition also allowed Berlin to expand its presence in new markets and increase its product range to address new sectors. To facilitate this transaction, Investcorp and our investors made an additional investment in Berlin of $48 million. Berlin operates in a sector that is expected to see continued growth as its end markets have underlying demand that tends to be stable and recession resistant.

In October 2009, **FleetPride,** the US's largest independent distributor of aftermarket heavy duty truck and trailer parts, purchased Angelo Fleet & Industrial Supply, Inc. of San Angelo, Texas. Over the fiscal year FleetPride took advantage of attractive purchase multiples during the downturn to make four further smaller add-on acquisitions across the US. FleetPride's market leadership position makes it the natural consolidator in this highly fragmented industry and it will continue to pursue further acquisition opportunities. Although impacted by the economic environment, FleetPride is performing better than its competitors, implying market share gains, and is well positioned to benefit in the recovery. No additional equity from Investcorp or investors was required to complete the acquisitions.

Moody International, the global leader in technical inspection and related services to the oil and gas industry, made two complementary add-on acquisitions this fiscal year. In October 2009, Moody acquired Texas-based PetroSpect Inspection Services, Ltd, and, in March 2010, it acquired Texas and Louisiana-based Pro-Inspect, Inc. Both provide technical inspection and engineering support services to the US refining and chemical processing industries. There are opportunities for Moody to continue to expand in the technical inspection market, which remains fragmented with a large number of companies available for consolidation at attractive valuations. Oil and gas industry demand for Moody's services is expected to be strong over the medium-term as exploration and production continue to receive high levels of investment to satisfy global demand for energy. No additional equity from Investcorp or investors was required to complete the two acquisitions.

In April 2010, **Icopal,** the European leader in high end roofing products and waterproofing solutions, agreed to acquire two companies to expand its product range, roofing service and maintenance activities. These were Optilite A/S, a Danish supplier of fire ventilation and skylights and Everlite, a Norwegian supplier of fire ventilation and skylight systems and accessories. In June 2010, Icopal agreed to acquire the Villas Group (Villas Austria GmbH and Villas Hungary), the market leader in modified bitumen roofing membranes and waterproofing products in Austria and Hungary. Despite the impact of the economic downturn on the building materials industry Icopal is well positioned to continue its profitable growth. No additional equity from Investcorp to Icopal was required to complete the acquisitions.

Investcorp also made an $11 million additional investment in **Moneybookers,** the world's largest independent 'electronic wallet' provider. Half of this additional investment was a direct investment and the remainder was made through Technology Fund II. Moneybookers has been named the fastest-growing company in the 2010 'Sunday Times Tech Track 100' survey of Britain's private technology firms. In October 2009 Investcorp also directly acquired $14 million of a mezzanine note for **Sophos,** a Technology Fund III investment. Over the year Investcorp also made add-on investments in **GENBAND** (through Technology Fund I), and in **Kentrox, Zeta Interactive** and **Magnum** (through Technology Fund II).

INVESTMENTS TO PRESERVE VALUE AND LIMIT RISK

During the year, we preserved value for clients by making investments in a few companies within our portfolio that had short-term issues. Total support capital was $93 million or 2% of the total capital invested.

In December 2009, Barclays Private Equity and Investcorp each invested €12.5 million in **N&W Global Vending SpA** to reset covenants throughout the life of its debt facilities. The full impact of these and other refinancing measures from the lenders is expected to result in a €75 million improvement to N&W's funding and liquidity position over the next three years. We believe that N&W's vending machine market will return to pre-recession levels as the economy improves and that our investment thesis remains valid.

In a transaction that closed in January 2010, and following a successful debt tender offer, Investcorp deployed approximately €41.5 million of incremental equity to acquire approximately €98.3 million of **Icopal** debt, including Second Lien, Mezzanine and PIK debt and accrued interest. This opportunistic transaction was highly accretive, capturing incremental equity value for clients as the debt was bought back at a substantial discount. Since the majority of the acquired debt will be contributed as additional equity into the Icopal Group over a period of 24 months, Icopal's leverage will decrease, boosting covenant headrooms and enhancing operational flexibility.

In February 2010, a negotiated agreement was reached with **Randall-Reilly**'s senior lenders for a covenant reset through a capital injection of $15 million to pay down debt. During the calendar year 2009, the overall US economic environment had continued to hurt the freight, construction and manufacturing markets served by Randall-Reilly's media and data services. As the market leader in trucking publications and industry research, Randall-Reilly is expected to be well positioned to benefit in the recovery as trucking remains the principal method to transport freight in the US. The achieved covenant reset resulted in 20–25% headroom to the revised management projections over the life of the credit facilities, effectively a permanent covenant reset on the facility.

Investment activity FY10

Company	Investment type	Business area	Amount
INVESTMENTS TO CREATE NEW OPPORTUNITIES			
Veritext	Acquisition	Corporate investment – US & Europe	$102.9m
CSIdentity	Acquisition (Technology Fund III)	Corporate investment – technology	$ 30.3m
OpSec Security	Acquisition (Technology Fund III)	Corporate investment – technology	$ 24.6m
Gulf Cryo	Acquisition (Gulf Opportunity Fund I)	Corporate investment – Gulf	$ 50.0m
Deerbrook Marketplace	Acquisition (US Retail V Properties Portfolio)	Real estate	$ 17.7m
Cole I Portfolio	Acquisition (US Retail V Properties Portfolio)	Real estate	$ 17.5m
W South Beach	Additional investment	Real estate	$ 33.7m
INVESTMENTS TO GROW VALUE IN THE PORTFOLIO			
All-Pak	Add-on investment to Berlin Packaging	Corporate investment – US & Europe	$ 47.5m
Angelo Fleet & Industrial Supply	Add-on investment to FleetPride	Corporate investment – US & Europe	N/A
Fleet Supply of Tallahassee	Add-on investment to FleetPride	Corporate investment – US & Europe	N/A
Panhandle Truck Parts	Add-on investment to FleetPride	Corporate investment – US & Europe	N/A
Mandal Truck & Trailer	Add-on investment to FleetPride	Corporate investment – US & Europe	N/A
Express Truck Parts	Add-on investment to FleetPride	Corporate investment – US & Europe	N/A
PetroSpect Inspection Services	Add-in investment to Moody	Corporate investment – US & Europe	N/A
Pro-Inspect Inc.	Add-in investment to Moody	Corporate investment – US & Europe	N/A
Optilite	Add-on investment to Icopal	Corporate investment – US & Europe	N/A
Everlite	Add-on investment to Icopal	Corporate investment – US & Europe	N/A
Moneybookers	50% through Technology Fund II, 50% direct	Corporate investment – technology	€ 7.2m
Sophos	Acquisition (Technology Fund III)	Corporate investment – technology	$ 14.2m
GENBAND	Additional investment (Technology Fund I)	Corporate investment – technology	$ 0.3m
Kentrox	Additional investment (Technology Fund II)	Corporate investment – technology	$ 0.8m
Magnum	Additional investment (Technology Fund II)	Corporate investment – technology	$ 2.8m
Zeta Interactive	Additional investment (Technology Fund II)	Corporate investment – technology	$ 2.1m
INVESTMENTS TO PRESERVE VALUE AND LIMIT RISK			
N&W	Equity injection	Corporate investment – US & Europe	€ 12.5m
Randall-Reilly	Capital injection	Corporate investment – US & Europe	$ 15.0m
Icopal	Equity injection	Corporate investment – US & Europe	€ 41.5m

REALIZATION ACTIVITY

In US and European corporate investment, we made two exits during the year. Total realization proceeds to Investcorp and its clients were $448 million.

In February 2010, **Avecia**'s Biologics business was sold to Merck & Co. This followed 10 previous divestitures of Avecia's portfolio of diverse businesses as the break-up strategy designed to optimize value entered its final phase. This exit demonstrated our continuing ability to act opportunistically, despite turbulent markets, to exit an investment that we have managed through many market cycles since its acquisition in FY99. It also highlighted Investcorp's willingness to potentially support portfolio companies over extended investment periods when there is a compelling case for value regeneration.

In June 2010, Investcorp sold **American Tire Distributors** (ATD), the leading US distributor of tires to the replacement tire market, which we acquired in FY05. ATD was sold to TPG Capital in a transaction valued at $1.3 billion, and marked a highly successful exit for Investcorp and its investors. ATD management drove a variety of value creation initiatives that improved profitability, in particular through synergies related to the 2008 add-on acquisition of Am-Pac. These initiatives enabled ATD to increase sales and outperform the market even during 2009, a period when the industry as a whole experienced a decline in sales. The timing of this exit was designed to maximize returns for investors. Limited supply, combined with the capital overhang in the private equity industry, means that the relatively few quality assets for sale are attracting high prices. Both exits provided evidence of the strength of Investcorp's distinctive value enhancement model (VEM).

In FY10 there were two real estate realizations. Total proceeds, together with distributions made to Investcorp and clients from income generating properties, were $97 million.

In October 2009, we closed on the sale of the final home and condominium properties in the **Empire Mountain Village** portfolio. This was an opportunistic equity investment, initiated in July 2003 involving the acquisition of some 17 acres of land and phased construction and sale of 110 ski in/ski out residential dwellings situated within a planned mountain community at the Deer Valley ski resort in Park City, Utah. This was a highly profitable investment, as investors received nearly two times their original investment.

In June 2010, the **Investcorp Real Estate Credit Fund** successfully sold a $100 million first mortgage loan backed by a building that has for many years been the Washington DC headquarters of the United States Coast Guard. The mortgage was acquired by the Fund in 2009 at a steep discount to its par value ($76 million) at a time when forced selling by financial institutions during the market downturn depressed prices, even for properties with a secure tenant that provided reliable cash flow. The mortgage, which is due in 2014, was sold to a foreign capital source at a price in excess of $83 million. This exit demonstrated the value of our active management of our real estate portfolio at this time. We were able to identify that renewed investor interest in commercial real estate loans, and the scarcity of quality assets available, provided an opportunity to exit at a strong profit.

PORTFOLIO COMMENTARY

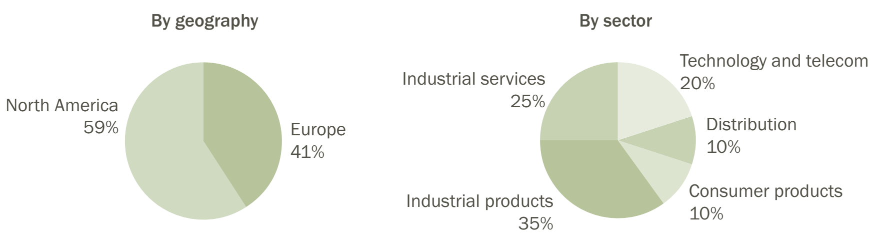
CORPORATE INVESTMENT

Corporate investment—US & Europe

At June 30, 2010 the carrying value of Investcorp's balance sheet co-investment in US and European corporate investment was $890 million (21 companies) compared with $769 million at June 30, 2009 (23 companies). The total co-investment amount represents 49.3% of total balance sheet co-investments at June 30, 2010, compared with 42.7% at June 30, 2009. Please refer to the table in Note 10(a) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2009 and June 30, 2010 carrying values by vintage years.

This portfolio is balanced between US and Europe. It is also well diversified by market sector, and has relatively low exposure to cyclical industries such as consumer products and retail.

Investcorp's portfolio at June 30, 2010



The five largest investments represent 58% of the total portfolio and 52% of shareholders' equity at June 30, 2010.

Portfolio company ($ millions)	Carrying value June 30, 2010	% of total portfolio	% of total S/H equity
TelePacific	178	20%	18%
N&W	110	12%	11%
Icopal	88	10%	9%
Associated Materials	79	9%	8%
Veritext	59	7%	6%
Five largest co-investments	515	58%	52%
Remaining co-investments	375	42%	38%
Total	**890**	**100%**	**90%**

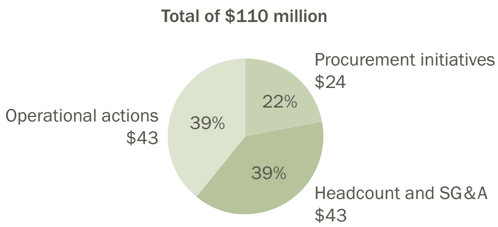
More detailed information on these companies, and the other companies in the US and European corporate investment portfolio, can be found in the Portfolio Review section.

Overall, we believe the portfolio is well positioned, with companies in our portfolio that have competitive advantages and relative resilience that comes from being market leaders in their sectors having strong cash flow characteristics. We believe that each of the original investment theses for our companies remains valid, although they may take longer to achieve. We also believe that our portfolio companies have performed meaningfully better than their competitors during this downturn due to the active management that is the hallmark of our longstanding value enhancement model.

Over the year, our priority was to ensure our companies were in a strong position to weather the storm of the economic crisis, and, where appropriate, take advantage of opportunities it might offer. Realizing that measures to stabilize companies during a downturn must be implemented swiftly and early to be effective, we worked in collaboration with portfolio company management and achieved some extraordinary changes in a very short time. We successfully negotiated covenant resets for a number of companies in the portfolio and also rigorously implemented defensive operational and productivity improvements and expense reductions that began in FY09. After taking approximately $500 million of cost savings last year, we have started implementing medium to long-term initiatives expected to result in approximately $110 million of cost savings across the portfolio, most to be achieved in calendar year 2010.

Savings from medium-term productivity and cost initiatives

($ millions)



We then implemented offensive strategies to accelerate value creation through 'fill-the-gap' initiatives designed to make up lost ground, gain market share during slow growth and achieve greater than average market growth.

All portfolio companies, both in the US and in Europe, felt the effects of the economic slowdown. However, in the first half of the fiscal year, most saw modest signs of stabilization. Many returned to growth during the second half of the fiscal year, with US companies several months ahead of European. Aggregate EBITDA for the portfolio at June 30, 2010 was approximately $1.12 billion, an increase of 2.8% over the June 30, 2009 figure of $1.09 billion. Within our total portfolio of 21 companies, 14 either grew EBITDA or were relatively flat compared to FY09. Eleven grew more than 5%. At present leverage is low and the average debt across the portfolio is relatively modest at 5.3x EBITDA. As reported elsewhere, Investcorp made several investments in the portfolio in the form of value preserving or enhancing capital over the year.

The global economic conditions have challenged many companies, even where these companies have fundamentally sound businesses. Our focus has been on active management through this difficult period. In some cases this has involved injecting additional capital. In other situations we have assisted in changing the entire capital structure to reduce the debt and interest expense burden. However, we have occasionally made difficult but prudent decisions not to provide support capital where the risk-reward profile was insufficient. In March 2010, one US portfolio company, EnviroSolutions (ESI), filed for Chapter 11 bankruptcy protection after a rapid deterioration in its financial position. This was due to the severe reduction in waste management demand triggered by the collapse of the US housing and construction industries during the recession. We had taken a number of actions to maintain ESI's financial and operational viability, including an additional support capital injection in 2008, but ultimately the company had to file for Chapter 11 bankruptcy protection after creditors rejected all proposals to restructure the debt. As a result, Investcorp has fully written off the investment in ESI.

Corporate investment—technology

The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment—technology at June 30, 2010, was approximately $72 million.

Corporate investment–technology funds	Fund I	Fund II	Fund III
Fund size	$230 million	$300 million	$500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	97%	39%
Number of investments	26	12	5
Number of exits	23*	5*	0
Returned capital	$200 million	$39 million	$0 million
DPI (distributions over paid-in capital)	**87%**	**13%**	**0%**

*Includes partial exits

In corporate investment—technology, Investcorp's clients have the opportunity to participate on a portfolio basis through dedicated technology funds in which Investcorp is a co-investor. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in harvest mode. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $291 million deployed and $9 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Ventures Fund III was raised in 2008 and is currently 39% deployed.

Corporate investment—Gulf

The carrying value of Investcorp's balance sheet co-investment exposure in this sector at June 30, 2010, was $18 million.

In corporate investment in the Gulf, Investcorp's clients have the opportunity to participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. Investcorp's $929 million Gulf Opportunity Fund I is at a relatively early stage of its investment cycle with 36% invested. This puts the Fund in the advantageous position of having considerable dry powder available for investment at a time when GCC markets are demonstrating their resilience and when changes post-crisis have brought about an increased number of attractive opportunities for growth capital.

HEDGE FUNDS

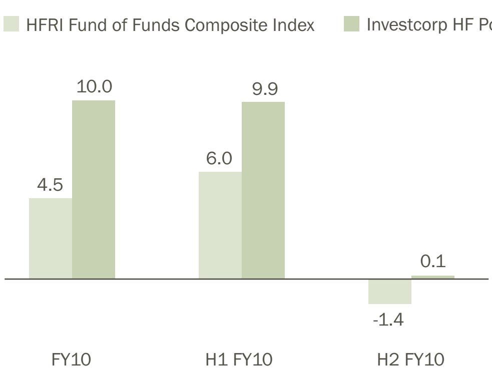
Performance

Investcorp's hedge funds co-investment proprietary portfolio delivered returns of approximately 15% during FY10. The return on a gross basis, after adjusting for the effects of leverage, was approximately 10%.

Investcorp's co-investment hedge funds portfolio outperformed the hedge funds industry significantly during FY10, in each of the two six-month periods. The industry generated 6.0% returns in the period July to December 2009 (HFRI Fund of Funds Composite Index) during which Investcorp's portfolio delivered 10%, an out-performance of approximately 4.0%. In the second half, the hedge fund industry lost 1.4% while Investcorp's portfolio was approximately flat.

Investcorp HF performance vs HRFI

(%)



Investcorp was successful in preserving its capital in hedge funds during the second half of FY10, a period of extreme market volatility when equity markets lost approximately 8% (MSCI World $ hedged index) and VIX, an indicator of market volatility, moved significantly higher than its historical average. Capital preservation was the result of a deliberate positioning of the portfolio towards less directional hedge fund managers, and overlay insurance positions including long volatility and put option trades.

Investcorp's hedge funds portfolio benefited from its sophisticated asset allocation framework and manager selection. During the fiscal year, the portfolio benefited from an overweight position in distressed/credit and convertible arbitrage strategies. Balancing this, the underweight position in long/short equity strategies detracted from value when those strategies produced excellent returns in the first half of the fiscal year. Portfolio insurance detracted from performance in the first half, but contributed during the volatile months in the second half of the year. Its convertible arbitrage and multi-strategy managers considerably outperformed their respective peers. Its event driven managers underperformed their respective peers in the last few months.

Attribution	Value added	Contributing strategies	Detracting strategies
Asset allocation effect	Positive value added	Distressed/credit, convertible arbitrage	Long/short equities
Manager selection effect	Positive value added	Convertible arbitrage, multi-strategy	Event driven

Liquidity

Investcorp's co-investment hedge funds portfolio is constructed so that a significant part of it is available for monetization in a three to six-month window. Client portfolios are also constructed with similar guidelines in an effort to ensure that during a stress period the liquidity needs of one portfolio do not negatively impact others.

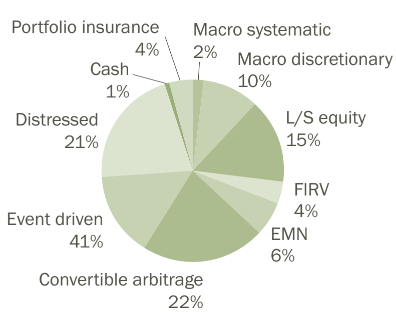
At June 30, 2010, approximately two-thirds of the portfolio was contractually available for monetization within a three-month window, and more than 90% of the portfolio within a 12-month window. Such a high percentage of liquidity is believed to provide a sufficient cushion in case one or more managers imposes gates on investor redemptions. A large portion of the portfolio is invested through separate accounts in which we control a significant portion of the underlying assets. These separate accounts substantially reduce gating risk, and further help its liquidity position.

Time period	% available for monetization	Cumulative % available for monetization
Within 1 month	26.7%	26.7%
Within 3 months	39.3%	66.1%
Within 6 months	10.6%	76.7%
Within 12 months	14.3%	91.0%
Over 12 months	9.0%	100.0%

Portfolio exposures and positioning

Our balance sheet hedge funds co-investment portfolio is invested in several fund of fund products, one customized account and five single managers. Total gross exposure is approximately $880 million at June 30, 2010, of which $265 million is invested in five managers on our single manager seeding platform. In spite of the different vehicles through which Investcorp exposure is directed, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio consistent with the views of the investment team. Investcorp adopts a top-down view of the investment strategies when designing its hedge fund portfolio.

Investcorp HF portfolio strategy allocations at June 30, 2010



We feel positive about the opportunities in the distressed/credit strategy over the next few years. Factors that contributed to this positive view are a much larger market size than in the previous cycle, upcoming loan maturities (two-thirds mature between 2013 and 2014), event-oriented/restructuring opportunities that suit distressed managers' specialized skill set, and the dislocations within structured credit. Accordingly, we expect to increase allocation to this strategy near term. We have moderated our positive view on relative value strategies, since the extreme dislocations that emanated from the 2008 financial crisis have mostly reverted back to normal levels. Therefore, allocation to relative value strategies will be decreased, especially to convertible arbitrage that had become over-allocated due to the strong view and the record performance produced in that strategy in 2009.

We maintain a neutral view of long/short equity managers. We allocate more to low net exposure managers, consistent with the overall portfolio objective of low equity beta. We avoid long-biased managers in this strategy. We expect to increase allocation to long/short equity which is currently under-allocated relative to a neutral stance. We are also working towards decreasing allocations to equity oriented event driven managers, who tend to be concentrated. The market environment continues to be very volatile and we will therefore maintain an adequate allocation to portfolio insurance, through a combination of investment in specialist managers as well as in overlay trades. The current portfolio has a long volatility posture. The portfolio also has sufficient credit hedges through CDS protection, taken on by the underlying managers.

Separate accounts

During FY10, we set up six additional separate accounts: two in macro strategies, two in convertible arbitrage, one in distressed and one in equity market neutral.

Separate accounts with underlying hedge fund managers have always been an integral part of Investcorp's hedge funds investment philosophy. We have been using separate accounts in the hedge funds platform since after the 1998 market crisis. To date, we have set up more than 80 separate accounts in the hedge funds line of business.

Separate accounts provide Investcorp and its clients with asset protection as they have an independent and reliable custodian. Independent relationships are established with service providers including administrators, prime brokers, OTC counterparties, auditors and fund managers. Separate accounts also allow for greater transparency and risk management of the underlying portfolios.

Setting of guidelines specific to the strategy keeps the portfolio within limits and avoids style drift. These guidelines control leverage, concentration, liquidity and beta exposures. We conduct guideline compliance checks, independent position and portfolio valuations, and monitor cash and collateral. Separate accounts can also be viewed as a source of alpha. We have been able to add material alpha to hedge fund portfolios that had a significant allocation to separate accounts.

Investcorp has two dedicated teams on its separate account platform: one that specializes in setting up the separate accounts, including negotiation of investment advisory agreements, negotiation with prime brokers and ISDA counterparties, and setting up of investment guidelines, and a second team that specializes in the on-going monitoring of the separate accounts (daily transactions, cash movements and positions).

REAL ESTATE

At June 30, 2010, Investcorp's real estate balance sheet co-investment portfolio totaled $217 million compared with $283 million at June 30, 2009. This consisted of $183 million of fair valued equity investments and $34 million of held-to-maturity debt investments, held at cost less provisions for impairment. The total real estate co-investment amount represents 12.0% of total balance sheet co-investments at June 30, 2010, compared with 15.7% at June 30, 2009.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values have shown the impact of steep declines in real estate valuations in the continuing difficult market for US commercial real estate.

Investcorp co-investments by year ($ millions)	Carrying value at June 30, 2010	Carrying value at June 30, 2009	Change H/(L)
Vintage FY03	0.1	0.7	(0.6)
Vintage FY04	–	0.1	(0.1)
Vintage FY05	13.3	16.3	(3.0)
Vintage FY06	49.5	69.4	(20.0)
Vintage FY07	45.4	46.1	(0.7)
Vintage FY08	46.2	114.8	(68.6)
Vintage FY10	25.9	–	25.9
Others	36.3	35.7	0.6
Total	216.8	283.2	(66.4)

The office and opportunistic sectors have taken the brunt of fair value declines reflecting higher capitalization rates and the current cautious outlook for leasing rates in the office sector and a fall in demand for east coast condominiums in the opportunistic sector.

Investcorp currently has 22 active real estate investment portfolios. At June 30, 2010, 11 of these were on or ahead of plan, and 11 were behind plan. The challenging portfolios are weighted to those holding hotel, condominium developments and offices in struggling regions where the economic environment has generally slowed.

The five largest co-investments are W South Beach, Real Estate Credit Fund, The Bravern, Opportunistic III and Commercial V.

Portfolio company ($ millions)	Carrying value at June 30, 2010	% of total portfolio	% of total S/H equity
W South Beach	28	13%	3%
IRECF	27	12%	3%
Bravern	22	10%	2%
Opportunistic III	21	10%	2%
Commercial V	21	10%	2%
Five largest co-investments	118	54%	12%
Remaining co-investments	99	46%	10%
Total	217	100%	22%

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

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

Investcorp has continued to focus on income-producing commercial real estate with a broad diversification across US regions and property sectors and no meaningful exposure to the US residential housing sector. This diversification has been a longstanding and deliberate strategy to lower the overall risk profile of the portfolio, and has proved its value in this period of economic uncertainty.

Real estate portfolio

Investcorp co-investment by year ($ millions)	Properties original/ current	Sector (of remaining properties)	Geographic location (of remaining properties)*
Diversified II	7/3	Office & Industrial	W
Vintage FY03			
Commercial IV	12/7	Office	E
Diversified V	5/1	Office	E
W South Beach — original	1/1	Opportunistic	SE
Opportunity I	3/1	Opportunistic	E
Vintage FY05			
Commercial V	3/2	Office & Retail	E/SE
Retail III	8/8	Retail	MW
Retail IV	29/23	Retail	SW
Opportunity II	3/2	Opportunistic	W/SE
Opportunity III	3/2	Opportunistic	E
Vintage FY06			
Diversified VI	2/2	Retail & Hotel	SW/MW
Diversified VII	4/4	Industrial/Office/Hotel	E/MW
Hotel	9/9	Hotel	E/SE/SW/MW
Bravern	1/1	Opportunistic	W
Vintage FY07			
280 Park Avenue	1/1	Office	E
Diversified VIII	5/5	Office/Hotel	W/SW/MW/SE
Highgrove	1/1	Opportunistic	E
Weststate	1/1	Opportunistic	W
Best Western	1/1	Hotel	E
Vintage FY08			
W South Beach — new	0/0	Opportunistic	SE
Retail V	1/1	Retail	SW
Vintage FY10			
Total	**76**		

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

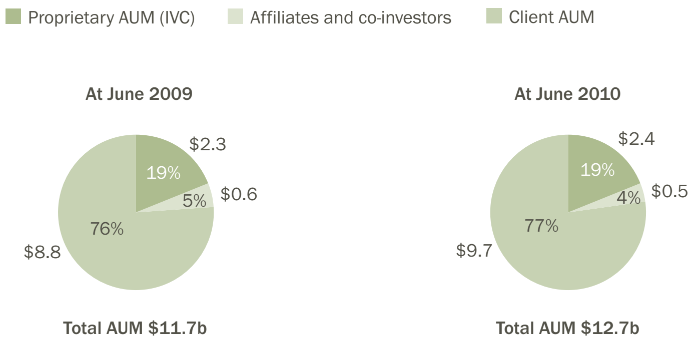
FUNDRAISING

ASSETS UNDER MANAGEMENT

Total assets under management including proprietary co-investments has increased in FY10 from $11.7 billion to $12.7 billion. Proprietary co-investment assets have increased from $2.3 billion to $2.4 billion.

Total assets under management

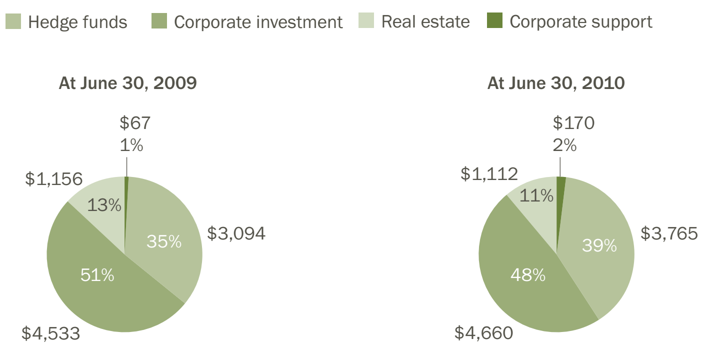
($ billions)



Client assets under management increased by 10% to $9.7 billion from $8.8 billion in FY09 primarily across open-end hedge fund products.

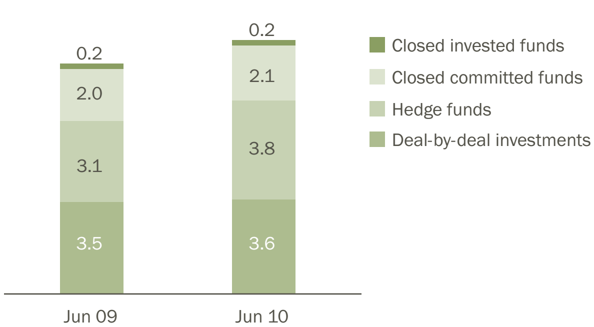
Client AUM

($ millions)



Total client AUM

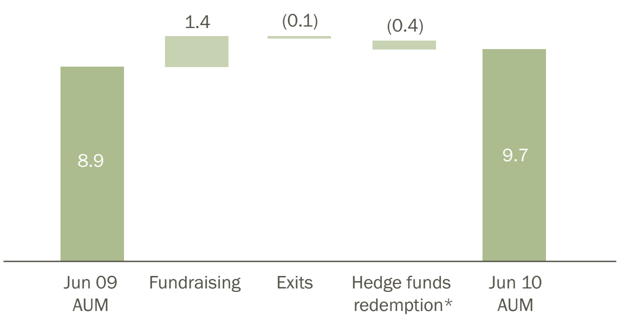
($ billions)



Fundraising was offset by the impact of distributed proceeds from exits and some hedge fund redemptions.

Investcorp client AUM growth during FY10

($ billions)



*Net of performance

Corporate investment and hedge fund asset classes are the dominant components of client AUM and there has been comparatively little change over the year. Corporate investment represents approximately half of client AUM.

Key AUM and fundraising performance indicators (by asset class)

Corporate investment ($ millions)	FY10	FY09	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,853**	1,770	5%
Deal-by-deal investments	**2,598**	2,540	2%
Closed-end invested funds	**209**	223	(6%)
Total client AUM — at period end	**4,661**	4,533	3%
Average client AUM	**4,581**	4,883	(6%)
Equity deployed	**346**	490	(29%)
US and European corporate investment acquisitions deal size*	**337**	540	(38%)
Deal-by-deal placement in GCC	**126**	52	>100%
Management fees/client AUM	**147 bps**	114 bps	33 bps
Acquisition fees/deal size	**3.4%**	2.3%	1.1%
Placement fees/deal-by-deal placement	**21.1%**	10.0%	11.1%

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

Hedge funds ($ millions)	FY10	FY09	% Change B/(W)
Client AUM			
Fund of funds	2,125	1,566	36%
Structured and levered products	351	548	(36%)
Single managers	1,289	980	31%
Total client AUM — at period end	3,765	3,094	22%
Average total client AUM	3,523	3,907	(10%)
Annualized fee yield (management fees)	70 bps	99 bps	(29 bps)
Annualized fee yield (performance fees)	53 bps	(1 bps)	54 bps

Real estate ($ millions)	FY10	FY09	% Change B/(W)
Client AUM			
Client AUM — closed fund (Mezzanine)	253	253	–
Client AUM — deal-by-deal	859	903	(5%)
Total client AUM — at period end	1,111	1,156	(4%)
Average client AUM	1,134	1,167	(3%)
Debt investments	–	111	(100%)
Equity deployed (excluding mezzanine debt)	69	–	>100%
Deal-by-deal placement	54	1	>100%
Management fees/client AUM	110 bps	110 bps	(0 bps)
Acquisition & placement fees/equity deployed	9%	n.m.	9%

CLIENT PLACEMENT

This year Investcorp has continued its focus on providing alternative asset management solutions to private and institutional clients. Our clients remain predominantly in the six GCC countries, but also include a number of international institutions.

		Gulf UHNW	Gulf institutional	International institutional
Corporate investment				
Corporate investment — US & Europe	Deal-by-deal	√	√	
	Fund			√
Corporate investment — technology	Funds	√	√	√
Corporate investment — Gulf	Fund	√	√	
Hedge funds				
	Fund of funds	√	√	√
	Single managers	√	√	√
	Managed accounts	√	√	√
Real estate				
	Deal-by-deal	√	√	
	Funds	√	√	√

Total GCC and international placement and fundraising activities in FY10 raised $1.4 billion compared to $1.1 billion in FY09. This reflected increased appetite for hedge funds, in particular from institutional investors, who recognize, post-crisis, the value of absolute return strategies. It also reflected an increasingly more positive mindset in our core Gulf private investor base.

Placement in the Gulf totaled $310 million this year. In deal-by-deal investments we placed the All-Pak add-on investment to Berlin Packaging, and also placed Moneybookers, an investment that was oversubscribed. We made the partial placement of Veritext, which was acquired late in FY10, and completed the residual placement of CEME that was partly placed in FY09. In real estate investment we placed the Best Western Mezzanine debt and the US Retail Properties V Portfolio and marketed the W South Beach investment. In hedge funds we transitioned two institutional investors with significant mandates into customized accounts. In addition we collected capital calls on various closed-end funds raised in the past three years and settled outstanding receivables.

We continued to focus on high touch client service with our Gulf clients. We increased coverage and frequency of meetings, providing clients with advice on asset allocation strategies in the continuing difficult and volatile markets and giving frequent updates on the valuations and performance of their portfolios. We also arranged meetings for clients with members of our product teams and portfolio company management teams.

CLOSED-END FUNDS

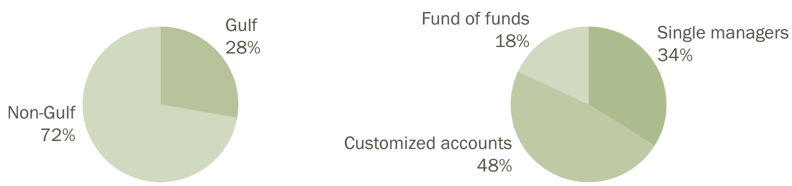
This year, Investcorp initiated fundraising for its third real estate debt fund. This Fund will be established to invest in and originate commercial real estate debt. Fundraising is in progress and is targeting European and US institutional investors.

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.

OPEN-END HEDGE FUNDS

At June 30, 2010, hedge fund assets under management were $4.7 billion. $3.8 billion were client assets and $0.9 billion were proprietary assets.

Investcorp HF assets by region and product

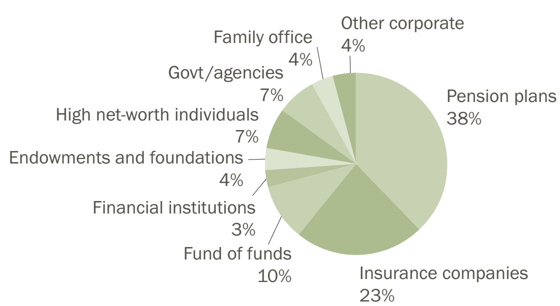


72% of client assets were from US institutional investors and 28% from Gulf HNWIs and institutions reflecting the new inflows this year. Just under one-half of client hedge fund assets is now invested through customized accounts reflecting this post-crisis trend.

FY10 has seen an increase in such accounts. These accounts are typically either diversified multi-strategy portfolios or single strategy portfolios. The percentage of assets in commingled fund of fund products has decreased to 18%. Assets with single managers stand at 34%. Customized accounts and single managers remain an important component of our hedge funds growth strategy.

The percentage of assets from institutions rose during the fiscal year. At June 30, 2010, more than 90% of hedge fund assets was from a variety of institutional clients including pension funds, insurance companies, endowments & foundations, and fund of hedge funds. This shift towards institutional clients has resulted in a more stable asset base.

Investcorp HF assets by investor type FY10



This year, Investcorp continued several strategic initiatives started during FY09 designed to improve further its client servicing and delivery capabilities in hedge funds.

PORTFOLIO REVIEW: CORPORATE INVESTMENT — US & EUROPE

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

Due to Investcorp's prior experience in the industry and relationships with legal services industry executives, we were able to avoid a broad auction of the company. Investcorp distinguished itself during the diligence process and was selected as the preferred purchaser of the company. Veritext provides a typical example of the company profile we target — it has a profitable business model with strong free cash flow characteristics, and is a leading player in its industry. We agreed to acquire Veritext in May 2010.

During the period 2006 to 2009, the combination of Veritext's organic and acquisition-driven growth has driven revenue and EBITDA expansion. In addition, the company's financial model is characterized by annuity-like revenue streams, a highly variable cost structure, sustainable profit margins, low capital expenditures, and significant free cash flow.

Going forward, Veritext intends to pursue several strategic initiatives aimed at increasing revenue per deposition and continuing to expand market presence. Veritext believes it is well positioned to complete additional acquisitions that will enable the company to expand its presence in existing markets, to provide access to new geographies and to provide access to more complex, high-end casework and clients in other lucrative areas of litigation. Furthermore, the company has developed the infrastructure and entrenched client base to potentially penetrate other complementary segments of the litigation support services industry, such as document management, electronic data discovery and trial presentation services, among others, both organically or via acquisition. The acquisition closed in July 2010.

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

N&W represents an attractive long-term investment opportunity given its sustainable competitive advantage in the European vending machine market, favorable long-term industry dynamics and its ability to leverage market leadership to expand into adjacent businesses and new geographies. The industry has high barriers to entry and the management team has a track record of out-performance, operational excellence and successful acquisition integration, together with other upside potential including cost efficiencies and add-on acquisitions.

N&W had a difficult 2009 due to the abrupt economic contraction in Europe, which led to customers reducing or postponing capital expenditure in an uncertain short-term trading environment. However, even in this difficult market environment, the company has been able to continuously increase its pan-European market share. This is a reflection of its strong positioning with the leading operators, who are performing better than smaller operators, as well as the weakness of its competition, some of which are in financial distress. Furthermore, a thorough set of production efficiency and cost controls was implemented during 2009, as were structural measures to improve profitability from 2010 onwards.

In addition to these operational measures, Investcorp and Barclays Private Equity injected additional capital into N&W during 2009 and secured lender consent to amend N&W's loan documentation favorably, thereby providing the company with additional liquidity and financial flexibility for the future. This investment took place following a strategic review that confirmed the company's long-term potential, given structural characteristics of the vending machine market that heighten N&W's competitive advantages.

Management is cautiously optimistic about the short/medium-term outlook. Consistent with the overall economic sentiment in Europe, the confidence of N&W's customers has started to gradually return, indicated by N&W's good trading and strong order book in the first half of 2010. Market research suggests resumed demand for new machines by European operators in the second half of 2010 with a return to pre-crisis levels by 2012. The acquisition closed in November 2008.

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

The company's growth initiatives include maintaining market leadership in the coffee and steam markets through continued innovation, for example supplying Nespresso with pumps for two new lines being launched in 2010. As the leading supplier to all international producers, CEME is also following the growth of portioned coffee in the US and Japan, and steam ironing in Latin America and Eastern Europe. CEME has demonstrated that it can systematically apply its core solenoid technology to extend its product range to address applications in vending and industrial markets, for example supplying new micro-pumps dispensing concentrated ingredients in a new Coca-Cola vending machine. In addition, the company is proactively seeking to identify acquisition targets in its core and adjacent markets.

The company was strongly affected in 2009 by a difficult overall economic environment and, in particular, by a de-stocking in the supply chain for domestic appliances, but was able to mitigate the impact of lower sales volumes on profitability by significant cost reduction measures as well as ongoing productivity and efficiency improvements. As a result 2009 gross margin increased by 8.5% compared to 2008 levels and the company was able to largely protect its EBITDA.

As an uncontested market leader, CEME has seen a significant increase in activity levels during the first half of 2010 throughout its three divisions and expects medium-term growth trends in its end-markets to remain strong, driven by espresso and pad-filter machines taking share from traditional filter coffee machines, and by the switch to steam generators from traditional irons. The acquisition closed in July 2008.

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

Asiakastieto's growth strategy is based on the leveraging of its leading market position, well established customer relationships, resilient cash flow characteristics and experienced management team to drive growth both in its core risk management and credit information services market, as well as adjacent market segments. Key value creation initiatives include improvement of sales force effectiveness, increased integration with and upselling of value-added products to existing customers, and ongoing investment in new product development, with a new ID Theft Protection product and a Corporate Links of Persons in Charge service rolled out in 2009, and further new products being deployed in 2010.

The company performed well in 2009 and continues to do well in the first half of calendar year 2010, showing resilience as the economic situation in Finland weakened, as has been the case in previous recessions due to the nature of its business. Asiakastieto is actively working to counter potential adverse market conditions, improving its competitiveness and increasing the proportion of value-added products in its sales mix versus pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

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

Randall-Reilly aims to achieve organic revenue growth in excess of the market due to its strong market position and breadth of offerings to its advertiser customers, and by implementing a number of growth initiatives across its publishing portfolio. The company is aiming to generate additional revenue through the 'team selling' of bundled products to customers, thus earning a larger market share. The availability of corresponding lead generating data products gives the company a unique marketing advantage. Importantly, in 2009 the company secured exclusive distribution rights with two additional national truck stop chains and now 'owns' the truck stop recruiting market, with exclusive rights in four of the top five truck stop chains, with additional advertising dollars likely to be moved to it over time.

Given the recent economic conditions, Randall-Reilly has initiated several significant cost savings initiatives such as circulation reductions, procurement savings and headcount and salary reductions. In February 2010, a negotiated agreement was reached with Randall-Reilly's senior lenders for a covenant reset through a capital injection of $15 million used to pay down debt.

Trucking remains central to the US economy and Randall-Reilly is the leading competitor in the trucking market from both the publishing side and the driver recruiting side. In the first half of the 2010 calendar year, there have been recent signs of improvement in the broader trucking market and the company has benefited and is tracking ahead of budget for the year. The acquisition closed in February 2008.

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

Berlin is an attractive investment due to its leading market position, impressive management team, compelling value proposition to customers, growth-oriented culture and attractive industry structure. The company benefits from limited customer, product and geographic concentration, attractive free cash flow characteristics and 'best-in-class' operations and infrastructure. In addition, the company possesses several avenues for future growth including expansion within existing markets through new customer wins and increased penetration of existing customers, geographic expansion, growing the presence of the company's catalog business, as well as add-on acquisitions.

In February 2010, Berlin acquired All-Pak, a supplier of rigid packaging, with Investcorp and Berlin management investing $51.5 million in additional equity. The acquisition significantly increases the scale and scope of Berlin, and improves Berlin's presence in the north-east US. The integration has been successful to date and there exist significant opportunities for synergies and cost reductions from this transaction.

Berlin achieved strong growth in 2009 and the company's performance in the first half of 2010 gained further momentum in the improving economic climate, with new account wins and management continuing to keep tight control of costs. Berlin remains well positioned for continued strong performance, with a focus on accelerated organic growth, realization of synergies from its recent acquisition and ongoing cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services. Headquartered in Denmark, Icopal currently has 37 manufacturing sites and 95 offices throughout Europe and North America. Icopal's products are used for flat roofing and civil engineering waterproofing, building membranes, pitched roofing and roofing accessories, as well as specialized contracting services within flat roofing and metal contracting.

The building materials markets in 2009 was challenging, with a combination of curtailed new-build activity, de-stocking, and a hard winter in the early months of the year, but Icopal performed strongly, thanks to significant fixed cost reduction measures, the effective defense of product prices set in 2008, a strong pipeline in North America and new product introductions.

Against the background of high overall leverage at the end of the 2009 calendar year and with 2010 EBITDA projected to be relatively flat, Icopal's covenants were expected to be tight in the second half of calendar 2010. Therefore, Investcorp started evaluating options to reduce leverage and create additional covenant headroom, while also protecting long-term value to Icopal's shareholders.

In a transaction that closed in January 2010, and following a successful debt tender offer, Investcorp deployed approximately €41.5 million of incremental equity to acquire approximately €98.3 million of Icopal debt, including Second Lien, Mezzanine and PIK debt and accrued interest. This opportunistic transaction was highly accretive, capturing incremental equity value for clients as the debt was bought back at a substantial discount. Since the majority of the acquired debt will be contributed as additional equity into the Icopal Group over a period of 24 months, Icopal's leverage will decrease, boosting covenant headrooms and enhancing operational flexibility.

Icopal management expects commercial new-build activities to remain subdued in 2010, potentially mitigated by some rebound in residential construction as well as government driven stimuli programs. The company will monitor trading closely to take appropriate actions as required, in particular to support new product initiatives and protect market share.

Icopal is well positioned for a strong rebound when demand recovers. Its institutionalized 'fill-the-gap' planning process is resulting in many growth initiatives, such as the setup of in-house manufacturing capacity for breather membranes, or the systematic penetration of synthetic segments. Furthermore, its leadership position within a relatively fragmented industry, its ability to execute add-on acquisitions, its pan-European network, its strong track record in Eastern Europe, and its lean cost base make Icopal well placed to gain market share from smaller/weaker competitors and out-perform over the medium-term. The acquisition closed in July 2007.

Moody International is a leading global provider of technical inspection and related services to the oil and gas industry, as well as a leading provider of certification services for small and medium-sized enterprises. Based in the UK, Moody's range of technical inspection services, its main offering, spans across the procurement, construction and operational project activities for 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.

In 2009 and the first half of 2010, the company successfully integrated PetroSpect and ProInspect, both of which provide technical inspection and engineering support services to the US refining and chemical processing industries. The technical inspection market remains fragmented with many local and regional companies available for consolidation at attractive valuations. Since being acquired by Investcorp, Moody has completed five add-on acquisitions and continues to actively evaluate further acquisition opportunities.

Demand for new oil and gas inspection and staffing projects started to weaken somewhat in the second half of calendar 2009 due to cutbacks in exploration and production activity, given oil price volatility and economic uncertainty. This environment continued through the first half of calendar 2010. However, going forward, the company expects demand for its services to pick up, in-line with the exploration and production spending increases which global oil and gas operators have announced.

The company is continuing to develop its service offering, focusing its resources on growth geographies, such as Brazil, Russia, India, China, and the Arabian Gulf, on deeper penetration of key clients and on reducing its cost base. It is also expanding along the project lifecycle into the construction and operations & maintenance phases by strengthening areas including construction inspection, consulting & training, and other markets, such as nuclear. Over the medium-term, the company is strongly placed, with oil and gas industry demand for its services underpinned by the high levels of investment needed to satisfy global demand for energy. 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. The company is the undisputed global market leader in elastomeric insulation foams. Based in Germany, the company has a network of 18 manufacturing facilities in 12 countries.

Sales for 2009 reflected a weaker trading environment in insulation both in Europe and the US. Sales in the Technical Foam division suffered from exposure to the automotive sector. However, Armacell proved its resilience and ended calendar 2009 ahead of its EBITDA budget, benefiting from the ramp up of value creation initiatives. In calendar 2009, the company launched a set of initiatives to improve profitability and R&D, strengthen the organization and drive geographic growth. The company is now in a position to leverage its economies of scale and scope, develop and execute global programs, and respond to local market needs.

Armacell's traditional markets have stabilized but material recovery is not anticipated in calendar 2010. Armacell expects to achieve above-market growth through specific initiatives supported by R&D and product development in markets such as Wind Turbines, Industrial, Marine and Petrochemical, HVAC, Solar and Ducting. It has also increased its penetration in emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. These initiatives will underpin the company's long-term growth potential, while a continued focus on costs and a recently launched complexity reduction program is expected to enhance margins in calendar 2010, with significant additional potential in future years. The acquisition closed in January 2007.

FleetPride Corporation is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the United States. The company has 193 distribution branches in 39 states. Since acquisition, the company has launched several key strategic initiatives to improve sales force and operational capabilities and to position itself for future growth. Areas of particular focus include enhancing FleetPride's supply chain, extending its national accounts and increasing private brands exposure. These initiatives have enabled FleetPride to realize market share gains.

FleetPride completed five acquisitions in 2009 and seven in 2008. The company continues actively to pursue synergistic acquisition opportunities, taking advantage of attractive purchase multiples.

In December 2009, FleetPride hired a new CEO with a strong operational background. This will help the company pursue profitability improvements and cash flow generation opportunities.

Overall demand is beginning to show signs of recovery. During the recent downturn in the trucking sector, which started in late 2006, accelerated in the fourth quarter of 2008 and continued through 2009, FleetPride focused on implementing cost saving measures and initiatives to maintain profitability despite declining volumes. These actions have positioned FleetPride well to capitalize on volume.

Going forward, FleetPride will continue to focus on expanding market coverage, pursuing additional strategic acquisitions, initiating operational changes to reduce or manage costs through better purchasing/sourcing strategies, developing its national sales growth plan, and developing a more focused approach to private brand development. The company will continue to strengthen its organizational structure to be better positioned to drive its strategic plan. The acquisition closed in June 2006.

Orexad (formerly 'Orefi') was formed from the merger of Orefi and AD Industrie to create the largest distributor of industrial supplies in France. Orexad now has approximately 250 distribution outlets, including 67 distribution outlets acquired in 2007 from Anjac, the third largest player in the French market, with a presence across all regions of France.

Sales in calendar 2009 were affected by a sharp decline in industrial production. In the face of this unprecedented slowdown, management implemented a broad set of commercial action plans, gross margin expansion initiatives and cost cutting measures, and achieved annual benefits in excess of €20 million. Monthly sales stabilized in the fourth quarter of calendar 2009 and growth resumed in the second quarter of calendar 2010. Margins held up driven by the positive impact of various margin and cost savings initiatives.

The company is focused on key value creation initiatives including: resuming growth through an ambitious key account strategy; further improving gross margins through pricing initiatives, purchasing savings with suppliers, and expansion of a higher margin private label range; and evaluating strategic and 'tuck-in' acquisitions to expand its base across Europe.

The substantial cost reduction initiatives already implemented in calendar 2009 will have a full positive impact during calendar 2010. A number of acquisition opportunities in Europe are also being reviewed. The acquisition closed in June 2006.

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

Autodistribution tracked operational expectations in calendar 2009 and in the first half of calendar 2010. Truck, tools and equipment activities continued to be hit by the weak economy, but there has been a material improvement in the car spare parts market since the fourth quarter of calendar 2009. While there was a continuing focus on headcount reductions across the business, the challenge was to extract costs from the business sufficiently to offset declining demand, given the company's relatively high fixed cost structure.

The company is now focused on four key business initiatives: restoring price competitiveness; improving visibly the service level to customers; improving operational performance; and re-engineering the cost structure, with opportunities including loss-making sites and subsidiaries, back-office automation, and organizational streamlining.

The significant restructuring of Autodistribution's balance sheet, which took place in March 2009, has provided the company with a more stable and de-risked financial position from which to pursue its business strategy. Management is closely monitoring market trends and has noted some positive momentum in the past couple of months across all activities, but remains cautious. The acquisition closed in March 2006.

CCC Information Services is the market leader in the United States automotive insurance claims software and information solutions industry, providing 'mission critical' information and software solutions to parties involved in the automotive insurance claims process.

CCC successfully completed several renewals with key insurance customers in calendar year 2009, solidifying the company's base business for the next several years and was also able to grow its Autobody Shop revenue. CCC's products are sold on a subscription or transaction basis under multi-year contracts, resulting in a recurring and highly predictable revenue stream. 2009 also saw the successful introduction of new products, particularly CCC One in the automotive market, and the ongoing implementation of a new IT platform which will drive significant future cost savings and revenue opportunities.

The company is actively monitoring any impact from the current economic situation. Overall transaction volumes in the industry held up in 2009 and management expects limited impact from the soft economic environment. However, overall claims volume remains relatively flat and potential changes in the automotive market could put some pressure on shop estimatics subscriptions over time. With many key customer renewals completed, CCC is therefore focused confidently on future growth, with a particular emphasis on several new product areas that have started to reap benefits during the first half of calendar year 2010 and are expected to drive meaningful uplift in future years. The acquisition closed in February 2006.

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

Calendar year 2009 was a very difficult period for Polyconcept, as steep market declines in both Europe and the US, and an unfavorable product mix evolution, had a significant negative effect on sales and margins. The company reacted promptly to the slowdown with initiatives to adapt its business model and fixed cost base to the new environment. A number of operational initiatives, including rationalization of local offices, a shared services platform in the US and procurement centralization in Shanghai resulted in significant opex savings. Polyconcept has revised its services and product offering to address both the premium and the value market. In North America, Bullet Line is positioned as the leader in the value segment with Leed's serving the premium segment, while in Europe low-price product lines have been launched under the 'No Excuse' brand.

The first half of calendar year 2010 has witnessed a recovery in North American operations and stabilization in Europe. The company benefits from leading market positions in Europe and the US, from strong and resilient cash flow generation, from a strong liquidity position and from adequate financial flexibility following a successful covenant reset in December 2009. The initiatives implemented over the last year, together with this leadership position, put the company in a strong competitive situation as it has a substantially reduced cost base, an enhanced product and service offering, and unique promotional branding capabilities in Europe. The acquisition closed in June 2005.

Associated Materials Inc. (AMI) is a leading, vertically integrated manufacturer and distributor of exterior residential building products in North America. AMI generates approximately 65% of its sales from contractors engaged in the residential repair and remodeling market which has historically been less cyclical than the new construction market (35% of revenue).

AMI has delivered exceptional operating performance throughout the economic cycle, driven by its differentiated dual-distribution operating model, superior customer service, and its focus on operational excellence. During the downturn, the company gained market share and implemented cost structure improvements, both of which will drive significant financial upside during the market recovery. In the first half of calendar 2010, AMI has started to see a rebound in volumes for its primary products of windows and vinyl siding.

Going forward, positive macro-economic factors such as continued new household formation and an aging housing stock are expected to drive strength in the sector. AMI is also well positioned to capitalize on improved volumes in the current cyclical recovery as housing starts and existing home sales rebound. The successful refinancings undertaken in 2008–9 have improved the company's financial flexibility, ensuring it is well placed to take advantage of the emerging upturn. The acquisition closed in December 2004.

SourceMedia, combining both the SourceMedia and Accuity businesses, is a leading provider of professional information for the banking, financial services and related technology markets. Its products include some of the leading titles in American business publishing, such as American Banker, The Bond Buyer, and Investment Dealer's Digest. Accuity is the premier provider of subscription-based data solutions that enable financial institutions and other organizations to facilitate accurate and efficient payment transactions and to manage their risk by ensuring that they and their clients are in regulatory compliance.

SourceMedia continues to face a cyclical downturn in its key financial services vertical markets and the accelerating decline of print advertising in its core markets. The company has been actively undertaking the transition of the business to a community and content focused enterprise, with online revenue now accounting for more than 36% of revenues in 2009, while right-sizing the publishing business infrastructure for a lower revenue environment. The restructuring of SourceMedia's cost base has removed significant costs from the business contributing to a significant margin improvement in 2009.

Accuity experienced strong revenue growth in calendar year 2009. It has invested resources in continued international expansion and new product introductions and expects to see the resulting benefits in 2010 and beyond. Overall SourceMedia's core business, market position and brand awareness remain strong and the company is well positioned to take advantage when its markets improve. The early signs in calendar 2010 are positive. The acquisition closed in November 2004.

PlayPower is the leading global manufacturer of commercial playground systems and outdoor recreational equipment. The company is the only commercial playground manufacturer with a significant presence in both the US and Europe.

Results in calendar 2009 were adversely influenced by the effect of the weak economic conditions on park and recreation and school budgets, with the US market for commercial playground equipment currently being significantly off 2007 levels. European end markets softened over the same time period, although not to the same extent experienced in the US. However, markets in some European countries have become increasingly challenged with government budgetary cutbacks. PlayPower continues to monitor customer spending plans and it is unclear when the markets will rebound to prior levels.

In response to the economic conditions, the company has taken significant action. In calendar 2009, PlayPower implemented a series of initiatives to lower its cost structure, including headcount and overhead reductions. As a result, PlayPower increased margins in 2009 despite lower volumes. In the first half of calendar 2010, PlayPower concluded the consolidation of its manufacturing facilities into one location in the US.

PlayPower holds a leading position in all of its core markets but as a result of recent performance, the company has begun to explore different alternatives in order to extend debt maturities or otherwise restructure its obligations to right-size its capital structure. The acquisition closed in December 2002.

Aero Products International, based in the US, is a leading designer and marketer of high-end inflatable beds that use its patented pump and valve technology. Aero's business plan is focused on new product innovation, domestic and international sales growth through expanded market focus, a revamped marketing initiative and improved purchasing/sourcing and overhead management.

Aero retained strong shelf space in calendar 2009 due to its strong brand recognition and penetrated new accounts such as Walmart and Carrefour. In particular, the company enjoyed strong growth in international markets by leveraging its strong brand and customer reputation. The company also focused on controlling its selling, general and administrative spend and maintaining adequate liquidity. As a result, it is positioned to realize improved performance when spending returns to previous levels. However, Aero's performance in 2009 was negatively impacted by the continued slowdown in consumer spending.

While some rebound in performance is expected, Aero's future performance does remain largely dependent on the timing and scale of the upturn in consumer activity. Management is attentively monitoring retail traffic so that any positive or negative trends are recognized and early action taken. The acquisition closed in December 2002.

TelePacific is a facility based Competitive Local Exchange Carrier (CLEC) providing telecommunications services to small and medium sized businesses in California and Nevada and is headquartered in Los Angeles. In its target markets, TelePacific is the largest competitor to AT&T and Verizon.

TelePacific has enjoyed attractive organic growth over the past decade, and in 2009 the company grew revenues and EBITDA once again through market share gains, the implementation of several cost reduction initiatives and prudent overall cost management.

TelePacific's prospects continue to be attractive both in terms of scale of operations and growth of existing business. While the overall telecommunications services sector on the US west coast has experienced increases in customer churn and lower usage during the economic downturn, the company was successful in 2009 in improving its industry-leading customer churn through superior customer care initiatives. More than 250,000 new customer lines were added in 2009, and recent investment in additional sales people is expected to drive further growth in 2010.

With industry dynamics set to remain stable and the acquisitions of Arrival Communications, Pac-West and MPower proving significantly revenue and margin accretive, the overall outlook for TelePacific remains positive. The acquisition closed in April 2000.

For **Avecia,** this year marked the near completion of the break-up strategy initiated in 2002 which was designed to maximize value. Following 10 previous divestitures over the last eight years, the Biologics business was sold to Merck & Co in February 2010, following on from a strategic partnership Biologics concluded with Merck in July 2009 which resulted in Merck becoming its largest customer. This leaves Oligos as the company's only remaining business.

Following the sale of the Biologics business, which represented the larger part of the remaining Avecia, the Board and management are currently reviewing strategic options for the Oligos business and a sale process is being considered. The acquisition closed in June 1999.

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

OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

Investcorp Bank B.S.C. (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 S.A. (ISA), domiciled in the Cayman Islands 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 B.S.C. 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. At June 30, 2010, IBBSC is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 30.1% of the ordinary shares of IBBSC. Approximately 18.5% of these shares are traded on the BSE and are held by Gulf-based nationals or institutions, and approximately 11.6% 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 69.9% of the ordinary shares of IBBSC. CPHL is majority owned by OHL. OHL is, in turn, ultimately controlled by SIPCO Holdings Limited (SHL). SIPCO Limited, an SHL subsidiary, is the entity through which IBBSC's employees beneficially own IBBSC's ordinary shares. Over 50 strategic shareholders who are Gulf-based nationals or institutions own the balance of CPHL. 15.5% 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 share ownership programs. These programs provide 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 enabling prudent control of balance sheet risks.

Cayman Islands 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 a wholly-owned Cayman Islands subsidiary of IHL. In order to separate voting control from economic ownership, IHL has issued both voting shares and non-voting shares.

Currently, approximately 60.1% of the voting shares of IHL is owned directly by two Cayman Islands companies that are owned by Investcorp's management and strategic shareholders. SIPCO Limited holds approximately 9.8% of the voting shares of IHL. A majority of the Controlling Shareholders (defined below) has voting control of those companies and, therefore, of IHL. IBBSC directly holds preference shares that constitute 30.1% of the voting shares of IHL and 100% of the non-voting shares of IHL. The 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 69.9% 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 corporate and real estate investment. It places a large proportion of these investments with clients and retains a portion for its own balance sheet. These investment activities operate with above-average risk levels and have led to the development of a comprehensive risk management infrastructure and strong corporate governance over the past 27 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;

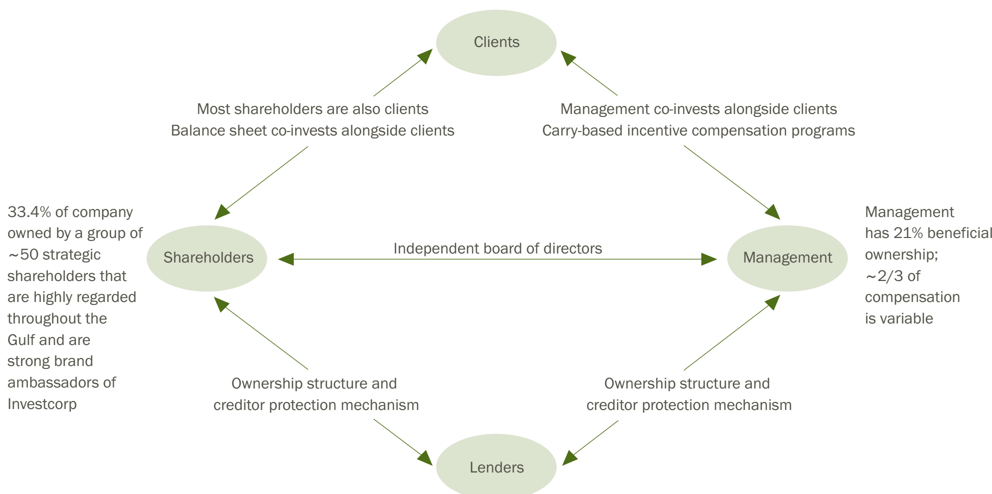
ii. transparency of reporting and actions plus proactive risk control;

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.

Good alignment of interest between key stakeholders



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

Co-investments: clients, shareholders and management all participate in each of Investcorp's investment products. Investcorp retains a stake of at least 5% in each buyout 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 the 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 the realization of their investments is shared with the investment professionals, provided that a certain pre-established minimum performance objective is exceeded on the underlying investment.

In addition, 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 such 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.

Investcorp is led by a senior management team comprised of: 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 all 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 in recent years. 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 and Investcorp is in compliance with these rules.

Included among these corporate governance 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.

In an effort to further align Bahrain's corporate governance standards with best international practice, the CBB and the Bahrain Ministry of Industry and Commerce released a new Corporate Governance Code in March of 2010 (the 'New Governance Code'), which, among other things, requires the Board of Directors to:

- adopt written corporate governance guidelines covering the matters in the New Governance Code and any other matters deemed appropriate by the Board of Directors; and

- report at each annual shareholders' meeting on compliance with the corporate governance guidelines and the New Governance Code and explain the extent to which, if applicable, it has varied them or believes that any variance or non-compliance was justified.

The New Governance Code will become effective in January of 2011, and Investcorp expects to comply with the requirement to implement the New Governance Code by the end of calendar year 2011.

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, represented by Global Depositary Receipts, 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 corporate investment—Gulf 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.

Liquid assets are principally composed of 'core' cash liquidity pools and accessible liquidity held in the form of hedge fund co-investments. Total liquidity, with varying risk/return profiles, is structured to have a low correlation with returns on Investcorp's other major asset category, its portfolio of medium-term co-investments in corporate investment and real estate. 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 a non-Gulf based credit risk, given that almost all of the Group's assets are held under Investcorp S.A., a non-Gulf entity. As a matter of course, certain loan covenants require that Investcorp S.A. owns at least 95% of Investcorp's consolidated 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 had 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 had 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 holding government bonds, placements with banks or externally managed cash funds, while the second portion of the liquidity pool is co-invested in Investcorp's hedge funds platform alongside clients.

Liquid assets provide diversification from the illiquidity risks of Investcorp's second dominant category of balance sheet assets, co-investments in corporate investment and real estate 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 corporate investment or real estate deals prior to placement with clients, which usually takes between four to eight weeks. Revolvers, therefore, supplement core liquidity, and together they provide a pool of accessible liquidity to underwrite multiple corporate investment 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 2009 has severely affected this source of liquidity during the past two fiscal years.

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 strong lender relationships, 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. In FY10, Investcorp completed a debt financing with core relationship banks that included forward start features on a combination of term loans and revolving credit facilities maturing between 2010 and 2011.

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 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 2.5x 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 and FY10 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 corporate investment and real estate acquisitions before placement with clients. These are self-liquidating on receipt of client funds. 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, 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.

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 corporate investment, 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)*; and
- operational risk Note 23(v)*.

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

Interest rate/currency risk management

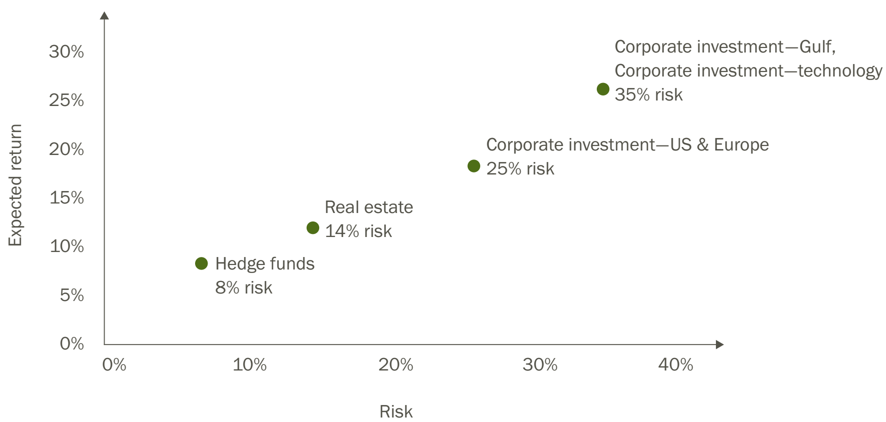
Assets and liabilities give rise to interest rate risk if changes to the level of interest rates impact the value of future cash flows generated from assets or the value of future cash flows paid in respect of liabilities. The exposure of Investcorp's balance sheet to interest rate risk is frequently measured and monitored using sophisticated risk management tools that provide in-depth analysis across all investment and funding sources. The amount of interest rate sensitivity of the balance sheet at June 30, 2010 is shown in Note 23(iv)(b)* of the financial statements of Investcorp Bank B.S.C.

*References are to footnotes in the fiscal 2010 Investcorp Bank B.S.C. consolidated financial statements.

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 B.S.C.

Line of business investment risks

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



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

Once a company is 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.

*References are to footnotes in the fiscal 2010 Investcorp Bank B.S.C. consolidated financial statements.

As in Investcorp's US and European corporate investment business, the goal in technology and Gulf investing is to seek returns that justify the risk being taken. The higher risks of technology and Gulf 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 corporate 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 the implementation 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-like 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.

Investcorp uses a risk-based capital allocation approach as the main tool to manage internal economic capital. Over the years Investcorp has been continuously assessing its economic capital methodology to take into account any increased risk premium, volatility and correlation for all asset classes. In designing the risk capital methodology, Investcorp maintains a risk capital allocation that is independent of any specific market recovery expectations, accounting rule changes and correlation assumptions. The economic capital charge, which is updated quarterly, is based on market volatility, risk premiums and correlations. Also, Investcorp continues to use the conservative assumption of 100% correlation between asset classes to provide an embedded cushion for protection against model and tail risk (low probability, high loss intensity events). This conservative approach to economic capital takes into account the illiquid nature of the underlying portfolios of CI/RE co-investments. The economic capital allocation is the linear sum of independently assessed risk capital charges for each business line, non co-investment assets (loans, advances etc.) and the positive impact of any tail risk hedging strategies executed for the Investcorp balance sheet.

Investcorp uses two complementary approaches to determine economic capital:

- Economic capital over one year : The aggregate Economic Capital requirement over a one-year horizon given by a 99th percentile VaR-like risk approach which is based on multifactor and credit models for corporate investment and real estate and a Monte Carlo simulation for hedge funds.

- Long-term economic capital: Dynamically modeled by considering organic business objectives and capital requirements to support these. Based on a Monte Carlo based proprietary Long Range Plan model which estimates the equity cushion at the 99th percentile loss over a five-year horizon across varying economic / operating environments. The model which incorporates bottom-up input from all businesses regarding base case expectations and variability around those, is used to project the financial condition of the company at the end of each of the next five years. The Monte Carlo simulations, then, project several thousand P&L and balance sheet scenarios, with the focus being on the amount of economic capital 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, even in such stress-case scenarios, to ensure solvency and flexibility for business initiatives.

Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2010

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MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2010 based on internal guidelines set by the Board Audit Committee. Based on this assessment, management believes that, as of June 30, 2010 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

NEMIR A. KIRDAR
Executive Chairman
& CEO

RISHI KAPOOR
Chief Financial Officer

STEPHANIE R. BESS
General Counsel

August 3, 2010

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

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. (the 'Bank') and its subsidiaries (together the 'Group') which comprise the consolidated balance sheet as at June 30, 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2010 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other regulatory matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended June 30, 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst + Young

August 3, 2010
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.
CONSOLIDATED BALANCE SHEET
June 30, 2010

$000s	June 30, 2010	June 30, 2009	Note	Page
ASSETS				
Cash and short-term funds	**21,342**	416,088	6	112
Placements with financial institutions and other liquid assets	**881,469**	713,217	6	112
Positive fair value of derivatives	**74,766**	56,150	20	126
Receivables and prepayments	**315,975**	335,741	7	113
Loans and advances	**247,593**	224,103	8	114
Co-investments				
Hedge funds	**537,274**	614,481	9	114
Private equity	**1,052,765**	903,391	10	115
Real estate	**216,777**	283,207	11	119
Total co-investments	**1,806,816**	1,801,079		
Premises, equipment and other assets	**68,995**	73,986		
Total assets	**3,416,956**	3,620,364		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	–	15,000		
Deposits from clients — short-term	**247,426**	289,873	13	120
Negative fair value of derivatives	**27,199**	33,287	20	126
Payables and accrued expenses	**144,342**	90,361	14	120
Deposits from clients — medium-term	**90,693**	83,212	13	120
Medium-term debt	**1,321,348**	1,635,515	15	121
Long-term debt	**591,610**	578,370	16	122
Total liabilities	**2,422,618**	2,725,618		
EQUITY				
Preference share capital	**508,678**	500,000	17	123
Ordinary shares at par value	**200,000**	200,000	17	123
Reserves	**596,243**	604,995		
Treasury shares	**(161,669)**	(150,507)		
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	**65,430**	16,926		
Ordinary shareholders' equity other than unrealized fair value changes, proposed dividend and revaluation reserve	**700,004**	671,414		
Proposed preference shares dividend	**57,374**	–	19	125
Unrealized fair value changes and revaluation reserve	**(271,718)**	(276,668)	18	125
Total equity	**994,338**	894,746		
Total liabilities and equity	**3,416,956**	3,620,364		

ABDUL-RAHMAN SALIM AL-ATEEQI
Chairman

NEMIR A. KIRDAR
Executive Chairman & CEO

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended June 30, 2010

$000s	2010	2009	Note	Page
FEE INCOME				
Management fees	104,320	107,359		
Activity fees	68,652	21,715		
Performance fees	45,957	301		
Fee income (a)	218,929	129,375	2	103
ASSET-BASED INCOME				
Investment income				
Private equity	25,259	12,389		
Hedge funds	91,284	(323,797)		
Real estate	11,475	20,153		
Treasury and other asset-based income	18,108	72,883		
Asset-based income (loss) (b)	146,126	(218,372)		
Gross operating income (loss) (a) + (b)	365,055	(88,997)		
Provision for impairment	(11,669)	(22,246)	12	119
Interest expense	(58,030)	(114,976)		
Operating expenses	(188,831)	(206,322)	5	112
Net operating income (loss) before fair value changes of private equity and real estate co-investments	106,525	(432,541)		
Fair value changes of private equity and real estate co-investments (c)	(4,351)	(348,086)	18	125
NET INCOME (LOSS)	102,174	(780,627)		
Basic and fully diluted earnings (loss) per ordinary share ($)	64	(1,120)	19	125
TOTAL REVENUE (a) + (b) + (c)	360,704	(437,083)		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2010	2009	Note	Page
NET INCOME (LOSS) (AS ABOVE)	102,174	(780,627)		
Other comprehensive income				
Fair value movements — net unrealized gains on cashflow hedges	8,654	12,122	18	125
Revaluation surplus on premises and equipment	–	11,240	18	125
Other comprehensive income	8,654	23,362		
TOTAL COMPREHENSIVE INCOME (LOSS)	110,828	(757,265)		

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended June 30, 2010

			Reserves			
$000s	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total reserves
Balance at June 30, 2008	–	200,000	503,971	100,000	50,000	653,971
Total comprehensive loss	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares purchased during the year	–	–	–	–	–	–
Treasury shares sold during the year	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(48,029)	–	–	(48,029)
Dividends paid	–	–	–	–	–	–
Preference share issuance proceeds	500,000	–	–	–	–	–
Share issue expenses	–	–	(947)	–	–	(947)
Balance at June 30, 2009	500,000	200,000	454,995	100,000	50,000	604,995
Total comprehensive income	–	–	–	–	–	–
Transfer of realized losses to retained earnings	–	–	–	–	–	–
Transfer of unrealized losses to fair value changes	–	–	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–	–
Treasury shares purchased during the year	–	–	–	–	–	–
Treasury shares sold / financed during the year	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(7,973)	–	–	(7,973)
Proposed appropriation	–	–	–	–	–	–
Preference share issuance proceeds	15,132	–	–	–	–	–
Share issue expenses	–	–	(779)	–	–	(779)
Non-vested preference shares issued to employees	(11,309)	–	–	–	–	–
Vesting during the year	5,680	–	–	–	–	–
Forfeitures during the year	(825)	–	–	–	–	–
Balance at June 30, 2010	**508,678**	**200,000**	**446,243**	**100,000**	**50,000**	**596,243**

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

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

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

INVESTCORP BANK B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2010

$000s	2010	2009	Note	Page
OPERATING ACTIVITIES				
Net income (loss)	102,174	(780,627)		
Adjustments for non-cash items in net income (loss):				
Fair value changes	4,351	348,086	18	125
Depreciation	7,594	7,245	5	112
Provisions for impairment	11,669	22,246	12	119
Amortization of transaction costs of borrowings	7,834	4,533		
Preference shares vesting — net of forfeitures	4,855	–		
Net income (loss) adjusted for non-cash items	138,477	(398,517)		
Changes in:				
Operating capital				
Receivables and prepayments	13,378	121,331	7	113
Loans and advances	(28,771)	97,265	8	114
Deposits from clients — short-term	(42,447)	(148,539)	13	120
Unfunded deal acquisitions	–	(234,321)		
Payables and accrued expenses	53,981	(126,764)	14	120
Co-investments				
Hedge funds	77,207	1,406,327	9	114
Private equity	(52,338)	(116,059)	10	115
Real estate	(34,957)	(52,445)	11	119
Fair value of derivatives	28,279	18,342		
Other assets	5	32		
NET CASH FROM OPERATING ACTIVITIES	152,814	566,652		
FINANCING ACTIVITIES				
Deposits from financial institutions	(15,000)	(370,469)		
Deposits from clients — medium-term	7,481	(36,395)	13	120
Medium-term revolvers drawn	–	557,500		
Medium-term debt issued (net of transaction costs)	174,409	–	15	121
Medium-term debt repaid	(492,000)	(42,000)	15	121
Long-term debt repaid	(35,499)	(407,263)	16	122
Treasury shares purchased (ordinary) — net	(19,135)	(20,934)		
Preference share issuance proceeds — net	3,044	499,053		
Dividends paid	–	(63,278)		
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(376,700)	116,214		
INVESTING ACTIVITIES				
Placements with financial institutions and other liquid assets (non cash equivalent)	(63,000)	–	6	112
Investment in premises and equipment	(2,608)	(5,131)		
NET CASH USED IN INVESTING ACTIVITIES	(65,608)	(5,131)		
Net (decrease) increase in cash and cash equivalents	(289,494)	677,735		
Cash and cash equivalents at beginning	1,129,305	451,570		
Cash and cash equivalents at end	839,811	1,129,305		
Cash and cash equivalents comprise:			6	112
Cash balances with banks	21,342	35,100		
Cash in transit	–	380,988		
Placements with financial institutions and other liquid assets	818,469	713,217		
	839,811	1,129,305		

Cash and cash equivalents comprise cash and short-term funds, cash in transit, together with placements with financial institutions and other liquid assets that have original contractual maturities of three months or less.

Additional cash flow information $000s	2010	2009
Interest paid	(53,672)	(123,354)
Interest received	16,126	21,498

The attached notes 1 to 27 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

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

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

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

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

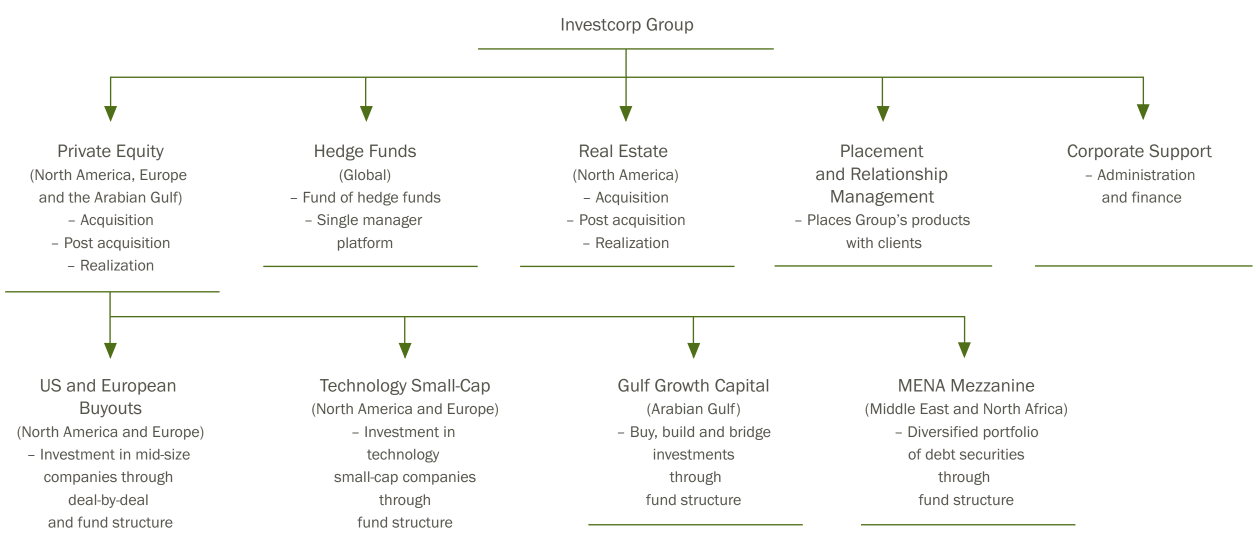
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2010 were authorized for issue in accordance with a resolution of the Board of Directors dated August 3, 2010.

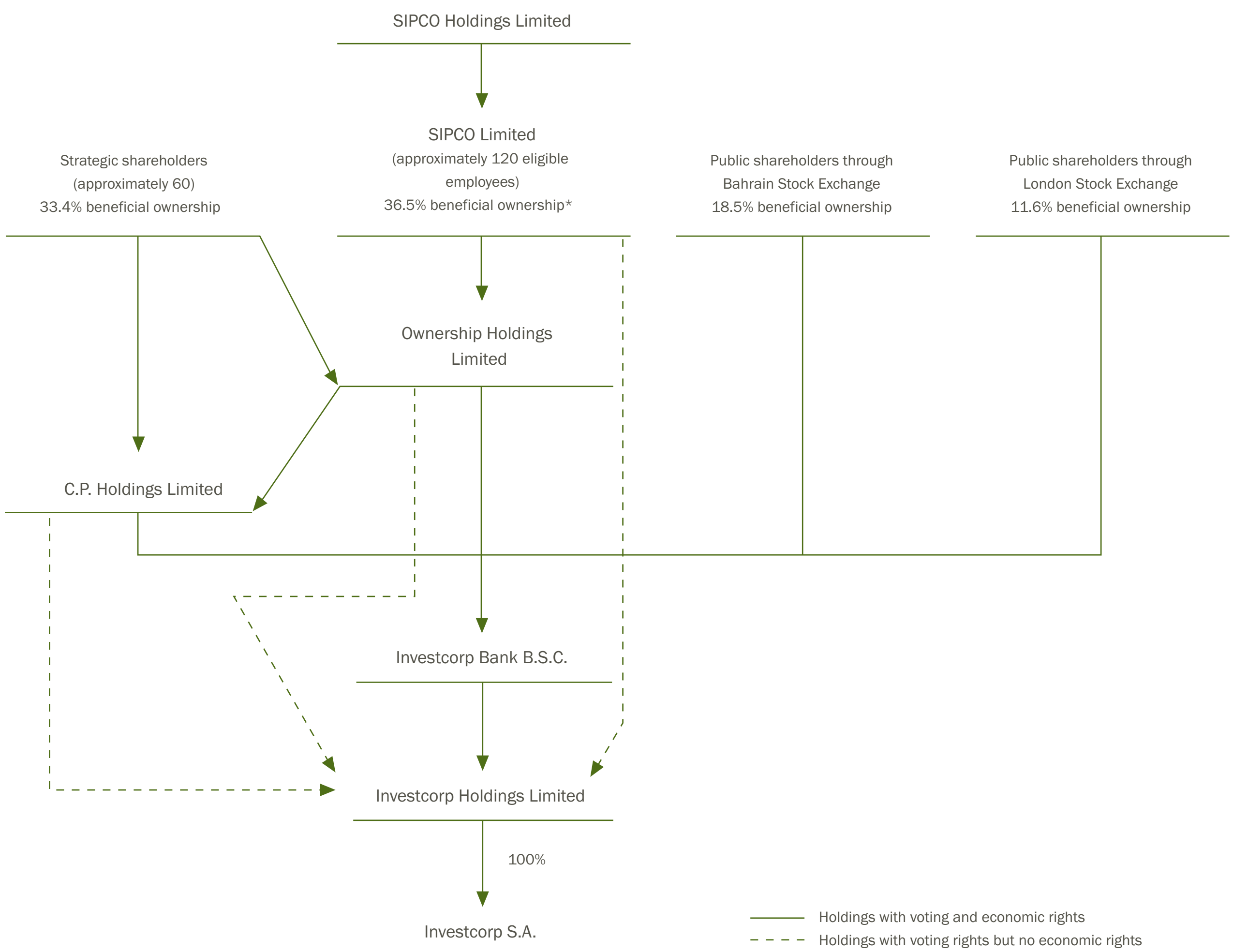
(ii) Activities

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

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



(iii) Ownership



*Includes 15.5% in shares and GDRs that are held for future sale to management under the SIP Plan and third parties. These are classified as treasury shares on the Bank's balance sheet. The Group has approval from the Central Bank of Bahrain (CBB) to hold up to 40% of shares for the SIP Plan.

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

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

(iv) Subsidiary companies

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

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

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

The Group structure along with its significant subsidiaries is illustrated below:

Parent	Wholly owned significant subsidiaries	Description of principal activities
Investcorp Bank B.S.C. (Bahrain)		Bahrain-based parent company of the Group
	Investcorp Holdings Limited (Cayman Islands)	Holding company that provides force majeure investment protection to shareholders and lenders
	Investcorp S.A. (Cayman Islands)	Financial holding company that is the principal operating and asset owning arm of the Group
	Investcorp Capital Limited (Cayman Islands)	Company that issues the Group's long-term notes and other capital market financings
	Investcorp Investment Holdings Limited (Cayman Islands)	Company through which the Group retains its equity investments across its product classes
	Investcorp Management Services Limited (Cayman Islands)	Company that provides investment management and advisory services to client investment holding companies for private equity and real estate investments
	Investcorp Investment Adviser Limited (Cayman Islands)	Company that provides investment management and advisory services to the hedge funds program (HFP) and is a SEC registered investment advisor
	Investcorp Funding Limited (Cayman Islands)	Company that provides short-term funding to investee and client investment holding companies
	Investcorp Trading Limited (Cayman Islands)	Company that executes the Group's money market, foreign exchange and derivative financial contracts and invests in single manager funds
	Investcorp AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	Investcorp Financial & Investment Services S.A. (Switzerland)	Company that provides M&A advisory services for deal execution in Western Europe
	Investcorp International Limited (UK)	The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) provides M&A advisory services in the UK
	Investcorp International Holdings Inc. (USA)	The Group's principal operating subsidiary in the United States of America
	Investcorp International Inc. (USA)	Company that provides M&A advisory services for deal execution in North America
	N A Investcorp LLC (USA)	Company that provides marketing services in the United States for the HFP and is a SEC registered broker dealer
	Investcorp Investment Adviser LLC (USA)	Company that provides investment management services in the United States for the HFP and is a SEC registered investment advisor
	Investcorp Saudi Arabia Financial Investments Co. (Saudi Arabia)	Company that acts as principal agent of the Bank in Saudi Arabia for placements of the products offered by the Group

B. SIGNIFICANT ACCOUNTING POLICIES

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

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

Of all the applicable changes in IFRS (including IAS 27R—*Consolidated and separate financial statements* and IFRS 3R—*Business combinations*) during the year, management has adopted IFRS 7 Amendment—*Improving disclosures about financial instruments*—as in its view, this was the only significant change that impacts the Group's consolidated financial statements. The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity risk disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 24, and the liquidity risk disclosures in Note 23(ii) are not significantly impacted by the amendments.

New standards, amendments and interpretations issued but not yet effective

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

- Amendments to IFRS 2—Group cash-settled share-based payment transactions, 1 January 2010
- Amendments to IFRS 1—Additional exemptions for first-time adopters, 1 January 2010
- Amendments to IFRS 1—Limited exemption from comparative IFRS 7 disclosures, 1 July 2010
- IFRS 5 Non-current assets held for sale and discontinued operations, 1 January 2010
- IFRS 8 Operating segments, 1 January 2010
- IAS 1 Presentation of financial statements, 1 January 2010
- IAS 7 Statement of cash flows, 1 January 2010
- IAS 17 Leases, 1 January 2010
- IAS 36 Impairment of assets, 1 January 2010
- IAS 39 Financial instruments: recognition and measurement, 1 January 2010
- IAS 32 Amendment—classification of rights issues, 1 February 2010
- IAS 24 Amendment—related party disclosures, 1 January 2011
- IFRIC 14 Amendment—prepayments of a minimum funding requirement, 1 January 2011

- IFRIC 19—Extinguishing financial liabilities with equity instruments 1 July 2010
- 2009 Improvements to IFRSs, 1 January 2010
- IFRS 9—Financial instruments: classification and measurement, 1 January 2013

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

(i) Accounting convention in the consolidated financial statements preparation

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

(ii) Going concern

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

(iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss (FVTPL) private equity and real estate investments (see Notes 10 and 11) and impairment provisions for financial assets other than FVTPL investments (see Note 12).

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

Classification of financial assets

(a) Investments

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

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

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

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

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

(b) Other liquid assets

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

(iv) Basis of consolidation

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

(v) Foreign currencies

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

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

(vi) Receivables

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

(vii) Loans and advances

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

(viii) Co-investments in hedge funds

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

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

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

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

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

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

(x) Derecognition of financial instruments

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

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

(xi) Trade date accounting

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

(xii) Impairment and un-collectibility of financial assets

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

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

Impairment is determined as follows:

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

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

(xiii) Premises and equipment

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

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

All other items are recorded at cost less accumulated depreciation.

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

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

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

(xiv) Payables, accruals and provisions

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

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

(xv) Unfunded deal acquisitions

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

(xvi) Borrowings

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

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

(xvii) Treasury shares

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

(xviii) Dividends

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

(xix) Offsetting

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

(xx) Derivative financial instruments

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

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

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

(xxi) Income and expenses

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

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

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

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

2. SEGMENT REPORTING

A. ACTIVITIES

(i) As an intermediary

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

(ii) As a principal

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

B. ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

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

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

Reporting segments	Asset classes	Lines of business (product categories)	Products
1) Private equity	1) Private equity	1) US and European buyouts	— Deal-by-deal offerings — Closed-end fund(s)
		2) Technology small-cap investments	— Closed-end fund(s)
		3) Gulf growth capital	— Closed-end fund(s)
		4) MENA mezzanine	— Closed-end fund(s)
2) Hedge funds	2) Hedge funds	5) Hedge funds	— Fund of hedge funds — Single managers
3) Real estate	3) Real estate	6) Real estate	— Equity investments — Mezzanine debt investments
4) Corporate support			— Liquidity/working capital/funding

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

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

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

(ii) Technology small-cap investments (TSI)

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

(iii) Gulf growth capital (GGC)

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

(iv) MENA mezzanine (MENA)

The MENA team, based in Bahrain targets to invest directly and indirectly in a diversified portfolio of mezzanine instruments, preferred equity securities, bridge loans, high yield debt securities, convertible and other similar income producing securities and obligations to generate current income and capital appreciation.

(v) Hedge funds (HF)

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

(vi) Real estate (RE)

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

(vii) Corporate support

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

C. REVENUE GENERATION

(i) Fee income

There are several components of fees that are earned from providing intermediary services to clients and investee companies. Activity fees comprise acquisition fees earned by the Group from investee companies on new private equity or real estate acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from Gulf clients at the time of placing new private equity or real estate transactions with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing advisory services for ancillary transactional activity, including re-financings, recapitalizations, restructuring and disposal.

Management fees are earned from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments. Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle rate.

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

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

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

D. ALLOCATION OF OPERATING EXPENSES

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

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

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

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

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

E. SEGREGATION OF ASSETS

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

F. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a Value-at-Risk (VaR) methodology to determine the amount of economic risk capital that is needed to support each reporting segment in its business growth objectives and also in conditions of extreme stress, and allocates equity to each reporting segment on this basis. Equity is allocated to each unit based on both the current amount of capital and an ex-ante assessment, that takes into account the current size of the business, expected growth over the medium-term and the associated equity required to support the risks within each reporting segment through the VaR methodology.

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

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

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

The consolidated balance sheets as at June 30, 2010 and 2009 by reporting segment are as follows:

	June 30, 2010				
$000s	Private equity	Hedge funds	Real estate	Corporate support	Total
ASSETS					
Cash and short-term funds	–	–	–	21,342	21,342
Placements with financial institutions and other liquid assets	–	–	–	881,469	881,469
Positive fair value of derivatives	–	–	–	74,766	74,766
Receivables and prepayments	–	–	–	315,975	315,975
Loans and advances	–	–	–	247,593	247,593
Co-investments	1,052,765	537,274	216,777	–	1,806,816
Premises, equipment and other assets	–	–	–	68,995	68,995
Total assets	1,052,765	537,274	216,777	1,610,140	3,416,956
LIABILITIES AND EQUITY					
Liabilities					
Deposits from clients — short-term	–	49,054	–	198,372	247,426
Negative fair value of derivatives	–	–	–	27,199	27,199
Payables and accrued expenses	11,736	3,062	3,497	126,047	144,342
Deposits from clients — medium-term	–	4,539	–	86,154	90,693
Medium-term debt	88,951	269,385	42,146	920,866	1,321,348
Long-term debt	340,713	35,036	61,514	154,347	591,610
Total liabilities	441,400	361,076	107,157	1,512,985	2,422,618
Total equity	611,365	176,198	109,620	97,155	994,338
Total liabilities and equity	1,052,765	537,274	216,777	1,610,140	3,416,956

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

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

$000s	Private equity	Hedge funds	Real estate	Corporate support	Total
			July 2009 – June 2010		
FEE INCOME					
Management fees	67,212	24,654	12,454	–	104,320
Activity fees	62,350	–	6,302	–	68,652
Performance fees	26,532	18,841	584	–	45,957
Gross fee income (a)	156,094	43,495	19,340	–	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	–	(149,443)
Net fee income (loss)	61,718	4,518	3,250	–	69,486
ASSET-BASED INCOME					
Interest income	4,618	–	1,044	11,851	17,513
Treasury and other asset-based income	20,641	91,284	10,431	6,257	128,613
Fair value changes	97,036	–	(101,387)	–	(4,351)
Gross asset-based income (loss) (b)	122,295	91,284	(89,912)	18,108	141,775
Provision for impairment	–	–	–	(11,669)	(11,669)
Interest expense	(10,838)	(11,134)	(3,956)	(32,102)	(58,030)
Expenses attributable to asset-based income	(19,667)	(7,538)	(3,430)	(8,753)	(39,388)
Net asset-based income (loss)	91,790	72,612	(97,298)	(34,416)	32,688
Net income (loss)	153,508	77,130	(94,048)	(34,416)	102,174
Total revenue (a) + (b)	278,389	134,779	(70,572)	18,108	360,704

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

Total revenue of $278.4 million (2009: $(150.3) million) from private equity asset class includes $41.4 million, $19.9 million and $0.9 million (2009: $17.0 million and $22.1 million and nil) relating to technology small-cap investments, Gulf growth capital and MENA mezzanine fund respectively. The balance relates to US and European buyouts.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2009: nil). All of the Group's fee income arises from intermediary activities while the asset-based income includes $17.5 million (June 30, 2009: $19.5 million) interest income from items at amortized cost.

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

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

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	June 30, 2010				
$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	–	21,342	–	–	21,342
Placements with financial institutions and other liquid assets	253,000	628,469	–	–	881,469
Positive fair value of derivatives	–	–	–	74,766	74,766
Receivables	–	283,455	–	–	283,455
Loans and advances	–	247,593	–	–	247,593
Co-investments					
Hedge funds	537,274	–	–	–	537,274
Private equity	968,018	48,254	36,493	–	1,052,765
Real estate					
Debt	–	34,191	–	–	34,191
Equity	182,586	–	–	–	182,586
Total financial assets	1,940,878	1,263,304	36,493	74,766	3,315,441
Non-financial assets					
Prepayments					32,520
Premises, equipment and other assets					68,995
Total assets					3,416,956
Financial liabilities					
Deposits from clients*	–	338,119	–	–	338,119
Negative fair value of derivatives	–	–	–	27,199	27,199
Payables	–	138,772	–	–	138,772
Medium-term debt	–	1,321,348	–	–	1,321,348
Long-term debt*	–	591,610	–	–	591,610
Total financial liabilities	–	2,389,849	–	27,199	2,417,048
Non-financial liabilities					
Deferred income					5,570
Total liabilities					2,422,618

*Adjusted for related fair value hedges.

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

*Adjusted for related fair value hedges.

4. ASSETS UNDER MANAGEMENT

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

	June 30, 2010				June 30, 2009			
$ millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Private equity								
Closed-end committed funds								
— US and European buyouts	476	199	71	746	476	199	71	746
— Technology small-cap investments	419	67	14	500	419	67	14	500
— Gulf growth capital	853	70	6	929	875	70	6	951
— MENA mezzanine investments	105	50	–	155	–	–	–	–
Sub total	1,853	386	91	2,330	1,770	336	91	2,197
Closed-end invested funds								
— Technology small-cap investments	209	23	10	242	223	30	10	263
Deal-by-deal investments								
— US and European buyouts	2,598	852	368	3,818	2,540	714	443	3,697
Strategic and other investments	–	73	–	73	–	74	–	74
Total private equity	4,660	1,334	469	6,463	4,533	1,154	544	6,231
Hedge funds								
Fund of hedge funds	2,125	77	3	2,205	1,566	132	3	1,701
Single managers	1,289	265	6	1,560	980	380	10	1,370
Structured and levered products	351	538	2	891	548	333	–	881
Total hedge funds	3,765	880	11	4,656	3,094	845	13	3,952
Real estate								
Closed-end committed funds	253	28	4	285	253	27	4	284
Deal-by-deal investments	859	181	32	1,072	903	247	42	1,192
Strategic and other investments	–	8	–	8	–	8	–	8
Total real estate	1,112	217	36	1,365	1,156	282	46	1,484
Corporate support								
Client call accounts held in trust	170	–	–	170	67	–	–	67
Total	9,707	2,431	516	12,654	8,850	2,281	603	11,734
Summary by category:								
Closed-end committed funds	2,106	414	95	2,615	2,023	363	95	2,481
Closed-end invested funds	209	23	10	242	223	30	10	263
Hedge funds	3,765	880	11	4,656	3,094	845	13	3,952
Deal-by-deal investments	3,627	1,114	400	5,141	3,510	1,043	485	5,038
Total	9,707	2,431	516	12,654	8,850	2,281	603	11,734
Summary by segments:								
Private equity								
— US and European buyouts	3,074	1,051	439	4,564	3,016	913	514	4,443
— Technology small-cap investments	628	90	24	742	642	97	24	763
— Gulf growth capital	853	70	6	929	875	70	6	951
— MENA mezzanine investments	105	50	–	155	–	–	–	–
— Strategic and other investments	–	73	–	73	–	74	–	74
Hedge funds	3,765	880	11	4,656	3,094	845	13	3,952
Real estate	1,112	217	36	1,365	1,156	282	46	1,484
Corporate support	170	–	–	170	67	–	–	67
Total	9,707	2,431	516	12,654	8,850	2,281	603	11,734

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

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

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

5. OPERATING EXPENSES

$000s	2010	2009
Staff compensation	47,379	67,574
Incentive compensation expense	63,843	52,403
Other personnel costs	16,756	16,921
Professional fees	15,621	18,280
Travel and business development	9,758	12,015
Administration and research	12,664	14,415
Technology and communication	3,147	4,572
Premises	11,156	11,463
Depreciation	7,594	7,245
Other	913	1,434
Total	**188,831**	206,322

6. LIQUIDITY

$000s	June 30, 2010	June 30, 2009
Cash balances with banks	21,342	35,100
Cash in transit	–	380,988
Placements with financial institutions and other liquid assets	818,469	713,217
Cash and cash equivalents	**839,811**	1,129,305
Placements with financial institutions and other liquid assets (non cash equivalent)	63,000	–
Total accessible liquidity	**902,811**	1,129,305
Less: medium and long-term debt maturing within three months*	(261,250)	(142,000)
Net cash liquidity	**641,561**	987,305
Add: undrawn medium-term revolvers (see Note 15)	–	–
Net accessible liquidity	**641,561**	987,305
Co-investments in hedge funds (excluding gated funds)	518,286	571,481
Net liquidity	**1,159,847**	1,558,786

*Net of forward start facility available to be drawn within three months.

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

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

If required, managed redemptions from the Group's co-investment in hedge funds provide a large source of additional back up liquidity, except for $19.0 million (2009: $43.0 million) which is not immediately available due to gating clauses imposed by the underlying fund managers.

Cash and short-term funds comprise the Group's cash, balances in nostro accounts and short-term government securities. Cash in transit as of previous year end mainly related to proceeds for issuance of preference shares and redemptions from hedge funds for which notices had been issued, the proceeds of which were received during the year.

Other liquid assets represent financial assets including credit linked notes and funded credit default swaps. The referenced risk for these assets is highly rated sovereigns. Since the embedded derivative in these instruments is not separated, these are carried as FVTPL assets in accordance with IAS 39.

7. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2010	June 30, 2009
Subscriptions receivable	143,830	111,116
Capital issuance proceeds receivable	–	110,495
Receivables from investee companies	90,912	76,487
Investment disposal proceeds receivable	11,536	3,188
Hedge funds related receivables	52,159	14,046
Accrued interest receivable	6,396	5,009
Prepaid expenses	32,520	27,500
Other receivables	16,917	19,807
	354,270	367,648
Provision for impairment (see Note 12)	(38,295)	(31,907)
Total	315,975	335,741

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

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

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

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

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

8. LOANS AND ADVANCES

$000s	June 30, 2010	June 30, 2009
Advances to HFP funds, real estate funds and technology funds	11,224	11,985
Advances to investment holding companies	141,413	130,011
Advances to employee investment programs	141,188	121,604
Other advances	6,375	7,829
	300,200	271,429
Provision for impairment (see Note 12)	(52,607)	(47,326)
Total	**247,593**	224,103

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

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

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

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

9. CO-INVESTMENTS IN HEDGE FUNDS

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

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

$000s		June 30, 2010	June 30, 2009
Diversified Strategies Fund (DSF) and parallel vehicles	A cash management substitute targeting 300 – 500bp spread over LIBOR	76,918	128,919
Balanced Fund (IBF)	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500 – 700bp over LIBOR	–	–
Single manager platform	Investments with single managers that have been seeded on Investcorp's platform	264,777	379,970
Structured and leveraged products	Investments across structural themes funds and structured embedded leverage products	195,515	102,775
Other hedge funds investments	Mix of small investments across several theme funds	64	2,817
Total balance sheet co-investments		537,274	614,481

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

10. CO-INVESTMENTS IN PRIVATE EQUITY

$000s	June 30, 2010	June 30, 2009
US and European buyouts [See Note 10 (a)]	889,953	769,392
Technology small cap investments [See Note 10 (b)]	72,111	46,194
Gulf growth capital [See Note 10 (c)]	18,112	13,696
Strategic and other investments [See Note 10 (d)]	72,589	74,109
Total co-investments in private equity	1,052,765	903,391

10(a). US AND EUROPEAN BUYOUTS

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

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

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

$000s Vintage*	June 30, 2010	June 30, 2009
Vintage 1997 (1997 – 2000)	**180,205**	181,343
Vintage 2001 (2001 – 2004)	**137,996**	85,014
Vintage 2005 (2005 – 2008)	**402,353**	381,006
Vintage 2009 (2009 – 2012)	**169,399**	122,029
Total	**889,953**	769,392

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

Summary by sector and location:

	June 30, 2010			June 30, 2009		
$000s	North America	Europe	Total	North America	Europe	Total
Consumer products	**87,447**	**–**	**87,447**	22,355	–	22,355
Industrial products	**15,043**	**300,540**	**315,583**	38,920	313,392	352,312
Technology and telecom	**178,082**	**–**	**178,082**	164,248	–	164,248
Industrial services	**167,529**	**54,565**	**222,094**	80,807	52,284	133,091
Distribution	**73,478**	**13,269**	**86,747**	77,830	19,556	97,386
Total	**521,579**	**368,374**	**889,953**	384,160	385,232	769,392

10(b). TECHNOLOGY SMALL-CAP INVESTMENTS

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

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

The carrying values of the Group's co-investments in technology small-cap deals at June 30, 2010 and June 30, 2009 are:

$000s	Communication infrastructure	Wireless data	Digital content	Enterprise software	Other	June 30, 2010 Total
Technology Fund I						
North America	496	914	54	1,444	696	3,604
Sub-Total	496	914	54	1,444	696	3,604
Technology Fund II						
North America	5,003	356	3,946	1,520	–	10,825
Europe	–	–	8,860	–	–	8,860
Sub-Total	5,003	356	12,806	1,520	–	19,685
Technology Fund III						
North America	–	9,961	–	3,122	–	13,083
Europe	–	–	–	7,983	–	7,983
Sub-Total	–	9,961	–	11,105	–	21,066
Direct Co-Investment						
Europe	–	–	13,557	14,199	–	27,756
Sub-Total	–	–	13,557	14,199	–	27,756
Total	5,499	11,231	26,417	28,268	696	72,111

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

10(c). GULF GROWTH CAPITAL

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2010 and June 30, 2009:

	Industry			
$000s	Distribution	Industrial products	Consumer products	June 30, 2010 Total
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	–	–	8,807	8,807
UAE	–	4,889	–	4,889
Kuwait	4,416	–	–	4,416
Total	4,416	4,889	8,807	18,112

	Industry			
$000s	Distribution	Industrial products	Consumer products	June 30, 2009 Total
Gulf Opportunity Fund I				
Kingdom of Saudi Arabia	–	–	8,807	8,807
UAE	–	4,889	–	4,889
Total	–	4,889	8,807	13,696

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

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

10(d). STRATEGIC AND OTHER INVESTMENTS

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

1. Investments made for strategic reasons;

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

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

These are primarily held as AFS investments, except for investments amounting to $36.1 million (June 30, 2009: $38.2 million) that are classified as FVTPL.

11. CO-INVESTMENTS IN REAL ESTATE

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

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

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

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2010 and at June 30, 2009 are:

$000s Portfolio type	Number of properties	Region East	 Midwest	 Southeast	 Southwest	 West	June 30, 2010 Total
Office	14	26,598	–	–	–	6,795	33,393
Hotels	15	18,160	6,842	1,783	6,126	–	32,911
Retail	34	–	1,347	1,393	5,704	213	8,657
Industrial	4	4,752	–	–	–	4	4,756
Core plus total	67	49,510	8,189	3,176	11,830	7,012	79,717
Mezzanine debt		27,849	730	48	107	530	29,264
Opportunistic	9	34,156	–	31,292	–	34,006	99,454
Strategic and other		8,342	–	–	–	–	8,342
Total	76	119,857	8,919	34,516	11,937	41,548	216,777

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

12. PROVISIONS FOR IMPAIRMENT

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

$000s Categories	At beginning	Charge for the year	At end
Receivables	31,907	6,388	38,295
Loans and advances	47,326	5,281	52,607
Total	79,233	11,669	90,902
As at June 30, 2009	56,987	22,246	79,233

13. DEPOSITS FROM CLIENTS

$000s	June 30, 2010	June 30, 2009
SHORT-TERM:		
Call accounts	105,726	72,564
Short-term deposits	385	21,049
Transitory balances	141,315	196,260
Total deposits from clients — short-term	**247,426**	289,873
MEDIUM-TERM:		
Medium-term deposits	22,860	23,956
Investment holding companies' deposits	50,949	26,682
Discretionary and other deposits	16,884	32,574
Total deposits from clients — medium-term	**90,693**	83,212
Total	**338,119**	373,085

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

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

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

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

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

All deposits bear interest at market rates.

14. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2010	June 30, 2009
Accrued expenses — employee compensation	69,200	28,638
Vendor and other trade payables	35,459	34,473
Investment related payables	18,654	8,890
Deferred income	5,570	7,259
Accrued interest payable	15,459	11,101
Total	**144,342**	90,361

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

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

15. MEDIUM-TERM DEBT

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

$000s	June 30, 2010	June 30, 2009
Medium-term revolvers [See Note 15 (a)]	797,500	797,500
Medium-term debt [See Note 15 (b)]	543,442	846,500
Transaction costs of borrowings	(19,594)	(8,485)
	1,321,348	1,635,515

15(a). MEDIUM-TERM REVOLVERS

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

		June 30, 2010			June 30, 2009		
$000s	Maturity	Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000	122,534	150,000
5-year Eurodollar facility	December 2011	500,000	500,000	500,000	500,000	421,027	500,000
5.5-year Eurodollar facility	March 2013	40,000	40,000	40,000	40,000	30,795	40,000
5-year Eurodollar facility	April 2013	107,500	107,500	107,500	107,500	107,500	107,500
Total		797,500	797,500	797,500	797,500	681,856	797,500

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

15(b). MEDIUM-TERM DEBT

		June 30, 2010			June 30, 2009		
$000s	Maturity	Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year Eurodollar facility	June 2009	42,000	–	–	42,000	26,219	–
5-year Eurodollar facility	December 2009	142,000	52,636	–	142,000	142,000	142,000
5-year Eurodollar facility	December 2009	350,000	160,137	–	350,000	350,000	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	50,000	50,000	50,000	50,000
5-year floating rate medium-term note	June 2012	19,000	19,000	19,000	19,000	19,000	19,000
3-year multi-currency facility	March 2013	192,953	49,126	192,953	–	–	–
5-year Eurodollar facility	April 2013	135,500	135,500	135,500	135,500	135,500	135,500
Total		1,081,453	616,399	547,453	888,500	872,719	846,500
Foreign exchange translation adjustments				(4,011)			–
Total				543,442			846,500

These facilities carry LIBOR-based floating rates of interest.

15(c). FORWARD START FACILITY

During the current year, the Group entered into a $575 million, 3-year multi-currency refinancing facility. The facility is split into various tranches available at various dates with the first draw down made in March 2010 and last to be made in December 2011.

$000s	Forward start date	Maturity	Category	Size
Forward start 3-year multi-currency facility maturing in March 2013				
Tranche B1	July 2010	March 2013	Funded	61,250
Tranche B2	July 2010	March 2013	Revolver	46,250
Tranche C	September 2010	March 2013	Funded	27,500
Tranche D	December 2011	March 2013	Revolver	246,500
Total				**381,500**

16. LONG-TERM DEBT

		June 30, 2010		June 30, 2009	
$000s	Final maturity	Average outstanding	Current outstanding	Average outstanding	Current outstanding
PRIVATE NOTES					
$143 million private placement	October 2008	–	–	35,750	–
$55 million private placement	May 2009	–	–	22,917	–
GBP 25 million private placement	January 2010	1,438	–	12,683	2,624
$40 million private placement	December 2010	30,000	30,000	37,813	30,000
$15 million private placement	May 2011	–	–	6,250	–
$50 million private placement	July 2011	–	–	20,833	–
GBP 20 million private placement	September 2011	–	–	14,146	–
$75 million bi-lateral placement	March 2013	41,877	35,000	57,813	50,000
$42 million private placement	November 2011	–	–	17,500	–
$20 million private placement	November 2011	20,000	20,000	20,000	20,000
$20 million private placement	April 2012	20,000	20,000	20,000	20,000
$71.5 million private placement	May 2012	46,684	35,750	61,073	53,625
$35 million private placement	December 2013	26,250	26,250	26,250	26,250
JPY 37 billion private placement	March 2030	332,328	332,328	332,328	332,328
$50 million private placement	July 2032	50,000	50,000	50,000	50,000
		568,577	549,328	735,356	584,827
Foreign exchange translation adjustments			85,657		53,187
Fair value adjustments			(39,904)		(55,774)
Transaction costs of borrowings			(3,471)		(3,870)
Total			**591,610**		578,370

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

17. SHARE CAPITAL AND RESERVES

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

	June 30, 2010			June 30, 2009		
	No. of shares	Par value $	$000	No. of shares	Par value $	$000
Authorized share capital						
– Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
– Preference and other shares	1,000,000	1,000	1,000,000	500,000	1,000	500,000
			2,000,000			1,500,000
Issued share capital						
– Ordinary shares	800,000	250	200,000	800,000	250	200,000
– Preference shares	515,132	1,000	515,132	500,000	1,000	500,000
			715,132			700,000

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

	June 30, 2010			June 30, 2009		
Ordinary shares	No. of shares	No. of shareholders	% of total outstanding shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	281,407	368	35%	278,299	371	35%
1% up to less than 5%	28,651	2	4%	104,317	11	13%
5% up to less than 10%	111,501	3	14%	87,497	2	11%
10% up to less than 20%	83,058	1	10%	83,058	1	10%
More than 20%*	171,660	1	22%	162,731	1	20%
Treasury shares	123,723	1	15%	84,098	1	11%
	800,000	376	100%	800,000	387	100%

*Represents 21.5% (June 30, 2009: 20%) shares held by the custodian of the GDR Depositary.

	June 30, 2010			June 30, 2009		
Preference shares	No. of shares	No. of shareholders	% of total outstanding shares	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	78,107	94	15%	43,520	36	9%
1% up to less than 5%	66,200	5	13%	61,480	7	12%
5% up to less than 10%	–	–	0%	25,000	1	5%
10% up to less than 20%	370,000	4	72%	70,000	1	14%
More than 20%	–	–	0%	300,000	3	60%
Treasury shares	825	1	0%	–	–	0%
	515,132	104	100%	500,000	48	100%

Capital management

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

Preference shares

During the year, the Group obtained shareholder and regulatory approvals to increase the issued preference share capital by an additional amount of up to $40 million, bringing the total maximum amount permissible to $540 million. At the balance sheet date, 515,132 preference shares were issued amounting to $515.1 million.

The table below summarizes the preference shares in issuance as of the balance sheet date:

Preference share series	Call date	No. of shares	Par value $000s
Series B1	June 30, 2014	117,270	117,270
Series B2	July 15, 2014	204,010	204,010
Series B3	August 12, 2014	74,975	74,975
Series C	August 12, 2014	100,000	100,000
Series D	December 21, 2014	18,877	18,877
Total		515,132	515,132

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

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

Of the total preference shares issued, 11,309 preference shares were issued to employees during the year. As per the terms of the issue, the vesting will take place over a period of 24 months commencing from July 1, 2009 and the Group recognizes the related expense over the vesting period. Total vesting for the year is 5,680 shares and accordingly the Group has recognized related expense of $4.9 million in the current year.

Share premium

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

Statutory reserve

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

General reserve

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

Treasury shares

Ordinary shares held as treasury include 123,723 shares (June 30 2009: 15,298 shares) that are held by SIPCO Limited which are funded by the Group.

During the year the Group arranged a $40 million third party financing transaction for SIPCO Limited that is secured by a portion of the Bank's shares owned by SIPCO Limited. The financing is non-recourse to the Group. Proceeds from the financing were used to repay loans due to the Group in respect of Group funded shares. This reduced the amount of the treasury shares deducted from gross equity and increased net equity by an equivalent amount.

Unrealized fair value changes and reserves

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

As of June 30, 2010 the Group had an accumulated deficit, including unrealized fair value changes of private equity and real estate co-investments, of $234.5 million (June 30, 2009: accumulated deficit of $280.1 million).

18. UNREALIZED FAIR VALUE CHANGES AND REVALUATION RESERVES

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

	Fair value changes and revaluation reserve						
	FVTPL Investments						
$000s	Private equity	Real estate	Sub-total	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2008	(41,103)	(1,413)	(42,516)	6,573	(9,097)	–	(45,040)
Net realized loss recycled to statement of income	–	–	–	–	6,563	–	6,563
Net unrealized (losses) gains for the year	(241,810)	(106,276)	(348,086)	–	5,559	11,240	(331,287)
Transfer of realized losses and depreciation to retained earnings	89,844	3,727	93,571	–	–	(475)	93,096
Balance at June 30, 2009	(193,069)	(103,962)	(297,031)	6,573	3,025	10,765	(276,668)
Net realized loss recycled to statement of income	–	–	–	–	5,838	–	5,838
Net unrealized gains / (losses) for the year	97,036	(101,387)	(4,351)	–	2,816	–	(1,535)
Transfer of realized losses / (gains) and depreciation to retained earnings	(17,891)	19,354	1,463	–	–	(816)	647
Balance at June 30, 2010	**(113,924)**	**(185,995)**	**(299,919)**	**6,573**	**11,679**	**9,949**	**(271,718)**

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

19. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

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

$000s	2010	2009
Net income (loss)	**102,174**	(780,627)
Less: Proposed preference shares dividend	**(57,374)**	–
Net income (loss) attributable to ordinary shareholders	**44,800**	(780,627)
Weighted average ordinary shares	**699,851**	696,987
Basic and fully diluted earnings (loss) per ordinary share — on weighted average shares ($)	**64**	(1,120)
Proposed preference shares dividend	**57,374**	–

The proposed preference share dividend represents pro rata dividend on issued preference shares at the rate of 12% per annum.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity, excluding AFS co-investments and cash flow fair value changes, revaluation reserves and proposed dividend, by the number of ordinary shares outstanding at year end, is $594.43 per share (June 30, 2009: $522.95 per share).

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

Other derivatives

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

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

$000s	June 30, 2010			June 30, 2009		
Hedged item description	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) **Fair value hedges**						
On balance sheet exposures						
Long-term debts	431,158	16,926	(261)	436,444	6,383	(145)
ii) **Cashflow hedges**						
Coupon on long-term debt	81,481	3,199	–	78,934	1,336	–
Total forward foreign exchange contracts	512,639	20,125	(261)	515,378	7,719	(145)
Interest rate risk being hedged using interest rate swaps						
i) **Fair value hedges—fixed rate debt**	563,855	4,563	–	553,732	13,753	(431)
ii) **Cashflow hedges—floating rate debt**	–	–	–	250,000	–	(1,405)
Total interest rate hedging contracts	563,855	4,563	–	803,732	13,753	(1,836)
Total—hedging derivatives	1,076,494	24,688	(261)	1,319,110	21,472	(1,981)
B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	15,483	27	(165)	216,788	3,683	(3,854)
Total—derivatives on behalf of clients	15,483	27	(165)	216,788	3,683	(3,854)
C) OTHER DERIVATIVES						
Interest rate swaps	350,000	16,738	(18,752)	384,750	15,877	(17,367)
Interest rate caps	–	–	–	601,000	–	–
Forward foreign exchange contracts	264,971	17,532	(7,322)	695,992	10,502	(10,052)
Currency option	2,251	71	(71)	2,251	33	(33)
Cross currency swaps	334,800	15,710	–	–	–	–
Interest rate options	100,000	–	(628)	–	–	–
Equity options	–	–	–	100,000	4,583	–
Total—other derivatives	1,052,022	50,051	(26,773)	1,783,993	30,995	(27,452)
Total—derivative financial instruments	2,143,999	74,766	(27,199)	3,319,891	56,150	(33,287)

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

	June 30, 2010				
	Notional amounts by term to maturity				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	431,158	–	–	–	431,158
Interest rate swaps	–	28,875	69,611	465,369	563,855
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	81,481	–	–	–	81,481
Derivates on behalf of clients:					
Forward foreign exchange contracts	13,050	2,433	–	–	15,483
Other derivatives:					
Interest rate swaps	–	–	300,000	50,000	350,000
Forward foreign exchange contracts	100,352	120,523	44,096	–	264,971
Currency option	–	–	2,251	–	2,251
Cross currency swaps	–	206,148	128,652	–	334,800
Interest rate options	–	–	100,000	–	100,000
	626,041	357,979	644,610	515,369	2,143,999

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

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

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2010 were $47.7 million (June 30, 2009: $8.4 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $48.3 million (June 30, 2009: $9.7 million). These gains and losses are included in interest expense or treasury and other asset-based income as appropriate in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

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

	June 30, 2010				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk					
Fixed coupon on long-term debt*	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)
	(7,315)	(7,315)	(58,518)	(219,442)	(292,590)

	June 30, 2009				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk					
Fixed coupon on long-term debt*	(6,744)	(6,744)	(53,953)	(215,811)	(283,252)
Interest rate risk					
Interest on medium-term debt	(1,125)	–	–	–	(1,125)
	(7,869)	(6,744)	(53,953)	(215,811)	(284,377)

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

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2010 was $1.0 million (June 30, 2009: $6.6 million).

21. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	June 30, 2010	June 30, 2009
Investment commitments to closed-end committed funds	200,672	173,782
Other investment commitments	4,203	6,750
Total investment commitments	204,875	180,532
Non-cancelable operating leases	63,712	72,854
Guarantees and letters of credit issued to third parties	146,767	175,530
Capital guarantees	5,876	5,876

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

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

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

Guarantees amounting to $33.7 million (June 30, 2009: $85.3 million) relate to supporting performance obligations of operating partners and investee companies.

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

In addition to the above, the Group used to act as a guarantor of last resort to facilitate third party financing for various employee investment programs. Eligible employees, in their individual capacities, were provided financing by third party lenders on a selective basis and subject to risk-based criteria determined by the lenders, for their participation in the investment programs. At June 30, 2009, eligible employees had drawn down $16.4 million out of a maximum $75 million available under this facility. During the year, this financing was settled and exposure was taken on the Group's balance sheet.

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

22. CAPITAL ADEQUACY

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

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

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

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

$000s	June 30, 2010	June 30, 2009
Gross Tier 1 capital	**994,338**	894,746
Less: regulatory deductions	**(39,382)**	(20,363)
Tier 1 capital — net	**954,956**	874,383
Tier 2 capital — net	**–**	10,827
Regulatory capital base under Basel II (a)	**954,956**	885,210

Risk weighted exposure $000s	June 30, 2010 Principal/ notional amounts	June 30, 2010 Risk weighted equivalents	June 30, 2009 Principal/ notional amounts	June 30, 2009 Risk weighted equivalents
Credit risk				
Claims on sovereigns	**67**	**–**	125,077	–
Claims on non-central government public sector entities	**15,675**	**–**	277,742	–
Claims on banks	**610,147**	**122,929**	734,306	146,861
Claims on corporates	**800,874**	**564,885**	408,531	408,531
Co-investments (including hedge funds)	**1,806,816**	**2,669,708**	1,801,079	2,781,038
Other assets	**73,715**	**73,715**	184,059	183,967
Off-balance sheet items				
Commitments and contingent liabilities	**421,229**	**255,674**	451,196	268,736
Derivative financial instruments	**2,143,999**	**29,734**	3,319,891	19,005
Credit risk weighted exposure		**3,716,645**		3,808,138
Market risk				
Market risk weighted exposure		**7,148**		7,900
Operational risk				
Operational risk weighted exposure		**454,169**		600,847
Total risk weighted exposure (b)		**4,177,962**		4,416,885
Risk asset ratio (a)/(b)		**22.9%**		20.0%
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		12.0%

23. RISK MANAGEMENT

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

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

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

(i) Credit risk

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

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

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

Internal rating categories are summarized as follows:

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

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

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

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

	June 30, 2010						
	Neither past due nor impaired (a)						
	Credit risk rating						
$000s	High	Standard	Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Short-term funds	21,242	–	–	–	–	21,242	38,207
Placements with financial institutions and other liquid assets	881,469	–	–	–	–	881,469	960,505
Positive fair value of derivatives	–	74,766	–	–	–	74,766	37,777
Receivables and prepayments	–	164,788	118,552	38,410	(38,295)	283,455	261,674
Loans and advances	–	230,224	–	69,976	(52,607)	247,593	155,669
Co-investments — debt	–	82,445	–	–	–	82,445	63,288
Guarantees	–	152,643	–	–	–	152,643	175,227
Total	902,711	704,866	118,552	108,386	(90,902)	1,743,613	

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

	June 30, 2009							
	Neither past due nor impaired (a)		Past due but not impaired	Impaired*	Provisions	Maximum credit risk	Average balance
	Credit risk rating						
$000s	High	Standard	(b)	(c)	(d)	(a+b+c+d)	
Short-term funds	415,996	–	–	–	–	415,996	164,711
Placements with financial institutions and other liquid assets	713,217	–	–	–	–	713,217	332,529
Positive fair value of derivatives	–	56,150	–	–	–	56,150	21,711
Receivables	–	196,283	111,116	32,749	(31,907)	308,241	271,228
Loans and advances	–	197,745	–	73,684	(47,326)	224,103	113,664
Co-investments — debt	–	44,130	–	–	–	44,130	31,350
Guarantees	–	197,810	–	–	–	197,810	202,325
Total	1,129,213	692,118	111,116	106,433	(79,233)	1,959,647	

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

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

$000s	June 30, 2010	June 30, 2009
Up to 1 month	**26,564**	4,808
> 1 up to 3 months	**11,996**	2,611
> 3 up to 6 months	**2,010**	553
> 6 months up to 1 year	**443**	3,783
Over 1 year	**77,539**	99,361
Total	**118,552**	111,116

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2010 amounts to $736 million (June 30, 2009: $763 million).

(ii) Liquidity risk

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

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

	June 30, 2010							
$000s	Up to 3 months	>3 months up to 1 year	Sub-total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
ASSETS								
Cash and short-term funds	21,342	–	21,342	–	–	–	–	21,342
Placement with financial institutions and other liquid assets	878,469	–	878,469	3,000	–	–	–	881,469
Positive fair value of derivatives	11,688	21,882	33,570	13,340	344	20,425	7,087	74,766
Receivables and prepayments	66,852	216,790	283,642	32,333	–	–	–	315,975
Loans and advances	3,404	8,813	12,217	235,349	–	27	–	247,593
Co-investments in hedge funds	288,516	196,642	485,158	52,116	–	–	–	537,274
Private equity co-investments	–	216,685	216,685	836,080	–	–	–	1,052,765
Real estate co-investments	–	30,281	30,281	186,496	–	–	–	216,777
Premises, equipment and other assets	138	–	138	15,472	42,135	11,250	–	68,995
Total assets	1,270,409	691,093	1,961,502	1,374,186	42,479	31,702	7,087	3,416,956
LIABILITIES								
Deposits from clients — short-term	247,426	–	247,426	–	–	–	–	247,426
Negative fair value of derivatives	562	3,118	3,680	13,977	–	–	9,542	27,199
Payables and accrued expenses	116,336	20,045	136,381	7,961	–	–	–	144,342
Deposits from clients — medium-term	–	–	–	90,693	–	–	–	90,693
Medium-term debt	349,954	–	349,954	971,394	–	–	–	1,321,348
Long-term debt	–	45,229	45,229	116,077	–	388,201	42,103	591,610
Total liabilities	714,278	68,392	782,670	1,200,102	–	388,201	51,645	2,422,618
Net gap	556,131	622,701	1,178,832	174,084	42,479	(356,499)	(44,558)	
Cumulative liquidity gap	556,131	1,178,832	1,178,832	1,352,916	1,395,395	1,038,896	994,338	

$000s	Up to 3 months	>3 months up to 1 year	Sub-total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
	June 30, 2009							
ASSETS								
Cash and short-term funds	416,088	–	416,088	–	–	–	–	416,088
Placement with financial institutions and other liquid assets	713,217	–	713,217	–	–	–	–	713,217
Positive fair value of derivatives	4,436	8,301	12,737	8,797	1,233	868	32,515	56,150
Receivables and prepayments	118,899	47,594	166,493	169,248	–	–	–	335,741
Loans and advances	13,306	23,073	36,379	187,724	–	–	–	224,103
Co-investments in hedge funds	69,685	391,412	461,097	141,513	11,871	–	–	614,481
Private equity co-investments	–	18,424	18,424	860,808	24,159	–	–	903,391
Real estate co-investments	–	38,414	38,414	244,793	–	–	–	283,207
Premises, equipment and other assets	142	–	142	22,304	40,289	11,251	–	73,986
Total assets	1,335,773	527,218	1,862,991	1,635,187	77,552	12,119	32,515	3,620,364
LIABILITIES								
Deposits from financial institutions	15,000	–	15,000	–	–	–	–	15,000
Deposits from clients — short-term	289,873	–	289,873	–	–	–	–	289,873
Negative fair value of derivatives	11,771	170	11,941	13,389	–	–	7,957	33,287
Payables and accrued expenses	39,170	51,191	90,361	–	–	–	–	90,361
Deposits from clients — medium-term	–	–	–	83,212	–	–	–	83,212
Medium-term debt	22,000	470,000	492,000	1,143,515	–	–	–	1,635,515
Long-term debt	–	40,392	40,392	161,017	–	–	376,961	578,370
Total liabilities	377,814	561,753	939,567	1,401,133	–	–	384,918	2,725,618
Net gap	957,959	(34,535)	923,424	234,054	77,552	12,119	(352,403)	
Cumulative liquidity gap	957,959	923,424	923,424	1,157,478	1,235,030	1,247,149	894,746	

Contractual maturity of financial liabilities on an undiscounted basis

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

	June 30, 2010						
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
Financial liabilities							
Deposits from clients	247,778	278	91,563	–	–	–	339,619
Payables and accrued expenses	116,337	20,045	7,960	–	–	–	144,342
Medium-term debt	356,658	21,760	1,026,916	–	–	–	1,405,334
Long-term debt	9,734	64,673	202,991	93,347	604,679	60,100	1,035,524
	730,507	106,756	1,329,430	93,347	604,679	60,100	2,924,819
Derivatives							
Contracts settled on a gross basis:							
Contractual amounts payable	618,478	290,838	144,832	–	–	–	1,054,148
Contractual amounts receivable	(637,551)	(322,931)	(150,930)	–	–	–	(1,111,412)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(2,740)	(7,155)	(33,253)	(13,521)	15,175	(86)	(41,580)
Commitments	1,745	46,210	193,893	26,739	–	–	268,587
Guarantees	107,796	–	15,876	28,971	–	–	152,643
Total undiscounted financial liabilities	818,235	113,718	1,499,848	135,536	619,854	60,014	3,247,205

$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
	June 30, 2009						
Financial liabilities							
Deposits from financial institutions	15,077	–	–	–	–	–	15,077
Deposits from clients	272,475	79,320	22,243	–	–	–	374,038
Payables and accrued expenses	39,170	51,191	–	–	–	–	90,361
Medium-term debt	25,360	481,188	1,172,015	–	–	–	1,678,563
Long-term debt	2,532	65,930	247,631	87,641	175,282	463,005	1,042,021
	354,614	677,629	1,441,889	87,641	175,282	463,005	3,200,060
Derivatives							
Contracts settled on a gross basis:							
Contractual amounts payable	1,026,484	214,177	164,208	–	–	–	1,404,869
Contractual amounts receivable	(1,020,109)	(217,524)	(174,443)	–	–	–	(1,412,076)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(208)	5,537	18,737	9,885	(9,764)	(512)	23,675
Commitments	1,717	44,376	173,450	33,843	–	–	253,386
Guarantees	162,886	19,048	15,876	–	–	–	197,810
Total undiscounted financial liabilities	525,384	743,243	1,639,717	131,369	165,518	462,493	3,667,724

(iii) Concentration risk

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

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

	June 30, 2010			June 30, 2009		
$000s	**Assets exposed to credit risk**	**Off-balance sheet items exposed to credit risk**	**Total credit risk exposure**	Assets exposed to credit risk	Off-balance sheet items exposed to credit risk	Total credit risk exposure
GEOGRAPHIC REGION						
North America	**1,182,927**	**146,767**	**1,329,694**	1,058,119	191,934	1,250,053
Europe	**159,138**	**–**	**159,138**	127,953	–	127,953
Middle East	**247,969**	**5,876**	**253,845**	561,460	5,876	567,336
Other	**936**	**–**	**936**	14,305	–	14,305
Total	**1,590,970**	**152,643**	**1,743,613**	1,761,837	197,810	1,959,647

	June 30, 2010			June 30, 2009		
$000s	Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure	Assets exposed to credit risk	Off-balance sheet exposed to credit risk	Total credit risk exposure
INDUSTRY SECTOR						
Banking and finance	1,055,788	50,116	1,105,904	1,351,954	83,136	1,435,090
Consumer products	18,125	430	18,555	19,760	–	19,760
Consumer services	32,291	–	32,291	12,083	–	12,083
Distribution	42,425	–	42,425	8,616	–	8,616
Industrial products	81,289	–	81,289	45,916	–	45,916
Real estate	97,084	86,221	183,305	94,136	61,250	155,386
Technology and telecom	23,873	–	23,873	28,678	19,048	47,726
Others	240,095	15,876	255,971	200,694	34,376	235,070
Total	**1,590,970**	**152,643**	**1,743,613**	1,761,837	197,810	1,959,647

(iv) Market risk

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

The Group uses an internal model to calculate VaR for measuring unexpected future losses that may arise from adverse market movements. The Group's risk management team conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the CBB (see Note 22). Back testing is carried out for foreign exchange risk by comparing VaR based on a 10-day holding period with the daily profit and loss and for equity price risk related to co-investments in hedge funds by comparing VaR based on a one-month holding period with the actual performance for the month. The objective is to ensure that the assumptions used for computing VaR are reasonable and result in a VaR number that does not understate economic and regulatory risk capital requirements.

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

(iv) (a) Foreign currency risk

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

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

$000s	June 30, 2010		June 30, 2009	
Long (short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	–	40,249	–	39,140
Euro	47,265	150	221,919	(1,182)
Pounds Sterling	36,368	245	(22,087)	(768)
Japanese Yen	(399,310)	594	(409,332)	(86)
	(315,677)	41,238	(209,500)	37,104

*Currency exchange rate currently pegged against the US dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk.

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

$000s	2010	2009
Average FX VaR	27	27
Year end FX VaR	14	50
Maximum FX VaR	133	114
Minimum FX VaR	2	3

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $4.8 million (June 30, 2009: $4.7 million), which earn interest at an effective rate approximating 10% (June 30, 2009: 10%) per annum.

- Deposits from clients amounting to $3.0 million (June 30, 2009: $26.9 million) on which interest is paid at an effective rate of 5.1% (June 30, 2009: 2.0%) per annum reflecting the underlying maturity structure.

- Long term debt amounting to $25 million (June 30, 2009: $50 million) on which interest is paid at an effective rate of 8.1% (June 30, 2009: 8.1%) per annum reflecting the underlying maturity structure.

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

$000s	Sensitivity to net income for +200 basis points	
Currency	**June 30, 2010**	June 30, 2009
Euro	**(6,836)**	(8,702)
Pounds Sterling	**(1,271)**	(1,317)
Japanese Yen	**934**	1,737
US Dollar	**(14,020)**	(21,026)
Others	**182**	391
Total	**(21,011)**	(28,917)

(a) Figures in parenthesis above represent loss.

(b) The impact of a negative 200 basis points change would be opposite and approximate the above values.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end. The Group actively manages its interest rate gap exposure, with a bias towards floating rates.

(iv) (c) Equity price risk

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

Co-investments in private equity and real estate

The Group manages the equity price risk of its co-investments in private equity and real estate on a portfolio basis as well as at the individual investment level.

The sensitivity of the Group's co-investments in private equity and real estate to changes in multiples/discount rates is discussed in Note 24.

Co-investments in hedge funds

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

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

$000s	Based on balance sheet exposure		Based on gross exposure	
	2010	2009	**2010**	2009
Average VaR	**28,665**	59,109	**43,714**	62,063
Year end VaR	**22,653**	34,526	**40,410**	48,817
Maximum VaR	**37,516**	86,365	**49,072**	88,519
Minimum VaR	**22,653**	34,526	**40,271**	44,660
Maximum hedge funds exposure	**671,244**	2,069,564	**983,756**	2,090,421
Minimum hedge funds exposure	**524,647**	614,481	**843,043**	868,828

(v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

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

As part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- The Bank applies the Basic Indicator Approach (BIA) to measure operational risk.
- It uses best in class qualitative standards expected under the Basel II Standardized Approach.
- Financial controls and risk management with involvement from internal audit have jointly conducted control risk self assessment (CRSA) workshops with each line of business head, identifying and highlighting various operational risk aspects.
- An operational risk framework is in place with a dedicated unit within risk management.
- The team works with all departments to identify key operational risks and has set up appropriate controls infrastructure.
- Identification of key risk indicators, key risk controls, observations of loss data, definitions and structures related to operational risk at each business level have been completed.
- Where necessary, a mitigation plan is in place to improve the control environment and its ownership allocated to the 'operational risk specialist' of the relevant line of business.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Fair value of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value except for fixed rate liabilities effectively carried at amortized cost. The fair value of such liabilities amount to $1,878.5 million (June 30, 2009: $1,993.6 million) as compared to carrying value of $1,912.9 million (June 30, 2009: $2,213.9 million).

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

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

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

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

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

	June 30, 2010			
$000s	Level 1	Level 2	Level 3	Total
Financial assets				
Placements with financial institutions and other liquid assets	–	253,000	–	253,000
Positive fair value of derivatives	–	74,766	–	74,766
Co-investments				
Hedge funds	–	537,274	–	537,274
Private equity	914	–	1,003,597	1,004,511
Real estate	–	–	182,586	182,586
Total financial assets	914	865,040	1,186,183	2,052,137
Financial liabilities				
Negative fair value of derivatives	–	27,199	–	27,199
Total financial liabilities	–	27,199	–	27,199

During the period, there has been no transfer between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the opening and closing amounts of financial assets (including those measured using Level 1 input and assets at amortized cost) is given below:

	June 30, 2010					
$000s	At beginning	Net new acquisitions	Fair value movements	Movements relating to realizations/ placements*	Other movements*	At end
US and European buyouts						
Level 3	769,392	153,417	97,690	(112,144)	(21,241)	887,114
Others	–	2,839	–	–	–	2,839
Sub-total	769,392	156,256	97,690	(112,144)	(21,241)	889,953
Technology small-cap investments						
Level 3	45,483	29,003	1,286	(29,641)	(843)	45,288
Others	711	25,909	203	–	–	26,823
Sub-total	46,194	54,912	1,489	(29,641)	(843)	72,111
Gulf growth capital						
Level 3	13,696	4,416	–	–	–	18,112
Others	–	–	–	–	–	–
Sub-total	13,696	4,416	–	–	–	18,112
Strategic investments and other						
Level 3	54,603	623	(2,143)	–	–	53,083
Others	19,506	–	–	–	–	19,506
Sub-total	74,109	623	(2,143)	–	–	72,589
Real estate						
Level 3	239,077	48,986	(101,387)	(4,666)	576	182,586
Others	44,130	16,969	–	(26,908)	–	34,191
Sub-total	283,207	65,955	(101,387)	(31,574)	576	216,777
Total	1,186,598	282,162	(4,351)	(173,359)	(21,508)	1,269,542

$000s	At beginning	New acquisitions	Fair value movements	Movements relating to realizations	Other movements*	At end
	June 30, 2009					
US and European buyouts						
Level 3	921,821	146,256	(243,646)	(62,007)	6,968	769,392
Sub-total	921,821	146,256	(243,646)	(62,007)	6,968	769,392
Technology small-cap investments						
Level 3	32,634	11,623	2,699	–	(1,473)	45,483
Others	1,574	–	(863)	–	–	711
Sub-total	34,208	11,623	1,836	–	(1,473)	46,194
Gulf growth capital						
Level 3	–	13,696	–	–	–	13,696
Sub-total	–	13,696	–	–	–	13,696
Strategic investments and other						
Level 3	53,607	–	(3,307)	–	4,303	54,603
Others	19,506	–	–	–	–	19,506
Sub-total	73,113	–	(3,307)	–	4,303	74,109
Real estate						
Level 3	318,639	–	(106,276)	(10,775)	37,489	239,077
Others	18,399	16,225	–	(2,876)	12,382	44,130
Sub-total	337,038	16,225	(106,276)	(13,651)	49,871	283,207
Total	1,366,180	187,800	(351,393)	(75,658)	59,669	1,186,598

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.2 million gain (June 2009: $0.9 million loss) for movements relating to Level 1 assets of technology small-cap investments.

The table below summarizes the sensitivity of the Group's co-investments in US and European buyouts and real estate to changes in multiples/discount rates.

June 30, 2010

$000s	Factor	Change	Balance sheet exposure	Projected balance sheet exposure		Impact on income	
				Increase	Decrease	Increase	Decrease
US and European buyouts	**EBITDA multiples**	**+/– 0.5x**	**889,953**	**941,696**	**842,050**	**51,743**	**(47,903)**
Real estate	**Capitalization rate**	**+/– 1%**	**216,777**	**247,666**	**192,620**	**30,889**	**(24,157)**

June 30, 2009

$000s	Factor	Change	Balance sheet exposure	Projected balance sheet exposure		Impact on income	
				Increase	Decrease	Increase	Decrease
US and European buyouts	EBITDA multiples	+/– 0.5x	769,392	864,962	685,067	95,570	(84,325)
Real estate	Capitalization rate	+/– 1%	283,207	346,912	180,711	63,705	(102,496)

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of TSI, GGC and strategic co-investments.

25. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide a competitive total compensation package for employees versus comparable financial services firms operating in similar geographic locations. This is achieved through a combination of cash salaries, variable bonuses dependant upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

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

Similar to most other investment institutions, approximately one-third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

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

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

In addition, the Group accounts for employee end of service benefits on an accrual basis. The charge during the current year, in respect of these, amounts to $0.4 million (2009: $0.6 million).

Programs for investment profit participation

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

Similarly, the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling period. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for investment participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including private equity investments, real estate investments and the hedge funds program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group.

In some instances, the Group, together with third party lenders, also provides financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to or on behalf of employees as of June 30, 2010 is $141.2 million (June 30, 2009: $146.4 million), of which nil (June 30, 2009: $16.4 million) was from third parties. Third party financing was fully repaid during the year and exposure was taken on the Group's balance sheet (see Note 21).

Share ownership program

SIPCO sponsors a share incentive plan (SIP Plan) under which eligible employees receive a portion of their annual performance incentive compensation in the form of a beneficial interest in the ownership of the Bank via shares of SIPCO. These shares have different vesting periods. The restricted shares are awarded at fair value, determined with reference to the market price of the GDRs of the Bank. Accordingly, the Group does not incur any additional costs or expenses in relation to the SIP Plan, since these awards occur at the fair value of the shares. It is important to note that the SIP Plan is therefore a fully paid up employee share ownership program, whereby employees effectively pay fair value for purchasing the shares.

26. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of directors and senior managers in the ordinary and preference shares of the Bank are set out below:

	Number of shares	
	June 30, 2010	June 30, 2009
Ordinary shares		
Directors	**40,723**	44,949
Senior managers*	**127,277**	137,396
Total	**168,000**	182,345
Preference shares		
Directors	**16,900**	16,900
Senior managers	**11,309**	–
Total	**28,209**	16,900

*These shares are held through SIPCO as stated in Note 1A (iii) and are not available for trading.

Of the directors' shareholding in ordinary shares, 6,721 (June 30, 2009: 8,253) are held directly and the remaining are held through various holding companies within the Group's ownership structure [see Note 1A (iii)], and are as a result subject to substantial transfer and trading restrictions.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings, including those in their capacities as employees, for the year ended June 30, 2010 amounted to $6.1 million (June 30, 2009: $6.3 million). Total dividends for the directors during the year, including preference share dividends, amounted to $1.97 million (June 30, 2009: nil).

Further, of the staff compensation for the year set out in Note 5, $53.8 million (2009: $46.3 million) is attributable to senior management (excluding directors that are included above). The directors and senior management's remuneration is short-term in nature.

27. RELATED PARTY TRANSACTIONS

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

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

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

In addition to the compensation and benefits to employees and senior management and directors' remuneration disclosed in Notes 25 and 26, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		June 30, 2010	June 30, 2009
Management fees	Investee companies	23,457	19,724
	Client companies	48,736	41,974
	Client companies associated with the HFP	28,574	42,619
Activity fees	Investee companies	41,376	19,775
Performance fees	Client companies associated with the HFP	18,841	(579)
	Client companies	584	881
Asset based income	Investee companies	2,749	21,367
	Client companies	4,942	7,328
Interest expense	Client companies	(415)	(2,113)
Provisions	Employee investment programs	(4,181)	(16,210)

The balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2010			June 30, 2009		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	13,663	64,329	–	3,052	55,870	–
Investee companies	66,255	–	–	60,382	–	–
Investment holding companies	92,785	4,387	200,672	84,110	199,491	173,782
Client fund companies associated with the HFP	9,405	–	–	18,513	–	–
Directors and senior management	3,838	5,984	–	466	6,136	–
	185,946	74,700	200,672	166,523	261,497	173,782

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to $465 million as at June 30, 2010 (June 30, 2009: $459 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

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

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