INVESTCORP

2011

Over 30 years Investcorp has built a distinguished brand, earning the unparalleled respect and trust of its stakeholders and its clients.

Our net income rose to $140 million, a robust increase of 37% over the previous fiscal year. It was twelve months marked by achievements in all areas – creative new investments, solid exits, continued improvements in value of our portfolios, strong Gulf fundraising – a confirmation of the strength and durability of our business model and continuing upward momentum.

INVESTCORP GROUP 2011 ANNUAL REPORT

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Mission

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

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

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

Message to Shareholders

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 28th fiscal year ended June 30, 2011.

Investcorp's Fiscal 2011 net income was $140.3 million, the third-best profit performance in our history and a 37% increase over last year. This continues our rebound to profitability and growth and reflects achievements in all areas: creative new investments, solid realizations, continued improvement in value of our investment portfolios and strong fundraising. This upward momentum, following the world financial crisis, has confirmed the strength and durability of our business model and the power of our franchise and relationships in the Gulf region.

Gross operating income in Fiscal 2011 increased by 15% to $413.6 million. Asset-based income grew by 52%, with all three asset classes – corporate investment, real estate investment and hedge funds – producing solid positive returns. Real estate asset-based income rose to $40.6 million, reflecting ongoing stabilization in the US real estate market, and the turnaround in corporate investment valuations, which began in Fiscal 2010, continued. Placement and fundraising in the Gulf increased to $517 million, although gross fee income this year was 10% lower as a result of several strong realizations that lowered assets under management and of a more normalized performance fee contribution from hedge funds.

We maintained our focus on prudent balance sheet management. Total liquidity remains strong, at $1.5 billion. Total assets are $2.9 billion, including $1.9 billion of co-investments in our three product asset classes. Our capital adequacy ratio stands at 25.7%, well above the Central Bank of Bahrain's minimum requirement of 12%. Operating and interest expense increased to $271 million, reflecting higher compensation accruals in line with the higher income generated during the period.

Throughout the year, we continued to show strong investment discipline in an economic climate that is still challenging. In corporate investment we invested $228 million in new and add-on investments, including an agreement to acquire a leading US specialty retailer, a direct investment in FleetMatics and the acquisition of a majority stake in eviivo Limited by the Investcorp Technology Partners III Fund. The Investcorp Gulf Opportunity Fund I completed the acquisition of a minority stake in Tiryaki Agro. We also undertook several attractively priced add-on investments and facilitated several add-on acquisitions for portfolio companies including Berlin Packaging, FleetPride, Redington Gulf and Veritext. We deployed $76 million in five new real estate investments, which were placed with clients in two portfolios, US Commercial Properties VI and US Diversified Properties IX. We launched the innovative Investcorp Special Opportunities Portfolio – a portfolio of select investments in distressed credit and corporate restructurings in the United States and Europe.

Investcorp's hedge funds co-investment returned approximately 7% over the fiscal year. After strong performance in the first half of the fiscal year, there was some retrenchment in view of unstable market conditions in May and June.

We delivered more than $1 billion in proceeds from realizations and other distributions this year, reflecting the high quality of our investment portfolio and our success in supporting and managing investments through the financial crisis in order to maximize value. In two highly successful exits we sold Moody International in a transaction valued at $729 million, and Associated Materials Inc. in a transaction valued at approximately $1.3 billion. There were three further corporate investment exits and five profitable real estate realizations.

Out of the net income of $140.3 million for the current fiscal year, Investcorp's Board of Directors is proposing appropriations of $9.3 million as ordinary share dividends (representing 6% of paid-up capital, or $15 per ordinary share), of $61.4 million in preference share dividends and of $4.0 million in charitable contributions. The Board is also proposing $1.4 million as Directors' remuneration.

As always, we recognize that these achievements are a result of the diligence, talents and professionalism of Investcorp's staff, the guidance and representation we receive from our Strategic Partnership Group and, above all, the trust and confidence of our shareholders and clients. The Board is deeply grateful to you all. We would also like to mark our appreciation of the longstanding support provided to us by the Government of the Kingdom of Bahrain.

Signed on behalf of the Board of Directors.

Abdul Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

Our Business

Placement & Client Relationship Management

In this environment characterized by uneven economic conditions, negative real interest rates and continuing elevated financial risks, it has been clear over the past year that our clients are fully recognizing the benefits of alternative assets. We continue to believe that alternative investments can generate alpha in a portfolio through long-term value creation and meet the requirements of our clients for superior risk-adjusted returns.

There was strong momentum in fundraising in our core Gulf markets as well as in our core deal-by-deal placement business. We continued to offer alternative asset management solutions to our clients, who are predominantly private and institutional investors in the six GCC countries, but also include a number of international institutions.

Fundraising in the Gulf was $517 million, up 67% on last year. In corporate investment we placed Veritext, which we acquired in May 2010, and FleetMatics, acquired in December 2010. In real estate investment we placed two portfolios: US Commercial Properties VI Portfolio and US Diversified Properties IX Portfolio. We also placed a new product, the innovative Investcorp Special Opportunities Portfolio, a portfolio of investment positions in distressed credit and corporate restructurings in companies in the US and Europe.

There was increased interest in our hedge funds platform from institutional investors in the Gulf, who made new subscriptions into hedge funds of $233 million. Outside the Gulf, most of our fundraising is investment made in hedge funds by institutional investors. We raised $234 million outside the Gulf this year.

We delivered more than $1 billion in proceeds from realizations and other distributions this year, reflecting the high quality of our investment portfolio and our success in supporting and managing investments through the financial crisis in order to maximize value.

Corporate Investment

The post-crisis environment in North America and Europe has provided some attractive opportunities to make corporate investments this year, but discrimination and rigorous assessment has been necessary to select those that will ultimately deliver results, given the economic conditions and outlook. In the Gulf, continuing strong economic growth, underpinned by a buoyant oil price, has remained supportive of growth capital investment in the region.

We saw an increased number of investment opportunities but remained disciplined as the global investment climate still provides challenges. In North America and Europe, prices for quality assets rose as a result of the continuing industry capital overhang and tight supply. In MENA, valuations of public equities in the GCC set favorably low valuation benchmarks for investors, although, in the longer term, valuation levels are expected to be supported by the robust regional macroeconomic trends.

We invested $228 million in new and add-on corporate investments this year, including an agreement to acquire a leading US specialty retailer for $145 million and a direct investment of $45 million in US fleet management provider FleetMatics. The Investcorp Technology Partners III Fund acquired a majority stake in hotel software provider eviivo Limited, made a $7 million investment in FleetMatics to enable it to acquire SageQuest and made a $3.5 million investment in theft protection software company CSIdentity to enable it to acquire IdentityTruth Inc. The Investcorp Gulf Opportunity Fund I completed its fourth investment, taking a minority stake in Turkish agro commodity company Tiryaki Agro. We also made several add-on investments and facilitated several add-on acquisitions for portfolio companies such as Berlin Packaging, FleetPride, Redington Gulf and Veritext.

During the year we made five exits. These included the sales of technical services company Moody International, in a transaction valued at $729 million, and of Associated Materials Inc., a manufacturer of exterior residential building products serving North America, in a transaction valued at approximately $1.3 billion.

Hedge Funds

As the second half of this fiscal year brought shocks and global slowdown with an increase in financial risk, it demonstrated the resilience of the hedge fund industry and investor confidence in its ability to deliver superior risk-adjusted performance. Weaker performance from January did not affect industry inflows. Globally, allocations continued to increase and in May hedge fund assets were said to have reached $2.6 trillion.

Our hedge funds co-investment returned approximately 7% over the fiscal year. Most of the hedge fund returns were generated in the first half of the fiscal year with some retrenchment in the second half in view of unstable market conditions in May and June.

We saw a shift in investor interest this year towards smaller funds of under $1 billion supported by research showing that, over the last seven years, emerging funds had outperformed large funds on a risk-adjusted basis. We also saw a continuation of the move towards separately managed accounts, as investors sought more comprehensive transparency. These trends were reflected in our product breakdown: 61% of client hedge fund assets invested through customized accounts, 23% with single managers and 16% in fund of fund products. Customized accounts and single managers remain important components of our hedge fund growth strategy.

During the year we formed strategic partnerships with Ballast Capital Management and Prosiris Capital Management as the latest single manager additions to our seeding platform.

We also prepared and launched to clients a series of White Papers based on research designed to demystify hedge funds by investigating the sources of hedge fund alpha. This work provides comprehensive and detailed research into the return drivers of major hedge fund strategies: merger arbitrage, convertible arbitrage, equity market neutral, distressed debt and fixed income relative value.

Real Estate Investment

Overall, the environment for our US commercial real estate investment business is still challenging, but has been improving. Asset pricing hit bottom in most major markets this year and there was an initial and sustained improvement in operating performance for many assets. Nonetheless, the recovery is expected to be slow and tentative.

During the year, we were highly selective but saw some good investment opportunities in well priced quality assets in stable sub-markets. We deployed $76 million in five new investments.

We purchased Princeton Forrestal Village, a mixed-use office and retail center located in Princeton, New Jersey; Coral Palm Plaza, a shopping center located in Coral Springs, Florida; and Shops at Tech Ridge, a retail power center in Austin, Texas. These were combined to form the US Commercial Properties VI Portfolio. We also bought Residence Inn Manhattan Beach, a Marriott-branded extended stay hotel in Manhattan Beach, California and Broadway-Webster Medical Plaza, a medical office complex in Oakland, California. These were combined to form the US Diversified Properties IX Portfolio.

The exit environment improved during the year and we made five profitable realizations. We sold our stake in the Maritime Plaza office complex in Washington DC, acquired in 2005, for $119 million and our stake in Bravern Office Commons in Bellevue, Washington, part of our investment in The Bravern complex made in 2007, for $410 million. Two debt investments, the GSC Loan Portfolio and the Manhattan 8th Avenue Portfolio, jointly owned by the US Mezzanine Fund I and the Investcorp Real Estate Credit Fund were sold for $141 million. We also sold our interest in the Desert Passage retail mall in Las Vegas, Nevada, acquired in 2003, for $13 million.

Financial Review

EXECUTIVE SUMMARY

MARKET ENVIRONMENT

- The economic environment in the 2011 fiscal year had two distinct halves. The first half was marked by strong, if uneven, global expansion. However, the second half brought shocks and global slowdown with an increase in financial risk.

- The global growth projection for the 2011 calendar year is 4.3% but this reflects a two-speed world. Advanced economies, which need to deal with large structured deficits and financial sector imbalances, are projected to grow by only just over 2%. However, emerging economies, which generally have more fiscal headroom, are projected to grow by over 6.5%. Quantitative easing has held interest rates down, but monetary tightening will be necessary to avoid further increases in core inflation. Financial volatility increased significantly in the last quarter and it remains a complex picture for investors looking to preserve and grow capital while limiting downside risk. Overall, the environment has highlighted the benefits of alternative investment products.

- The six countries of the Gulf Cooperation Council ('GCC') showed healthy growth of 5% in the 2010 calendar year. Higher oil prices and higher levels of public spending are expected to underpin growth of 7.8% in the 2011 calendar year. In a change from one year ago, all of the individual economies of the GCC are performing well. The IMF estimates that oil revenues will generate a current account surplus of just over $300 billion for GCC countries in the 2011 calendar year. The regional wealth market remains strong with HNWI wealth in the Middle East growing faster than the world average.

- In the US and Europe, excessive government debt is the greatest risk to medium-term global growth. In Europe, financial markets are likely to reflect uncertainty and elevated perception of risk as they remain focused on the contagion risk and debt sustainability of peripheral Eurozone countries. Meanwhile, the US faces a combination of short term financial risks, a softening economy and long term fiscal pressures. US fiscal options are limited by the need to tackle the large jump in public debt to GDP, and there is little political consensus around tax or entitlement reform. For both the US and Europe, inevitable continuing fiscal tightening is expected to continue to weigh on the momentum of the recovery.

BUSINESS ENVIRONMENT

- The climate for our **corporate investment – North America & Europe** business and its target mid-sized investments has improved as M&A activity has revived, financing markets have been re-kindled and there has been improved earnings visibility and stabilized EBITDA in acquisition targets. However, prices for quality assets have risen due to the continuing industry capital overhang and tight supply. There has been a trend towards higher leverage as high-yield and leveraged loan investors have been lending at multiples close to 2007 levels and dividend recaps have returned. While the amount of financial leverage remains less than pre-crisis, leverage is once again available as a source of returns. For midmarket exits, there is a wider range of options as opportunities for secondary buyouts, strategic sales and IPOs in the US and Europe are all available, although the IPO market is still highly volatile. The coming year may see an increase in supply of assets as private equity firms need to turn over their portfolios and pricing becomes more realistic. While portfolio company performance has improved, owners will need to continue to drive value through operational improvements. Overall, therefore, the current environment continues to favor middle market investors.

- Our **corporate investment – technology** business has been seeing some positive trends as the technology sector continues to lead the economic recovery. Even with the general global economic outlook still uncertain, corporate technology spending is buoyant given the transformative role of IT in business growth. Consumers continue to want new and innovative products and services as mobile applications and social media create huge new markets at great speed. Mid-sized technology companies are expected to see revenue improvement in the 2011 calendar year and the technology sector is, like the mid-market sector overall, experiencing increasing M&A activity and higher valuation multiples. The technology IPO market remains volatile and unpredictable, but is generally improving, creating exit opportunities. At the same time, volatility in the public markets is creating an opportunity for private capital, especially for growth capital and expansion stage financing.

- Our **corporate investment – MENA** business is seeing an increase in private equity and institutional investment in the region as this form of financing is more readily available than alternative sources of capital. Tight credit markets mean debt financing is limited and raising money though regional stock market listings is currently hampered by low valuations, trading illiquidity and volatility as well as stringent new IPO qualification requirements. Current low valuations of GCC public equities are also providing favorably low benchmarks for investment. However, in the longer term, the robust regional macroeconomic trends are expected to support valuation levels and provide exits routes through public listings.

- The resilience of the **hedge fund** sector and investor confidence in its ability to deliver superior risk-adjusted performance was illustrated in FY11, when the second half year brought noticeable headwinds and weaker performance. This did not affect inflows. May 2011 was the 11th consecutive month of increased allocations to hedge funds globally and that month hedge fund assets reached $2.6 trillion, comfortably ahead of the 2008 peak of $1.9 trillion. One notable shift this year has been increasing investor focus on funds of under $1 billion rather than on larger funds of $5 billion and over. Previously, institutional money had been put into the largest funds, reflecting a desire for an institutional infrastructure. However, research shows that emerging funds have outperformed large funds on a risk-adjusted basis and that, as much of this outperformance came in 2008-2009, large funds proved unable to provide safety when it was most needed. A second trend has been the move towards separately managed accounts, as investors continue to seek more comprehensive transparency.

- Overall, the environment for our **real estate investment** business is still challenging but has been improving. Asset pricing in US commercial real estate has hit bottom in most major markets and there has been an initial, sustained improvement in operating performance for many assets. Nonetheless, the recovery is expected to be slow and tentative. Capitalization rates generally tightened in the 2010 calendar year, with ranges of 6-9%, depending on the market and asset quality. Senior financing is available for quality assets and attractive investment opportunities can be found by selective buyers. There are well priced quality assets in stable sub-markets, and investors can secure good credit investments in cash-generating properties with existing or newly underwritten debt. Difficulties in refinancing assets are also creating opportunities including mezzanine positions and equity stakes in the recapitalization of investments. Investing in speculative assets is still firmly out of favor but cash-flow assets are now attracting significant investor interest. Management of assets to create value remains crucial to maintain asset quality and value in a low growth environment.

FINANCIAL PERFORMANCE

- Investcorp's FY11 net income increased by 37% on FY10 to $140.3 million. This represents the third-best profit performance in the firm's history. Earnings per Ordinary Share doubled to $128 per share. Gross operating income increased 15% to $413.6 million, driven by an improvement in asset-based income as our three asset classes each produced solid positive returns.

- Gross fee income in FY11 was $197.4 million compared to $218.9 million in FY10. Management fee income declined to $93.2 million from $104.3 million, largely due to corporate investment exit activity that resulted in lower client AUM. Activity fee income was marginally lower, moving from $68.7 million to $65.7 million, as a 37% increase in placement income was offset by lower transactional fees on acquisitions and exits. Performance fees, at $38.5 million for FY11 against $46.0 million for FY10, were lower as a result of more normalized returns in hedge funds.

- Gross asset-based income, including the impact of mark-to-market changes in fair value of both corporate and real estate co-investments, increased by 52% to $216.2 million. Hedge fund returns were strong in the first half of the fiscal year, but there was some retrenchment in the second half in view of unstable market conditions during May and June.

- Operating expenses in FY11 were 14% higher, at $215.2 million, largely as a result of higher compensation accruals in line with the higher income earned in the year. Interest expense decreased by 3% to $56.0 million, as a result of low interest rates and further de-leveraging of the balance sheet.

- Total assets decreased from $3.4 billion at June 30, 2010 to $2.9 billion at June 30, 2011 as cash liquidity has been used to repay maturing debt net of amounts refinanced by committed forward start facilities. $490 million of cash used to repay medium-term revolvers remains available as a source of accessible liquidity. Co-investment assets increased marginally to $1.9 billion in FY11 as a result of fair value improvements and new acquisitions in corporate investment and real estate investment. Co-investments as a multiple of book equity remain unchanged at 1.8x.

- During FY11 we maintained comfortable levels of liquidity in immediately accessible form. Accessible liquidity, defined as cash plus undrawn facilities, was $0.9 billion at June 30, 2011, unchanged from June 30, 2010. Total liquidity at June 30, 2011, including $0.6 billion held in hedge fund co-investments, was $1.5 billion. The level of total liquidity is in excess of covenant threshold levels of $750 million, and exceeds the amount of term debt maturing over the next five years. Total liabilities decreased by 26% to $1.8 billion at June 30, 2011, primarily reflecting the repayment of revolving medium term debt facilities. Investcorp's credit ratings by Fitch Ratings, Capital Intelligence and Moody's Investor Service were not changed during the year.

- Net book equity (including fair value adjustments) at June 30, 2011 was $1.1 billion, a 7% increase from June 30, 2010 that primarily reflected the year's performance adjusted for the net impact of treasury share movements, the buyback of GDRs and dividend payments. With effect from October 4, 2010, Investcorp's GDRs were de-listed on the London Stock Exchange. Investcorp's shares continue to be listed on the Bahrain Bourse.

- The proposed appropriation for FY11 includes $9.3 million of ordinary share dividends (representing 6% of paid-up capital or $15 per share) and $61.4 million (12% per annum) in preference share dividends. Our capital adequacy ratio at June 30, 2011 has increased to 25.7%, comfortably in excess of the Central Bank of Bahrain's regulatory minimum requirement of 12%.

INVESTMENT AND REALIZATION ACTIVITY

- Throughout the year, we continued to show strong investment discipline as, while more opportunities are becoming available, the environment remains challenging. In corporate investment we invested $228 million in new and add-on investments, including an agreement to acquire a leading US specialty retailer, a direct investment in FleetMatics and the acquisition of a majority stake in eviivo Limited by the Investcorp Technology Partners III Fund. The Investcorp Gulf Opportunity Fund I completed the acquisition of a minority stake in Tiryaki Agro. We also undertook several attractively priced add-on investments and facilitated several add-on acquisitions for portfolio companies including Berlin Packaging, FleetPride, Redington Gulf and Veritext. We deployed $76 million in five new real estate investments, which were placed with clients in two portfolios, US Commercial Properties VI and US Diversified Properties IX, and we launched the innovative Investcorp Special Opportunities Portfolio, a portfolio of select investments in distressed credit and corporate restructurings in the United States and Europe.

- We delivered more than $1 billion in proceeds from realizations and other distributions this year, reflecting the high quality of our investment portfolio and our success in supporting and managing investments through the financial crisis in order to maximize value. In two successful exits we sold Moody International in a transaction valued at $729 million, and Associated Materials Inc. in a transaction valued at approximately $1.3 billion. There were three further corporate investment exits and five profitable real estate realizations.

PORTFOLIO COMMENTARY

- At June 30, 2011, the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $945 million across 17 portfolio companies. The total co-investment amount represented 49.3% of total balance sheet co-investments at June 30, 2011 and at June 30, 2010. The five largest investments represent 60.7% of the total portfolio and 54.1% of shareholders' equity at June 30, 2011. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – technology was $80 million at June 30, 2011. Technology Ventures Fund I and Fund II are fully invested. The $500 million Investcorp Technology Partners Fund III, raised in 2008, is currently 47% deployed. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – MENA was $24 million at June 30, 2011. The $929 million Investcorp Gulf Opportunity Fund I has 49% of its capital called.

- Investcorp's hedge funds co-investments, totaling $607 million, delivered returns of 6.8% during FY11. The unlevered return, after adjusting for the effects of non-recourse leverage, was 4.6%. Most of the return was generated in the first half of the fiscal year with some retrenchment in the second half as a result of unstable market conditions in May and June. Ballast Capital Management and Prosiris Capital Management were added to the single manager platform.

- At June 30, 2011, Investcorp's real estate balance sheet co-investments totaled $189 million. This represents 9.8% of total balance sheet co-investments at June 30, 2011. Investcorp currently has 23 active real estate investment portfolios. The $108 million US Mezzanine Fund I and the $176 million Investcorp Real Estate Credit Fund are both fully deployed. A third real estate debt fund is in fundraising.

FUNDRAISING

- In total, placement and fundraising activities in FY11 was $751 million. Fundraising in the Gulf was $517 million in FY11, up 67% from FY10. We placed Veritext, FleetMatics, the US Commercial Properties VI Portfolio, the US Diversified Properties IX Portfolio and the Investcorp Special Opportunities Portfolio. We also took $233 million in hedge fund subscriptions from institutional investors in the Gulf.

- Total assets under management, including balance sheet co-investments, decreased to $11.8 billion at June 30, 2011 compared to $12.7 billion at June 30, 2010. Proprietary co-investments increased to $2.5 billion at June 30, 2011 from $2.4 billion at June 30, 2010. Client assets under management decreased by 8.4% to $8.9 billion, primarily as a result of realization activity in corporate investment and real estate investment.

- In open-end hedge funds, assets under management at June 30, 2011 were $4.7 billion, $3.7 billion of third party client assets and $1.0 billion of proprietary co-investments. 64% of client assets were from US institutional investors and 36% from Gulf HNWIs and institutions. 61% of client hedge fund assets are now invested through customized accounts while the percentage of assets in fund of fund products has decreased to 16%. Assets with single managers stand at 23%.

DISCUSSION OF RESULTS

NET INCOME

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

Income ($m)	FY11	FY10	% Change B/(W)
Fee income	**197.4**	218.9	(10%)
Asset-based income	**216.2**	141.8	52%
Gross operating income	**413.6**	360.7	15%
Provisions	**(2.1)**	(11.7)	82%
Interest expense	**(56.0)**	(58.0)	3%
Operating expenses	**(215.2)**	(188.8)	(14%)
Net income	**140.3**	102.2	37%
Earnings per ordinary share ($)	**128**	64	100%

Gross operating income in FY11 was $413.6 million (FY10: $360.7 million). The 15% increase over last year was driven by an improvement in asset-based income as corporate investment, real estate investment and hedge funds all produced solid positive returns. Fee income was 10% lower than last year, mainly due to lower performance fees from hedge funds.

Operating expenses were 14% higher at $215.2 million (FY10: $188.8 million), largely as a result of higher compensation accruals in line with the higher income earned in FY11. Interest expense decreased by 3% to $56.0 million from a further de-leveraging of the balance sheet.

The overall net income increased by 37% to $140.3 million, up from $102.2 million in FY10, and is the third best performance in Investcorp's three-decade history, continuing the rebound to profitability and growth which started in FY10.

Earnings per ordinary share doubled from $64 in FY10 to $128 in FY11.

FEE INCOME

Fee income earned in FY11 decreased by 10% to $197.4 million compared to $218.9 million for FY10. Management fee income fell largely as a result of several profitable corporate investment and real estate realizations in H2 FY10 and H1 FY11 that lowered AUM. Activity fee income, in aggregate, declined marginally by 4% from $68.7 million to $65.7 million. Improved placement activity and the resulting 37% increase in placement income was offset by lower transactional fees on acquisitions and exits. Performance fees were lower than last year as a result of lower returns in hedge funds.

Summary of fees ($m)	FY11	FY10	% Change B/(W)
Management fees	**93.2**	104.3	(11%)
Activity fees	**65.7**	68.7	(4%)
Performance fees	**38.5**	46.0	(16%)
Fee income	**197.4**	218.9	(10%)

ASSET-BASED INCOME

Gross asset-based income, including the impact of unlevered changes in fair value of corporate investment and real estate co-investments increased by 52% to $216.2 million (FY10: $141.8 million), mainly due to a rebound in real estate investment returns from the valuation declines seen in FY10 and FY09. This was offset by a decline in hedge fund returns from the above-target performance of last year, as the market uncertainty of May and June 2011 impacted returns.

Asset-based income ($m)	FY11	FY10	% Change B/(W)
Corporate investment	**121.7**	122.3	(1%)
Hedge funds	**39.5**	91.3	(57%)
Real estate investment	**40.6**	(89.9)	>100%
Treasury and liquidity income	**14.5**	18.1	(20%)
Gross asset-based income	**216.2**	141.8	52%

Treasury income includes interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk. The decline in treasury and liquidity income reflects the year-on-year fall in average money market yields as well as lower average levels of carried liquidity following the net repayment of $814 million of maturing debt and drawn revolvers during the year.

The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half year periods. FY09 represented a particularly negative environment for asset valuations. Corporate investment yields began a turnaround in FY10 that has continued in FY11. The positive momentum has shown signs of increasing in H2 FY11 with a 9.5% absolute return for the six months. Real estate asset yields declined in both FY09 and FY10. However, we have seen a rebound in performance in FY11 which also strengthened in the second half of the fiscal year. Hedge fund returns were strong in the first half of the year, but there has been some retrenchment in the second half of the year given unstable market conditions during May and June.

Asset yields	H1 FY09	H2 FY09	H1 FY10	H2FY10	H1 FY11	H2 FY11
Corporate investment	(11.1%)	(16.2%)	5.6%	7.2%	**3.6%**	**9.5%**
Real estate investment	(3.8%)	(20.7%)	(12.1%)	(22.5%)	**6.9%**	**13.1%**
Hedge funds*	(20.4%)	11.9%	15.5%	(0.4%)	**7.1%**	**(0.3%)**
Average co-investment yield**	(11.8%)	(4.1%)	3.8%	0.9%	**3.8%**	**4.9%**

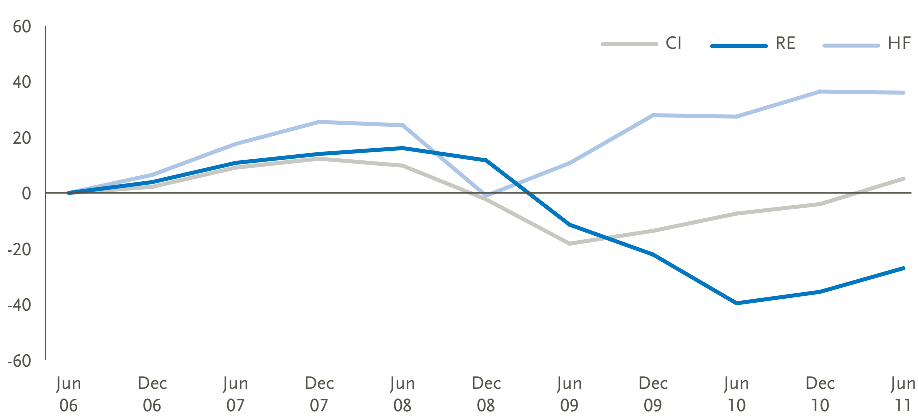
*Non $ weighted returns

**Includes treasury and liquidity income

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

Cumulative returns since June 06

(%)



Hedge funds, with a cumulative return of 36.1%, have more than recovered the value lost during the period June 2008 to December 2008. With strong returns over the last half year, corporate investment is now back to a positive cumulative return. Real estate investment reached a trough decline of 39.6% in June 2010, but has rebounded in FY11 to a cumulative loss of 27.1%.

ASSET-BASED INCOME BY ASSET CLASS

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

CI asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**121.7**	122.3	(1%)
Average co-investments (excluding U/W)	**931.9**	958.9	(3%)
Absolute yield for period	**13.1%**	12.8%	0.3%

HF asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**39.5**	91.3	(57%)
Average co-investments	**607.4**	606.0	0%
Non $ weighted returns	**6.8%**	15.0%	(8.2%)

RE asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**40.6**	(89.9)	>100%
Average co-investments	**201.8**	263.2	(23%)
Absolute yield for period	**20.1%**	(34.2%)	54.3%

INTEREST EXPENSE

Total interest expense of $56.0 million in FY11 was 3% lower than in FY10. Although the average cost of funds increased due to the progressive drawdown of refinancing arranged in FY10, the average level of debt has continued to decline in line with Investcorp's balance sheet deleveraging plans.

Interest expense ($m)	FY11	FY10	FY11 vs FY10 H/(L)
Average short-term interest-bearing liabilities	**337**	277	60
Average medium and short-term interest-bearing liabilities	**1,622**	2,002	(380)
Average interest-bearing liabilities	**1,959**	2,279	(320)
Interest expense	**56.0**	58.0	(2.0)
Average cost of funding	**2.9%**	2.5%	0.4%

In aggregate, average US$ LIBOR and EURIBOR rates increased year-on-year. Investcorp's paid margins also increased slightly due to the progressive drawdown of new higher-cost medium term debt refinanced in FY10. The impact of an increase in the average cost of funds on total interest expense was mitigated by further deleveraging.

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

Interest expense variance ($m)	FY11 vs FY10 H/(L)
Due to lower average interest-bearing debt	8.2
Due to increase in average cost of funding	(6.2)
Total variance	**2.0**

OPERATING EXPENSE

Operating expenses increased by 14% from $188.8 million in FY10 to $215.2 million in FY11. The increase largely reflects higher compensation accruals in line with the higher income generated during the period. Staff compensation represented 61% (FY10: 59%) of total operating expenses.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses increased by 9% to $85.0 million in FY11, primarily as a result of increased professional fees relating to acquisition due diligence activity. The aggregate cost-to-income ratio improved to 61% from 65% in FY10.

Opex metrics ($m)	FY11	FY10	Change
Staff compensation	**130.2**	111.2	17%
Other opex	**85.0**	77.6	9%
Total opex	**215.2**	188.8	14%
Full time employees (FTEs) at end of period	**300**	320	(20)
Staff compensation per FTE ('000)	**434.0**	347.6	86.5
Other opex per FTE ('000)	**283.2**	242.5	40.7
Total staff comp/total opex	**61%**	59%	2%
Opex/(net income + opex)	**61%**	65%	(4%)

INCOME BY SEGMENT

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

	Fee income			Asset-based income			Total		
Summary by business unit ($m)	FY11	FY10	Change	FY11	FY10	Change	FY11	FY10	Change
Corporate investment	**133.8**	156.1	(14%)	**121.7**	122.3	(1%)	**255.5**	278.4	(8%)
Hedge funds	**45.0**	43.5	3%	**39.5**	91.3	(57%)	**84.4**	134.8	(37%)
Real estate investment	**18.6**	19.3	(4%)	**40.6**	(89.9)	>100%	**59.2**	(70.6)	>100%
Corporate support	**–**	–	–	**14.5**	18.1	(20%)	**14.5**	18.1	(20%)
Revenue contribution	**197.4**	218.9	(10%)	**216.2**	141.8	52%	**413.6**	360.7	15%
Operating expenses	**(159.8)**	(149.4)	(7%)	**(55.4)**	(39.4)	(41%)	**(215.2)**	(188.8)	(14%)
Interest expense	**–**	–	–	**(56.0)**	(58.0)	3%	**(56.0)**	(58.0)	3%
Provision for impairment	**–**	–	–	**(2.1)**	(11.7)	82%	**(2.1)**	(11.7)	82%
Net income	**37.6**	69.5	(46%)	**102.7**	32.7	>100%	**140.3**	102.2	37%

Revenue contribution across all business units was positive in FY11 driven by strong returns in all asset classes. Fee revenues in hedge funds and real estate investment were steady. Fee revenues in corporate investment declined due to lower transactional activity and also a decrease in client AUM as a result of high realization activity, which consequently reduced management fees earned on AUM. Total hedge fund income in FY11 was significantly lower than in FY10, as both performance fees and investment income reflected a lower level of returns this fiscal year following much higher than normal returns in FY10. Total income for real estate investment showed a significant improvement as negative investment returns rebounded and turned strongly positive in FY11.

BALANCE SHEET

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY11	FY10
Total assets	**$2.9 billion**	$3.4 billion
Financial leverage*	**1.7x**	1.6x
Liabilities/equity	**1.7x**	2.4x
Shareholders' book equity	**$1.1 billion**	$1.0 billion
Co-investments/book equity	**1.8x**	1.8x
Regulatory risk asset ratio (Basel II)	**25.7%**	22.9%
Residual maturity – medium and long term facilities	**67 months**	68 months

*Adjusted for transitory balances

ASSETS

At June 30, 2011, total assets were $2.9 billion, a decrease of $0.5 billion from the previous fiscal year end (June 30, 2010: $3.4 billion). Cash liquidity has been used to repay maturing debt net of amounts refinanced by committed forward start facilities. $490 million of cash used to repay medium-term revolvers remains available as a source of accessible liquidity. Co-investment assets have increased marginally, from $1.8 billion to $1.9 billion, as a result of fair value improvements and new acquisitions in corporate investment and real estate investment.

Assets ($m)	FY11	FY10	Change H/(L)
Cash and equivalents	**353**	840	(487)
Other liquid assets*	**13**	63	(50)
HF co-investments	**607**	537	70
CI and RE co-investments	**1,311**	1,270	41
Other (working capital and fixed assets)	**575**	707	(133)
Total assets	**2,859**	3,417	(558)
Co-investment assets	**1,918**	1,807	111

*Non cash equivalent

Co-investments in corporate investment, hedge funds and real estate investment as a multiple of book equity remain unchanged at 1.8x from FY10. Investcorp continues to be a significant co-investor alongside its clients in each of the lines of business, accounting for 21% of total AUM at June 2011. A gradual reduction of co-investment levels to under 10% of total AUM is targeted over the medium-term, with a focused growth in client AUM.

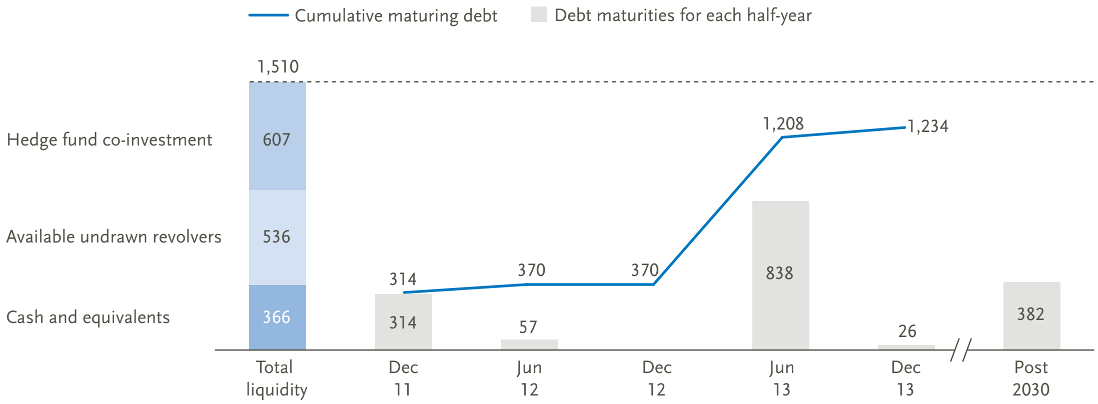
LIQUIDITY

During FY11, Investcorp maintained comfortable levels of immediately accessible cash invested in at-call money funds and short tenor money market assets. Total accessible liquidity (cash plus undrawn revolvers) at June 30, 2011 was $0.9 billion (June 30, 2010: $0.9 billion). The majority of revolving facilities which had been fully drawn throughout FY10 were paid down in H2 FY11. At June 30, 2011, $536 million of revolving facilities remains available for drawdown.

Total liquidity at June 30, 2011 was $1.5 billion, comprising $0.9 billion of cash and undrawn revolvers and $0.6 billion held in hedge fund co-investments. More than 70% of hedge fund liquidity is contractually available within a six month period. The level of total liquidity is in excess of Investcorp's borrowing covenant to maintain a minimum of $750 million liquidity and also exceeds the total amount of term-debt repayments due over the next five years.

Liquidity cover

($m)



LIABILITIES

Total liabilities decreased by 26% during FY11, from $2.4 billion at June 30, 2010 to $1.8 billion at June 30, 2011, primarily reflecting the repayment of medium term debt facilities, including revolving facilities that remain available for drawdown.

Liabilities ($m)	FY11	FY10	Change H/(L)
Client and other deposits	**318**	247	71
Medium-term debt and deposits	**524**	617	(94)
Medium-term revolvers – drawn	**157**	795	(638)
Long-term debt	**575**	592	(17)
Other	**225**	172	54
Total liabilities	**1,798**	2,423	(624)

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 Mar-11
Moody's Investors Service	Ba2 Negative outlook	Rating and outlook unchanged in Mar-11
Fitch Ratings	BB+ Negative outlook	Rating and outlook confirmed in Feb-11

Fitch and Capital Intelligence affirmed our credit ratings and issued detailed credit opinions, citing solid capital, a strong return to profitability and diversified sources of funding. Moody's credit rating also remained unchanged following the release of their credit opinion.

BOOK EQUITY

Net book equity (including unrealized fair value adjustments) at June 30, 2011 was $1.1 billion. The 7% increase from June 30, 2010 primarily reflects the fiscal year net income adjusted for the net impact of treasury share movements, the GDR share buyback and dividend payments.

The proposed appropriation from net income includes dividends of $9.3 million for ordinary shareholders ($15 per share or 6% of paid-up capital) and $61.4 million (12% per annum) for preference shareholders.

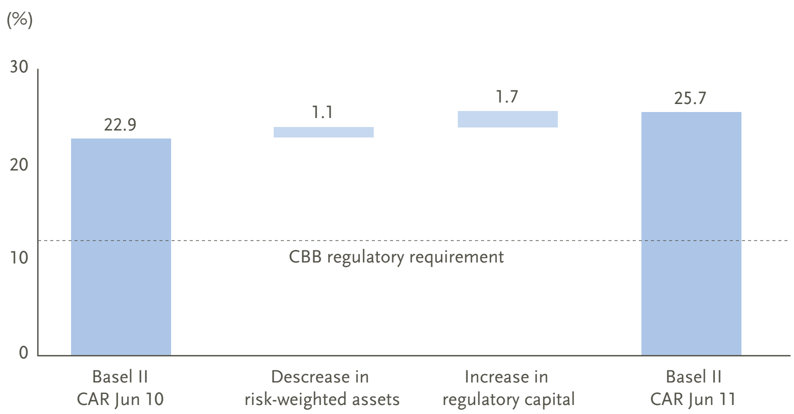
Equity ($m)	FY11	FY10	Change H/(L)
Ordinary shareholders' equity	**443**	400	43
Preference share capital	**511**	509	3
Proposed appropriations	**75**	57	17
Fair value and revaluation adjustments	**31**	28	2
Net book equity	**1,060**	994	66

With effect from October 4, 2010, Investcorp's GDRs were no longer listed on the London Stock Exchange. During H1 FY11, 6.3 million GDRs, representing 7.9% of issued share capital, were repurchased, predominantly through a voluntary tender offer. Following the cancellation of the London listing, Investcorp's shares continue to be listed on the Bahrain Bourse (formerly the Bahrain Stock Exchange). The remaining GDRs that were not tendered have either been converted to ordinary shares or are being held as unlisted GDRs. Holders continue to have the option to convert their unlisted GDRs into ordinary shares listed on the Bahrain Bourse at any time.

REGULATORY CAPITAL UNDER BASEL II

The Basel II capital adequacy ratio ('CAR') at June 30, 2011 increased to 25.7% (June 30, 2010: 22.9%), reflecting both a reduction in risk-weighted assets and an increase in regulatory capital. The reported CAR is comfortably in excess of the Central Bank of Bahrain's ('CBB') regulatory minimum requirement of 12%.

Regulatory capital adequacy ratio



The Basel Committee on Banking Supervision has issued new Basel III proposals to strengthen the resilience of the global banking sector. These proposals 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 additional requirements on Investcorp's liquidity.

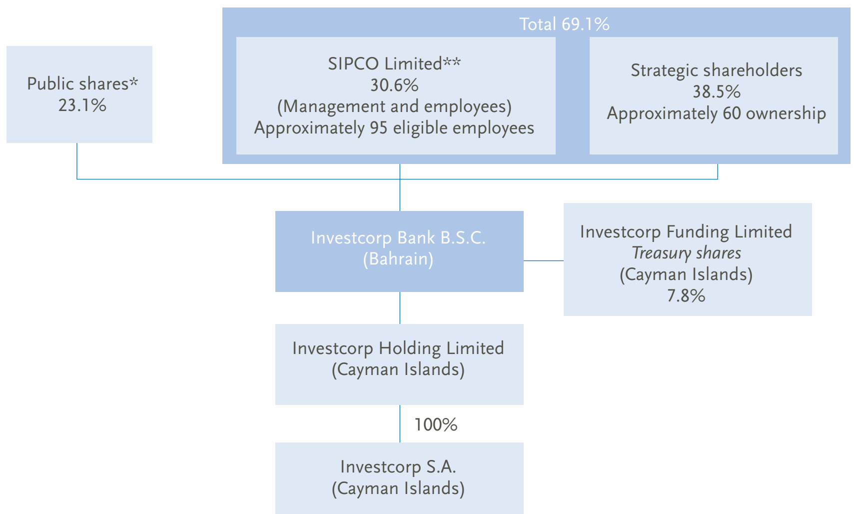
The relevant risk weights across each asset category, applied at June 30, 2011 are summarized below and have not changed during the fiscal year.

Asset class/segment	Basel II methodology June 2011	Basel II risk weight FY11
Corporate investment	Standardized approach ('STA')	**150%**
Real estate investment	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, 2011, Investcorp remains a management controlled company, with management controlling the voting of 69.1% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 23.1% is split between owners holding 22.8% in ordinary shares on the Bahrain Bourse, and 0.3% of beneficial ownership in the form of unlisted GDRs.

Ownership structure



* Includes 0.3% beneficial ownership held in the form of unlisted Global Depository Receipts.
** Includes 14.7% in shares that are held for future sale to management and 3% shares allocated but not vested under the Employee Share Ownership Plan. The Group has approval from the Central Bank of Bahrain (CBB) to hold up to 40% of shares for the Employee Share Ownership Plan. On the balance sheet these shares are accountd for as the equivalent of treasury shares.

MARKET CONTEXT

The first half of Investcorp's 2011 fiscal year was marked by strong, if uneven, global expansion, on the back of inventory rebuilding, fiscal stimuli, and growth in emerging markets. The second half, however, brought a variety of shocks and a noticeable global slowdown, with financial risks increasing significantly.

The Japanese earthquake has had a marked impact on global growth. The disaster heavily impacted Japanese industrial production and consumer spending, while US growth also weakened, due to high commodity prices, the end of the inventory cycle, housing weakness and supply chain effects from the earthquake.

In addition, oil prices have risen by over 30% since January, due to heightened political risk as a result of events in the MENA region and elsewhere. The oil output loss is however substantially smaller than the main oil shocks of the last four decades. In June oil prices fell back as the economic outlook weakened and the IEA made the decision to release reserves to counter supply disruption, with GCC countries also raising output. Broader commodity prices have also fallen back from their highs, while food prices have also stabilized after weather-related supply shocks.

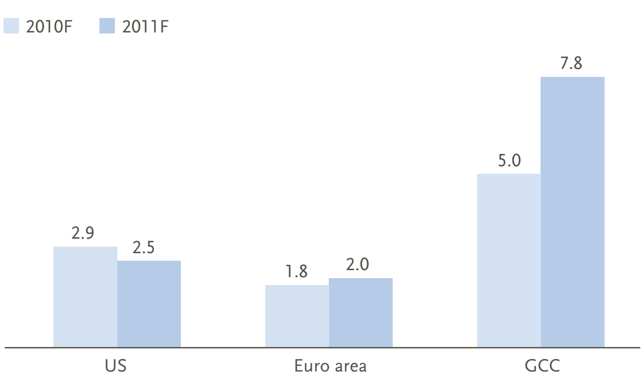
Recent global growth projections for 2011 of 4.3% are broadly unchanged from January, but conceal shifts between countries and regions, emphasizing the uneven nature of the expansion. While advanced economies are projected to grow by an anemic post-recession pace of just over 2%, emerging economies are projected to grow by over 6.5%. While risks have increased, growth is likely to reaccelerate in the second half of 2011, with prospects for 2012 still seen as positive by most commentators. Advanced economies should quicken their pace slightly, led by a rebounding Japan, with emerging economies fractionally slowing.

The developed world's growth in 2012 will be dominated by the need to deal with large structural deficits and financial sector imbalances. The speed of jobs recovery will be the key to consumer spending in the West. Leading emerging economies have generally much more fiscal headroom, but need to tighten macro-economic policies. In early 2011 inflation rose significantly to an average of 2.6% in developed economies, but in emerging economies it jumped from 6.1% in 2010 to 6.9%. While inflationary pressures are likely to ease as raw material price rises are absorbed, core inflation has increased in several major economies and leading emerging economies. The ability of local policymakers to steer the Brazilian and Chinese economies into a soft landing is of critical importance for the global outlook. Interest rates have been held down so far by quantitative easing, but in 2012 the global economy may have to contend with the additional headwinds of some monetary tightening undertaken to avoid further increases in core inflation.

The picture therefore indicates a continuation of the two-speed world we have seen since the global financial crisis, with limited progress made on tackling global imbalances.

GDP growth forecast for US, Euro area and GCC

(%)



Source: IMF

Volatility increased significantly in the last quarter of this fiscal year, with higher correlations across risk assets as markets swung from 'risk-on' to 'risk-off' trades and back. Unprecedented low interest rates had underpinned equity markets, but these have increasingly struggled over the last six months, exhibiting higher uncertainty.

Overall this remains a complex period for investors looking to preserve and grow capital while limiting downside risk. While risks are high and the direction of major assets classes uncertain, the prolonged period of negative real interest rates forces investors into different asset class and risk decisions in order to generate a real yield. Investor preferences in both the Gulf and the West have, not surprisingly, oscillated. Our experience suggests that investors are increasing their allocations to non-correlated alternative assets, as reflected in the recent World Wealth Report, which forecasts that alternatives will comprise 8% of HNWI financial assets in 2012, compared with 5% in 2010.

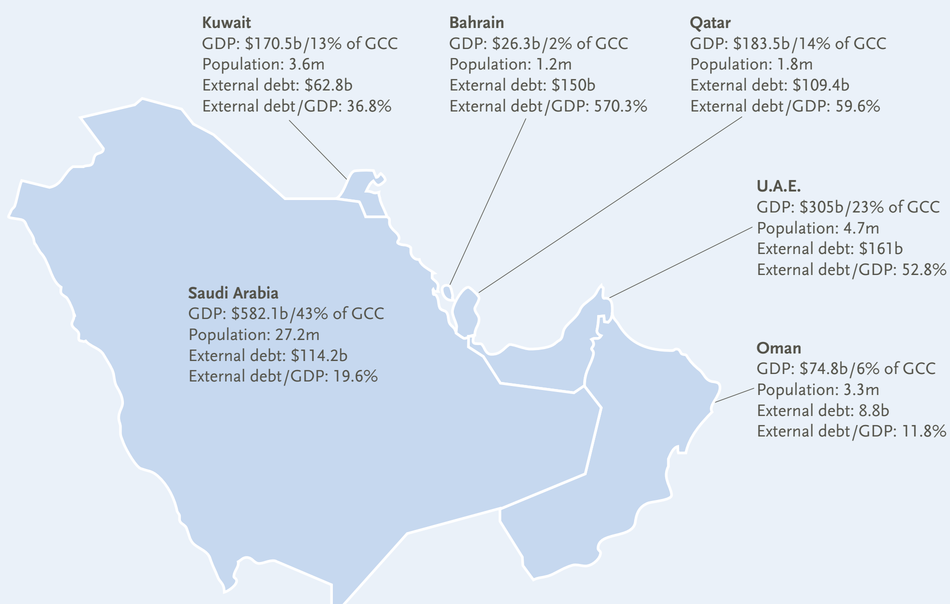
Overall the current investment environment demonstrates the benefits of rigorously selected alternative investments as part of a diversified portfolio delivering alpha while minimizing tail risk. Post-crisis, three themes have moved to the core of investor thinking. First, investors are seeking opportunistic investments giving them exposure that is uncorrelated to the macro environment, where returns are less driven by multiple arbitrage or market timing and more based on operational and investment-specific skills. Second, following some high profile 'blow ups', there has been a step change in the level of transparency investors seek, in terms of both risk profile and especially the alignment of interest with their investment advisor. Third, recent years have given investors very powerful lessons in the trade-offs between risk adjusted-return and liquidity, so they are seeking more asset mix flexibility within alternative investments, as well as strong risk management.

As a result, investors are putting their trust in investment providers who fully meet these requirements, who can be partners with a rock-solid alignment of interest and the demonstrable ability to deliver strong risk-adjusted performance in this complex environment.

THE GULF

Following healthy growth of 5% in 2010, the six Gulf Cooperation Council ('GCC') countries are forecast to experience rapid expansion of 7.8% in 2011, underpinned by a higher oil price and high levels of public spending.

Overview of the six Gulf Cooperation Council countries for 2011F



Source : IIF, IMF and CIA World Factbook
All 'GDP' refers to nominal GDP
Map not drawn to scale

Protests were seen in parts of the MENA region in the first few months of 2011. In response, GCC governments have sought to tackle priority social investment needs and higher oil revenues have helped fund increased government spending. The Saudi Arabian government approved a new $135 billion stimulus package, focused on housing and healthcare, while the GCC approved a $20 billion economic aid package for Bahrain and Oman.

In a signal of positive international market perceptions, credit spreads on the debt of all GCC governments have dropped substantially from the highs seen earlier in the year.

Reflecting higher GCC government spending, the breakeven oil prices needed to balance government budgets have risen significantly, ranging in 2011 from $60-65 for Qatar, $65-70 for Abu Dhabi, $80-85 for Saudi Arabia to $100-105 for Bahrain. This compares with $30-40 for the main GCC states in 2005-6.

Unlike a year ago, the individual economies of the GCC are all performing well. The Saudi Arabian economy is predicted to power ahead with 7.5% growth in 2011. The latest Saudi Arabian spending package comes on top of its ongoing five-year $400 billion public investment program. In 2011 it is predicted that government spending will increase by 31%, but Saudi Arabia's fiscal balance will remain healthy, due to higher oil prices and a 5% increase in crude export volumes. Saudi Arabia is however firmly on a path to higher government spending over the coming years, as a considerable portion of the current stimulus is likely to prove permanent, given that it is generally difficult to withdraw social benefits once introduced.

The UAE economy is forecast to grow by 3.3% in 2011. The federal government is utilizing its fiscal headroom to support the economy and social investment. Trade and tourism are performing strongly, with Dubai in particular benefiting from the broader stimulus underway across the GCC. While real estate loan losses are still working their way through the banking system, the successful debt restructuring of Dubai World and the recent return of the Dubai Government to the international bond markets, have clearly marked a turning point.

GDP growth in GCC countries

%	2009	2010F	2011F
Bahrain	3.1	4.1	3.1
Kuwait	(5.2)	2.0	5.3
Oman	1.1	4.2	4.4
Qatar	8.6	16.3	20.0
Saudi Arabia	0.6	3.7	7.5
UAE	(3.2)	3.2	3.3

Source: IMF

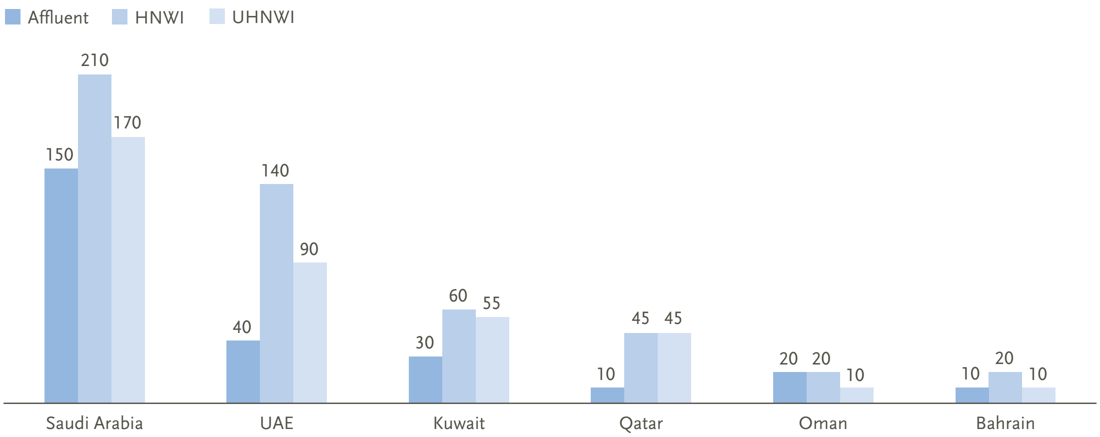
Qatar's increasing gas production is projected to keep its GDP growth in double digits, with 20% expansion expected in 2011. While the additional government expenditure for the World Cup is estimated at $65 billion, the country is expected to remain a strong net external creditor over the years to come. Kuwait is forecast to grow by 5.3% in 2011, more than double its 2010 performance. The government has instigated additional spending measures, including increased public sector wages and lower utility costs. Bahrain's economy was affected by the unrest in early 2011. However, there are now clear signs of business revival, with the country expected to grow at a solid 3.1% in 2011. Bahrain's economy is supported by the country's positive net international investment position, which exceeds 70% of GDP. The three month State of National Safety ended on schedule in June, with the focus moving on to a national dialogue.

Global oil demand remains firm, expected to grow by 1.6% in 2011 and by 2.3% in the developing economies. This followed an increase of 3.2% in 2010, the fastest in 15 years. GCC oil production is forecast to increase to 12.7 million barrels per day during the remainder of the calendar year, up on 11.5 million in 2010. Economic forecasts and futures markets are predicting an average oil price of $106 in 2011 and $105 in 2012, compared with $105 in 2010. Based on an average oil price of $107 per barrel, the IMF estimates that the strong growth in oil revenues will generate a current account surplus of just over $300 billion for GCC countries in 2011. Projected oil revenues give Gulf decision-makers a good window in the coming two years in which to advance the economic liberalization agenda, seeking growth in the non-oil economy and strengthening the private sector.

HNWI wealth in the Middle East grew by 12.5% in 2010, faster than the world average of 9.7%. The Gulf wealth market continues to be marked by strong fundamentals which make it attractive for well positioned advisory firms. Saudi Arabia has the highest proportion of Ultra High Net Worth ('UHNW') households in the world (18 per 100,000 households), with Kuwait fifth, Qatar seventh and the UAE tenth. GCC high net worth investors are now often at the cutting edge of international investment trends, not least because the Middle East has the youngest HNWI population in the world, with 21% of its HNWI population under 45 years old.

Assets per segment in 2010

($b)



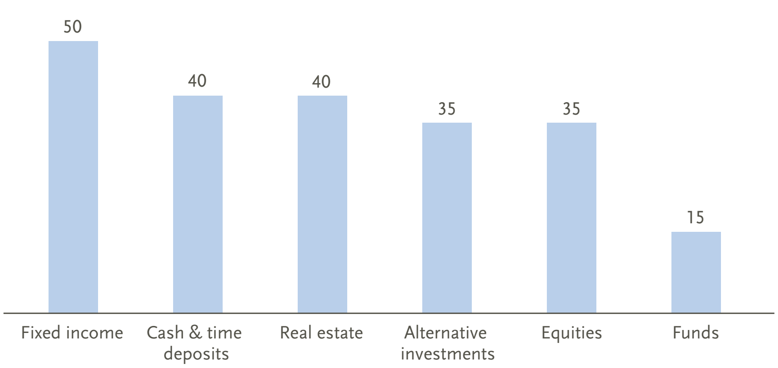
Source: Booz & Company GCC Private Banking Study Middle East 2010
Figures are rounded

Gulf equity markets remain volatile, reflecting risk and liquidity concerns. 2011 has re-confirmed some deep-seated changes in the investment preferences of Gulf investors post-crisis, both in terms of products and providers. Investors seek products that provide current yield and better capital preservation, with balanced exposure to both MENA and developed markets. In addition, a high level of transparency, strong risk management and robust reporting have become indispensable in serving Gulf investors – alongside the high-touch service and trust-based relationships that they have always sought from their investment providers.

According to a Booz & Company GCC Private Banking Study in 2010, this is validated by most private bankers who say that alternative investments are gaining momentum again in attracting capital.

Most preferred asset classes post-crisis (survey response)

(%)



Source: Booz & Company GCC Private Banking Study Middle East 2010

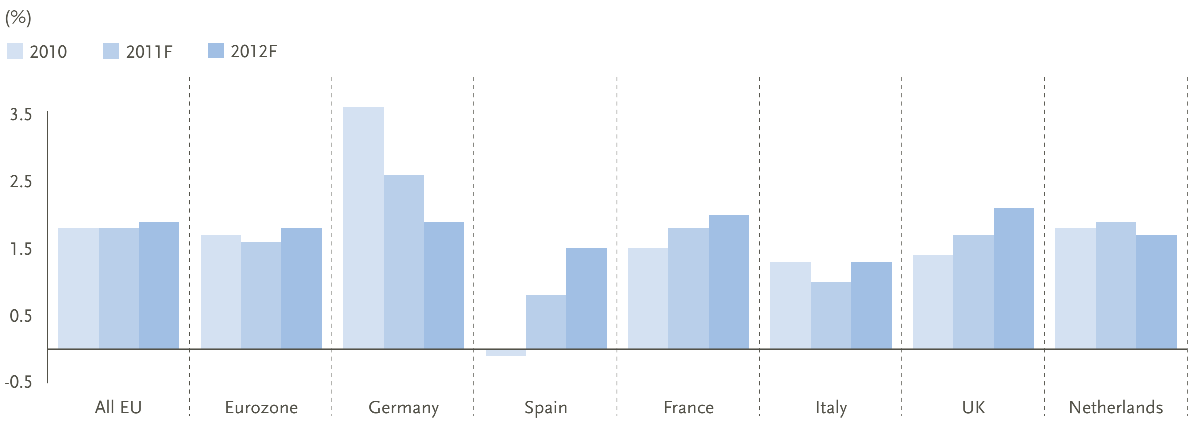
THE US AND EUROPE

Excessive government debt across the developed world represents the biggest risk to medium-term global growth, and the contagion risk represented by the highly indebted peripheral Eurozone countries has crystallized as the single most acute risk to financial markets, with EU/IMF agreements made with Greece, Ireland and Portugal in the past year.

Some form of broader restructuring by Greece is widely seen as inevitable, whatever the precise course of events in coming months. The focus of financial markets will likely remain fixed on contagion and the debt sustainability of peripheral Eurozone countries, with highly volatile and stressed market conditions continuing to reflect uncertainty and risk perceptions. In contrast to the difficulties at the periphery, the core European economies have been enjoying growth, with Germany predicted to grow by 3.2% this year, before a moderate slowdown to 2% in 2012. The strength of the core Eurozone recovery, driven by Germany, France and the smaller northern nations is an often overlooked fundamental fact when considering European investment. The strong growth this year is based on construction and a revival of retail spending, as well as exports to the developing world.

Tax and deficit discipline is also starting to make an impact in core Europe. The consumer revival is projected to slow down next year, but the business climate in the core Eurozone countries looks more attractive than for some years, though further structural reforms remain important. Unemployment in Germany reached a post-unification low in January, compared with a 20 year high in several peripheral countries including Ireland, Greece and Portugal.

Growth outlook for Europe



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

In contrast to the bifurcated European economic outlook, the US economy faces a combination of short term financial risks, a softening economy and long-term fiscal pressures, underlined by the Fed's downgrading of its forecast for 2011 growth. US consumer spending in May rose at its lowest level for 11 months, weighed down by a still falling housing market, high gasoline prices, high indebtedness, rising inflation and persistently high unemployment. US consumption is forecast to rise 2.8% in 2011 and 3.2% in 2012 – partly because unemployment is expected to drop only slightly from 9.6% in 2010 to 8.3% in 2012.

The US's fiscal options are limited by the fact that a large near-term fiscal adjustment needs to be tackled, as public debt to GDP jumped 16% in 2010 to 62%. There is little consensus around tax or entitlement reform to underpin a credible medium-term consolidation plan. If further setbacks to the US economy do occur, they may inevitably have a serious impact on financial markets and credit market conditions for banks and corporations worldwide. For both the US and Europe, the headwinds from inevitable continuing fiscal tightening will increasingly weigh on the momentum of the recovery as soon as monetary tightening starts in both Europe and the US.

Institutional investors in the West are well aware of the unprecedented nature of current macro-economic conditions, with negative real interest rates, and they, like Gulf investors, are increasing their allocations to investments de-linked from the macro environment, in particular with a low correlation to public equities. These challenging economic conditions are also producing value-creating investment opportunities in alternative assets in both the US and Europe. Seasoned investors are looking to pick situations with strong fundamentals rather than chase yield in poorer quality assets.

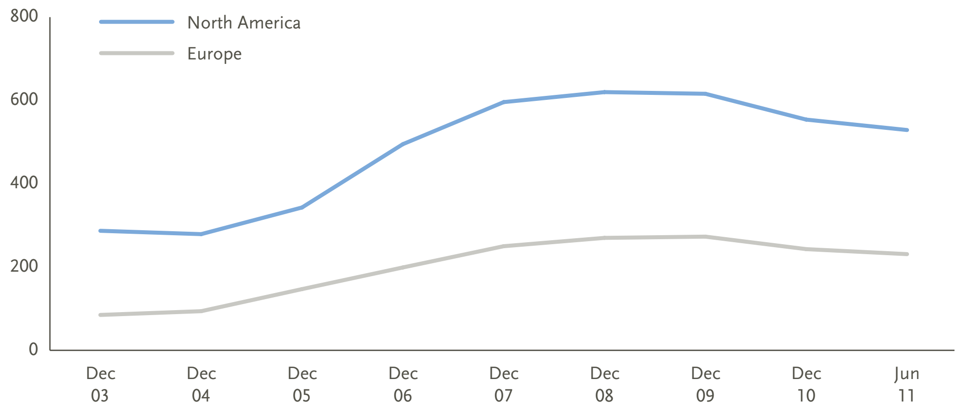
BUSINESS ENVIRONMENT

Corporate investment – North America & Europe

The past year has seen a revival of M&A activity, with strategic buyers returning as a result of the strength of many corporate balance sheets, although activity remains well below historical peaks. The attractiveness of high-yield bonds to many yield-starved investors has rekindled the financing market and fostered a positive climate for mid-sized transactions, even though bank finance is still difficult, especially in the US. The return of financing, together with the continuing existence of a huge capital overhang – $485 billion in the US – of available equity ('dry powder') has generally pushed prices up for quality assets.

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

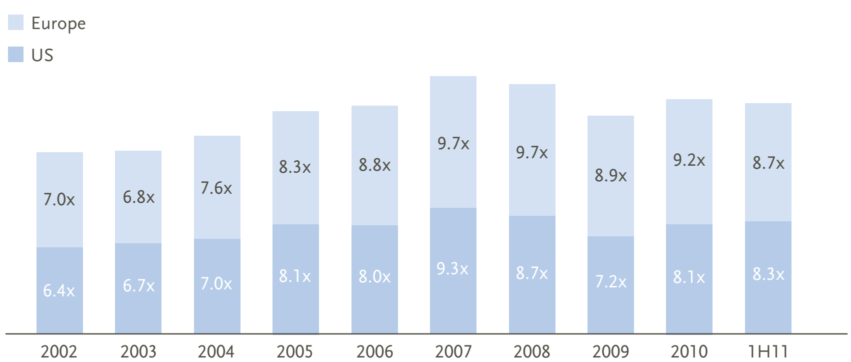
($b)



Source: Preqin

The fall in high-yield rates and the availability of bond finance has meant that leverage is once again available as a source of returns. While the total amount of financial leverage is still much less than pre-crisis, high-yield and leveraged loan investors have recently been lending at higher multiples, not much below 2007 levels. The equity percentage used in buyouts under $1 billion has, however, held relatively steady at 51% in 2010, down slightly from 53% in 2009 but still well up on 41% in 2006. A noticeable development in the last year was the return of dividend recaps, totaling at least $13 billion since July 2010, again demonstrating the trend to higher leverage.

Purchase price multiples in US and European buyouts



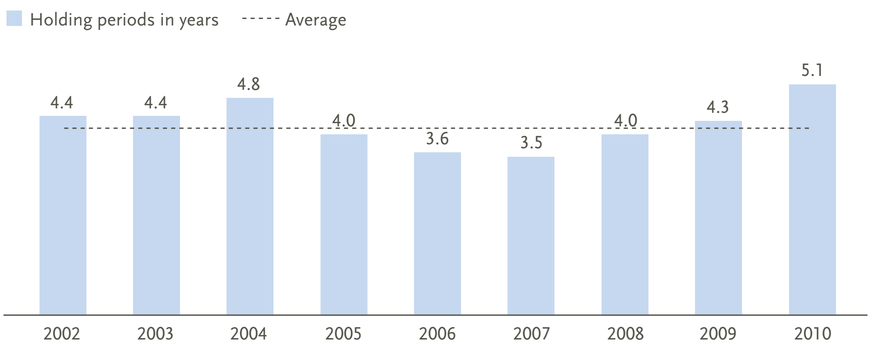
Source: S&P US and Europe LBO Quarterly Reviews

2010 saw the lowest level of fundraising in private equity globally since 2004, clearly lagging the economic recovery. However market analysts continue to predict fundraising of up to $350 billion in 2011 compared with $225 billion in 2010, as institutional investors start to see expanding investment opportunities.

The market for exits developed strongly, with IPO and private placement markets in the US and Europe being generally open for private equity-owned transactions, although with a high degree of volatility in the IPO market. While exit routes

– including secondaries and strategic sales – were open in 2010, it is noticeable that industry holding periods grew to an average of just over five years, the longest for the last decade.

Median holding periods of exits



Source: Pitchbook

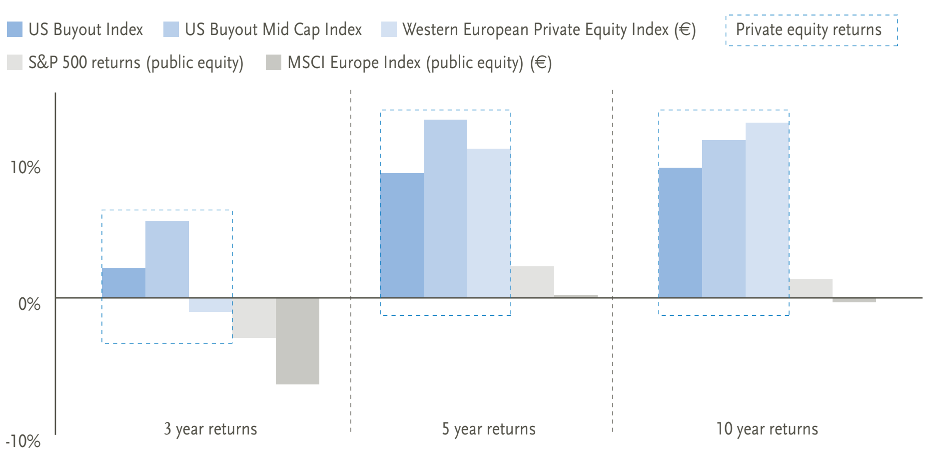
Economic expansion has resulted in improved earnings visibility and stabilized EBITDA in acquisition targets. However, many potential sellers are still demanding high prices, or are holding assets until performance has improved in order to get the prices they want. This has kept the supply of attractive assets for sale relatively tight.

The next year may increase the flow of private equity exits and corporate portfolio sales, as firms need to turn over portfolios and as the price/supply imbalance created by the capital overhang starts to unwind, though predicting the timing of this has proved difficult. By and large, portfolio companies' performance has stabilized and improved, although weak consumer and housing activity in many markets means private equity firms will need to continue working to maximize value in their existing portfolios.

Performance data continues to show that the private equity asset class, while cyclical, has consistently outperformed public markets over the long-term. We believe it is therefore a powerful model for generating attractive returns, provided there is a controlling active owner with a deep understanding of the investment who can make the necessary operational improvements to drive value.

The current environment continues to favor middle market investments, which can perform better in a market where value creation comes from operational improvements, as there are more opportunities to implement these in companies of this scale. Financing is available for midmarket deals and there is a wider range of exit options.

Private equity outperforms public markets



Source: Cambridge Economics. Data as of December 31, 2010

Recent experience shows that successful private equity players must be equipped to source, finance, complete and exit investments in adverse and uncertain conditions. They may need to deploy more flexible deal structures, and be willing to be more opportunistic on investment and exit timing. They must also understand how to create value during the investment holding period, in an environment where the length of holding period needed may be impossible to predict.

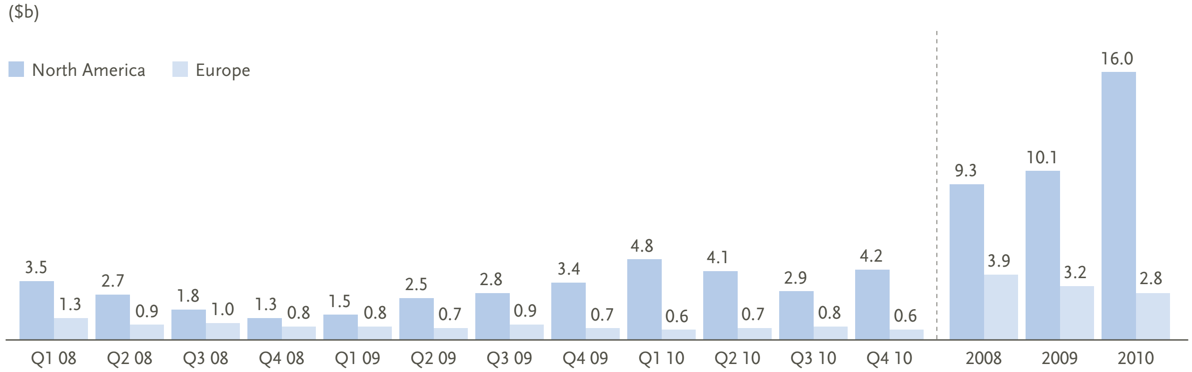
Corporate investment – Technology

The technology sector continues to lead the economic recovery, with information and communications technology enabling productivity enhancements and increased efficiency in business models. Internet-enabled business models in particular are growing rapidly, for both business and consumer applications. While the general global economic outlook is still uncertain, the environment is positive for technology spending. Though corporate capital budgets remain tight, IT spending often takes priority over other capex needs given the powerful transformative role it can play in business growth. Consumers are still seeking new and innovative products and services, with mobile applications and social media, for example, creating huge new markets at great speed. Midsize technology companies have already seen revenue improvement in 2010 and are poised to exploit higher IT spending in 2011.

Valuation multiples in the technology sector have increased over the last 12 months. M&A activity increased significantly in 2010, with, according to Calibre One research, an increase in North American technology M&A volume of 58% over 2009. Financial investors are paying high, competitive entry multiples for quality technology assets.

Technology M&A transaction volume

($b)



Source: Calibre One Index (2011 data not available)

The technology IPO environment has been volatile but generally improving, creating an attractive exit environment for a number of high quality growth companies. In particular, investors are seeking strong online and social media related companies, and there is still a strong backlog of companies that have filed to go public but are not yet listed. The absolute number of technology IPOs in both North America and Europe has been increasing. Calendar year 2010 saw 40 IPOs compared with 18 in 2009. There were 24 technology IPOs in the first half of calendar year 2011, so if the current run rate were to continue, we would expect an increase in calendar 2012 as well. Nevertheless, IPO conditions remain volatile and unpredictable, with a number of new issues trading below their issue price and institutional buyer sentiment subject to rapid change.

The volatility in the public markets has created an opportunity for providers of private capital, especially for growth capital and expansion stage financing. Specifically, for smaller and mid-sized technology companies in North America and Europe, closing a private transaction can take much less time and effort and provide more certainty. However, to be successful in closing appropriate technology investments in today's competitive environment, investors require specialist experience in undertaking complex transactions, as well as a true niche focus and understanding of the specific technology products and fast changing end markets. At a time when valuations of some companies' IPOs have started once again to display bubble-like multiples, successful technology investors must remain highly selective in acquisitions and focus on investing in sustainable businesses that are appropriately priced.

Corporate investment – MENA

Private equity and institutional investments in the MENA region increased from an estimated 26 in FY10 to 30 in FY11. Exits also increased slightly during this period from 10 to 11. The recovery of the private equity industry in the region is a result of this form of financing compared with alternative sources of capital. Debt financing has been limited as credit markets for mid-market companies remained tight. Furthermore, the short-term prospects for listing companies on regional stock markets has diminished owing to depressed valuation levels, trading illiquidity, share price volatility and recently introduced stringent IPO qualification requirements.

Valuations of public equities in the GCC have remained attractive and traded at a discount to emerging market peers thereby setting favorably low valuation benchmarks for those seeking investment opportunities. In the longer term, valuation levels and exits through public listings are supported by the robust regional macroeconomic trends, by the anticipated easing of foreign direct investment in Saudi Arabia and the expected upgrade in classification of the United Arab Emirates and Qatar by MSCI from 'frontier markets' to 'emerging markets'.

The competitive landscape has lessened as local private equity firms have been constrained by balance sheet and liquidity issues, portfolio performance and business model challenges. In addition, some global players who had expanded into the region have now retrenched.

Hedge funds

The 2010 calendar year was a broadly healthy year for hedge funds. The first half of calendar 2011 however brought noticeable headwinds, although it demonstrated the industry's resilience in asset growth and its ability to deliver superior risk-adjusted performance.

The Dow Jones/Credit Suisse Hedge Fund Index finished 2010 up 11.0%. Over the 2010 calendar year, equity strategies outperformed fixed-income funds in general, but mortgage-related strategies were among the best-performing. The volatility of hedge fund performance also declined in 2010 as markets continued to stabilize.

In the first six months of the calendar 2011 year however, the HFRI Fund of Funds Composite Index returned -0.3%. This period – particularly in May and June – saw a range of volatile macro events which led to unstable market conditions. This resulted in a number of strongly-performing strategies, such as CTA/managed futures, energy and technology-focused equity, going into reverse, reflecting the heightened financial risk in the markets.

Significantly however, weaker performance since January has not affected inflows and May 2011 represented the 11th consecutive month of increased allocations to hedge funds globally. Net inflows of $55 billion in 2010 represented the highest net inflows since 2007. In May 2011, hedge fund assets reached $2.6 trillion, comfortably ahead of the industry's previous peak of $1.9 trillion in 2008. 2011 overall is now predicted to see inflows of $210 billion, nearly four times the amount of 2010.

One notable shift in 2011 has been investors' focus on medium and smaller sized funds, after a period when investors were focused on the very largest funds of $5 billion and over. According to the Deutsche Bank 2011 Alternative Investment Survey, 65% of institutional investors consider that the average size of fund to which they will allocate in 2011 will be under $1 billion. It is estimated that over 90% of all institutional money put into hedge funds in recent years has gone into the largest funds, reflecting the desire for an institutional infrastructure, for example in terms of reporting and risk control. However, Investcorp's proprietary research – Emerging Hedge Funds: a Source of Alpha – which compared the performance of funds of $5 billion and over and emerging funds (less than three years old), shows that over the last seven years, emerging funds not only outperformed large funds on a risk-adjusted basis, but that most of this outperformance came in 2008-2009. Thus large funds have proved unable to provide 'safety' when it was needed most.

Over the coming year we believe that investors will continue to seek more comprehensive transparency, and the trend towards separately managed accounts will accelerate. Investors will also expect greater alignment with the fund manager, with the level of co-investment by the manager being an important factor. We also believe that successful hedge fund providers in the coming years will be those who can consistently deliver clear added value through alpha generation. This must be supported by high quality research designed to quantify hedge fund alpha, substantiating how it is generated and systematically tracking investment opportunities.

US real estate

Overall the environment for US commercial real estate is improving and asset pricing has finally hit bottom in most major markets. Nevertheless, values still have a very long road to recovery in comparison with the market peak. The softening in the US economy, and the challenges of high public sector and private debt, represent a significant barrier to anything but a slow and tentative real estate recovery. Asset values are still generally between 10% and 30% lower than at the market high.

Investor demand is strongest for high quality assets in first tier markets (New York, Washington DC, Boston and San Francisco), though some secondary markets are now gaining more interest. Speculative investing is still firmly out of favor. Cash-flow assets are however now attracting significant investor interest, and transactional volume was much stronger in 2010 versus 2009.

An initial, sustained improvement in operating performance is now observable for many commercial assets. Leasing activity continues to improve in many primary markets, but generally it remains an attractive market for tenants in terms of rental rates and lease concessions. Leasing is strongly correlated to the job market and in the current economy relatively few tenants are expanding. Hotel performance improved over 2009, suggesting the beginnings of a business recovery.

Capitalization rates generally tightened in 2010, with target ranges of 6-9%, depending on the market and asset quality. Generally, office capitalization rates have been tightening more than retail ones. Levels of new supply remain low, and over time tight supply conditions are expected to benefit the recovery. Attractive senior financing is available for quality assets. The CMBS market has come back to life, although still at very low volumes, and industry estimates are projecting $30-40 billion of US CMBS issuance in calendar 2011, a substantial increase on 2010's $10 billion. Volatility in credit spreads and regulatory uncertainty are limiting growth in the structured finance marketplace.

This challenging backdrop does provide some selective investment opportunities. Attractively priced quality assets can be acquired in stable sub-markets, and investors can secure good credit investments in cash-generating properties with existing or newly underwritten debt. Difficulties in refinancing assets are also expected to create attractive opportunities: some of the $2.2 trillion of commercial real estate debt maturing by 2017 will be challenging to refinance. A lack of available financing for certain assets is making available good opportunities for mezzanine positions and equity stakes in the recapitalization of investments by distressed borrowers who require capital to de-lever and support debt re-financing. Weakness in real estate debt markets should therefore generate good risk-adjusted investment opportunities.

The coming year will bring further challenges in parts of the commercial real estate market, with supply continuing to exceed demand in some overbuilt markets. Value-creating asset management therefore remains critical, securing expense savings, retaining existing tenants, maximizing revenue and maintaining asset quality and value in a low growth environment.

OUTLOOK

The evidence we see suggests that our clients, particularly in our core Gulf market, recognize the attractive opportunities in alternative assets in an environment characterized by patchy economic conditions, negative real interest rates and continuing elevated financial risks. Investors want to work with providers who can be trusted to put their interests first, and who have demonstrated deep knowledge of alternative assets and a long track record of successful investing through market cycles. The post-crisis environment in the US and Europe is providing selective appealing opportunities for our investment businesses in these markets. Continuing strong economic growth in the Gulf, underpinned by a buoyant oil price, is also supportive both of our placement capacity and of our corporate investments in the region.

At Investcorp we are fully cognizant of the challenges involved in investing successfully and preserving value in the current testing environment, and with our three decades of experience we understand the specialist skills and experience that providers of alternative investment assets need to deploy to identify and exploit the best opportunities.

INVESTMENT ACTIVITY

In FY11, we have maintained strong discipline when making investments within an economic and investment climate that continues to pose challenges. We continue to believe that alternative investments will generate alpha in a portfolio through long-term value creation and that alternatives meet the requirements of our clients for superior risk-adjusted returns. Careful assessment is still required to find those investments that will ultimately deliver results, given the current environment and outlook.

Corporate investment – North America & Europe. 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 also looked for opportunities to support growth of businesses in our current portfolio, and completed various add-on acquisitions. While we saw an increasing number of interesting opportunities that met appropriate risk thresholds, it has remained a seller's market and strongly performing companies remained highly valued. This fiscal year Investcorp agreed to acquire an investment for $145 million in a transaction that closed in July 2011.

Corporate investment – Technology. We continued to seek control-oriented investments in profitable and growing small to medium-sized European and North American technology companies through growth buyouts, recapitalizations or take private transactions. We have also supported inorganic acquisition-driven growth of businesses in our current portfolio companies. The technology investment market has been active as competition for good deals has been heated and multiples have been increasing. We saw a number of opportunities that fit our investment criteria. However, despite the higher level of activity in the industry, we have assessed opportunities with particular scrutiny, to identify sustainable businesses that are priced appropriately. Overall, in this sector Investcorp deployed $83 million during FY11.

Corporate investment – MENA. We continued to originate, evaluate and structure minority and majority investment opportunities in the MENA region, looking at opportunities mainly in Saudi Arabia, the United Arab Emirates and Turkey. We have been particularly discriminating and rigorous in our investment approach. We targeted defensive industries with proven business models and growth prospects, particularly in agro products, healthcare, transportation, logistics and retail. We also created value in our portfolio companies by evaluating and executing add-on acquisitions. Overall during FY11, the Investcorp Gulf Opportunity Fund I completed an investment for $50 million.

Real estate investment. We continued to look at investments in commercial properties in sectors and markets in the US where we felt good risk-adjusted returns remained achievable and we found buying opportunities in both equity and debt. In equity investment, we targeted high quality and stable assets where these were attractively priced. In debt investment, we investigated opportunities to originate or acquire mezzanine debt and subordinated debt that can deliver attractive risk-adjusted returns. There is a lingering effect of the economic crisis on investment but there have been further signs of stabilization and real estate recovery, albeit slow. Selective investment opportunities have been available, and the exit environment has also improved. Overall, in this sector Investcorp deployed $76 million of acquisition capital during the fiscal year.

INVESTMENTS

In September 2010, the Investcorp Gulf Opportunity Fund I completed its fourth investment, a $50 million investment in **Tiryaki Agro**, the leading trader and supply chain manager of agro commodities in Turkey. The company was founded in Gaziantep, Turkey, in 1965 by the Tiryakioglu family and, today, sources, processes, stores and trades grains, pulses, oil seeds, feed stuff and nuts. Tiryaki Agro is domiciled in Turkey and is therefore strategically situated between agro exporting regions such as Russia, Central Asia and the Black Sea and agro importing countries such as Asia and the MENA region. It has a broad customer base including food processors, retailers, governmental agencies and other agro wholesalers. The agro industry is highly resilient, driven by population and income growth as well as by changes in dietary preferences, and an integrated company such as Tiryaki Agro has distinct competitive advantages in sourcing, logistics and processing. This acquisition was another example of the high quality investment opportunities available in the MENA and wider region in partnership with leading local family businesses in the region.

In August 2010, Investcorp made a $7 million investment, through the Investcorp Technology Partners III Fund, in its portfolio company **FleetMatics**, the leading US provider of fleet management solutions to small and medium-sized businesses, to enable it to acquire SageQuest, a smaller competitor with a complementary subscriber base and a complementary focus on the highly specialized communications and utility enterprise market. In November 2010, Investcorp made an additional direct investment of $45 million in FleetMatics to increase its equity stake and provide capital to the company for potential future add-on investments. This direct investment was placed with clients in the Gulf.

There were two other investments through the Investcorp Technology Partners III Fund during the year. In March 2011, the Fund made a $25 million investment to acquire a majority stake in **eviivo Limited**. eviivo's software enables small and medium-sized hotels (such as bed & breakfasts or boutique hotels) to manage their online and offline bookings, to allocate inventory and allow for flexible pricing, and to invoice and process payments. In April 2011, **CSIdentity** completed the purchase of IdentityTruth Inc. CSIdentity provides proprietary software solutions and data-sets for the identity theft protection market in the United States. CSIdentity funded the acquisition from existing company resources and an additional investment of $3.5 million from the Investcorp Technology Partners III Fund. Also during the year, the corporate investment – technology team invested $2.5 million in three follow-on investments for the Investcorp Technology Ventures II Fund.

In June 2011, Investcorp agreed to acquire a leading US specialty retailer for $145 million in a transaction that closed in July 2011.

During December 2010, Investcorp made a real estate investment with the purchase of **Princeton Forrestal Village**, a 549,328 square foot mixed-use office and retail center located in Princeton, New Jersey. Princeton Forrestal Village was built in 1987 and was significantly remodeled in 2007 with improvements to the exterior and landscaping that have attracted new retailers, services and restaurants. It is a high quality and stable asset in a significant location in a market that has seen relatively less impact from the economic downturn of the past few years. In February 2011, we made two real estate investments in retail properties. These were **Coral Palm Plaza**, a 135,672 square foot shopping center located in Coral Springs, Florida, and **Shops at Tech Ridge**, a 332,845 square foot retail power center in Austin, Texas. The three assets were combined to form the **US Commercial Properties VI Portfolio**, which was placed with clients.

Two further real estate investments were made in the fiscal year. **Residence Inn Manhattan Beach**, a Marriott-brand 176-room extended stay hotel located in Manhattan Beach, California, was purchased in April 2011. **Broadway-Webster Medical Plaza**, a 98,565 square foot medical office complex in Oakland, California was acquired in June 2011. These two assets were combined to form the **US Diversified Properties IX Portfolio**, which was placed with clients.

In April 2011, we launched the innovative **Investcorp Special Opportunities Portfolio** – a portfolio of select investments in distressed credit and corporate restructurings in the United States and Europe. In partnership with best-in-class specialist managers Monarch Alternative Capital LP and Strategic Value Partners LLC, Investcorp carefully identified investment positions in specific companies that have strong franchises, attractive assets and excellent growth potential. The portfolio was placed with clients.

Several companies in our corporate investment portfolio made add-on acquisitions to grow value as part of consolidation-driven value-generating investment strategies. These add-on acquisitions enabled the companies to grow revenues in various ways, by developing larger market share, by finding new markets, by providing improved services or by extending their product range.

In December 2010, **Berlin Packaging** acquired Continental Packaging Solutions, a Chicago-based supplier of glass and plastic containers and closures and other value-added services such as assembly, warehousing and logistics management. The acquisition enabled Berlin to extend geographic reach and expand resources available to its customers. 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. No additional equity from Investcorp or investors was required to complete the acquisition.

Between August 2010 and June 2011, **FleetPride**, the US's largest independent distributor of aftermarket heavy duty truck and trailer parts, took advantage of still-attractive pricing in the present economic environment to make eight add-on acquisitions across the US, adding $95 million in aggregate sales and $11 million of run-rate EBITDA. FleetPride operates in a highly fragmented industry and its market leadership makes it the natural consolidator in its sector. FleetPride is performing better than its competitors and has been well positioned to benefit as the recovery gathers pace. No additional equity from Investcorp or investors was required to complete the acquisitions.

In October 2010, **TelePacific Communications**, a leading provider of integrated voice and data telecommunications services to the small and medium-sized business market in California and Nevada, acquired the customer base and various network assets of 01 Communications. As a result, TelePacific gained approximately 1,000 business customers and enhanced network assets in California. In December 2010, TelePacific acquired Covad Wireless, a broadband fixed wireless internet service provider operating in California and Nevada, gaining approximately 3,500 broadband fixed wireless business customers in California, Nevada and suburban Chicago and expanding TelePacific's services into the fixed wireless market. No additional equity from Investcorp or investors was required to complete the two acquisitions. In Q4 FY11, TelePacific signed agreements to make three further acquisitions, expected to close in Q1 FY12.

In November 2010, **Redington Gulf**, the Dubai-based IT distributor and supply chain solutions provider to the Middle East and Africa closed the acquisition of a 49.4% equity stake in Arena, the second largest distributor of technology and related IT products in Turkey. Arena is a complementary business, having a customer base of more than 8,000 dealers and retailers in Turkey. The $43 million investment was financed by Redington Gulf's cash position, which was made possible due to the initial $65 million capital invested by the Investcorp Gulf Opportunity Fund I in November 2008.

In January 2011, **Veritext** acquired Renillo Deposition & Discovery, a market-leading court reporting company serving northeastern Ohio. This will spearhead further add-on acquisitions in the Midwest region. No additional equity from Investcorp or its investors was required to complete this acquisition.

In April 2011, **Polyconcept** acquired Trimark, a leading Canadian apparel supplier identified by Polyconcept as an ideal partner as part of the company's long-term goal of expanding into the apparel category in North America. Trimark has a proven management team, an innovative product range and is a clear leader within the Canadian promotional market. No additional equity from Investcorp or its investors was required to complete this acquisition.

In June 2011, **Icopal** acquired Wolfin, a high-end German synthetic membrane player. This acquisition has strengthened Icopal's position within the European membrane landscape. No additional equity from Investcorp or its investors was required to complete this acquisition.

REALIZATION ACTIVITY

In corporate investment – North America & Europe, we made five exits during the year. Total realization proceeds to Investcorp and its clients were $783 million.

In September 2010, Investcorp sold **Associated Materials Inc**. (AMI) a leading manufacturer of exterior residential building products across North America. It was sold in a transaction valued at approximately $1.3 billion. As a result of operational and cost structure improvements, AMI had delivered exceptional operating performance throughout the economic cycle and gained market share during the downturn, demonstrating the worth of Investcorp's distinctive value enhancement model. AMI was acquired by Investcorp in December 2004.

In October 2010, **Aero Products International**, the US based designer and marketer of high-end inflatable beds, was sold to strategic buyer Jarden Corporation. The transaction valued Aero at an enterprise value of $70 million. This demonstrated our ability to act opportunistically in a difficult environment to exit a more challenged investment. Aero was acquired in December 2002.

In February 2011, Investcorp sold **Avecia's** Oligo Medicines business. Avecia was acquired by Investcorp and Cinven in 1999 and this was the last of the Avecia businesses to be sold, completing the controlled breakup strategy initiated in 2002.

In April 2011, technical services company **Moody International** was sold to Intertek in a transaction that valued Moody at an enterprise value of $729 million. Moody was acquired in 2007 and under Investcorp's ownership, we significantly improved the strategic and competitive positioning of the business. The commercial proposition of the business was improved with the introduction of consulting, training and in-service inspection capabilities through add-on acquisitions identified by Investcorp. In addition the service offering was enhanced through the introduction of elements such as key account management and hand held electronic reporting tools. These improvements to the business, together with a strong trading environment, resulted in an approximate doubling of the profitability of Moody during our ownership period.

In June 2011, **PlayPower** completed an out of court restructuring of its debt with its creditors. Investcorp had previously written down its investment in PlayPower.

There were five profitable real estate realizations during the year. Total proceeds, together with distributions made to Investcorp and clients from income generating properties, were $282 million. These profitable exits were achieved even though the majority were acquired when the market was at its peak. This is a result both of the selection of high quality properties and active management during ownership.

In September 2010, Investcorp sold its stake in the **Maritime Plaza** office complex in Washington DC to Corporate Office Properties Trust Inc. for $119 million. Maritime Plaza is a two-building Class A office complex of 362,000 square feet adjacent to the Washington Naval Yard that Investcorp acquired in 2005. Investcorp and its partner Brickman Associates added 16,000 square feet of additional space, pared operating costs and obtained full lease capacity.

In October 2010, we sold our stake in **Bravern Office Commons** in Bellevue, WA, part of our investment in The Bravern complex made in 2007, for $410 million. Bravern Office Commons is a 750,000 square foot office complex in two high-rise towers recently leased in full to Microsoft. Investcorp originally invested in The Bravern as a joint venture with Schnitzer West to develop a 1.6 million square foot premium mixed-use development complex. In addition to the office space, the complex includes two luxury residential towers and a retail shopping center anchored by Neiman Marcus. Investcorp retains its stake in the two residential rental towers and the 305,000 square foot luxury retail space.

In March and April 2011, two debt investments, the **GSC Loan Portfolio** and the **Manhattan 8th Avenue Portfolio**, jointly owned by the US Mezzanine Fund I and the Investcorp Real Estate Credit Fund were sold profitably, for $141 million.

In June 2011, we sold our interest in **Desert Passage** in Las Vegas, NV for $13 million. Desert Passage is a 480,000 square foot retail mall that was acquired by Investcorp and its operating partners in December 2003. In October 2004, a portion of Investcorp's equity interest was sold concurrent with a refinancing that fully returned our equity investment with handsome profits thereon. The sale of the minority interest resulted in additional profits for Investcorp and its clients.

We also, in May 2011, recapitalized the **280 Park Avenue** office property with two major New York City office landlords injecting substantial amounts of new equity. The recapitalization effectively ends Investcorp's active role in the ownership of the property, however Investcorp still holds a minimal residual investment in the form of new preferred equity and a future profit participation.

PORTFOLIO COMMENTARY

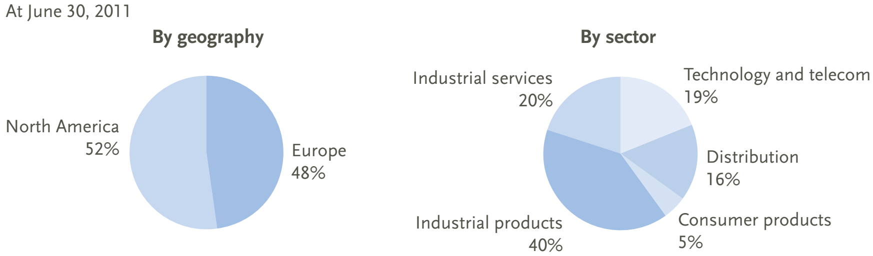
CORPORATE INVESTMENT

Corporate investment – North America & Europe. At June 30, 2011 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $945 million (17 companies) compared with $890 million at June 30, 2010 (21 companies). The total co-investment amount continues to represent 49.3% of total balance sheet co-investments at June 30, 2011, the same percentage as at June 30, 2010. Please refer to the table in Note 9(a) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2010 and June 30, 2011 carrying values by vintage years.

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

Corporate investment – North America & Europe portfolio

At June 30, 2011



The five largest investments represent 60.7% of the total portfolio and 54.1% of shareholders' equity at June 30, 2011.

Portfolio company ($m)	Carrying value June 30, 2011	% of total portfolio	% of total S/H equity
TelePacific	182.0	19%	17%
N&W	139.3	15%	13%
Icopal	108.1	11%	10%
Berlin Packaging	93.1	10%	9%
Polyconcept	50.7	5%	5%
Five largest co-investments	573.3	61%	54%
Remaining co-investments	371.6	39%	35%
Total	**944.8**	**100%**	**89%**

The economic slowdown affected each of our portfolio companies. However, most returned to growth during 2010, with US companies a few months ahead of European companies. Aggregate EBITDA for the portfolio at June 30, 2011 was approximately $1.1 billion, an increase of 15% over the June 30, 2010 figure. Fourteen of our companies have either increased EBITDA or remained relatively flat since the end of 2010. Eleven grew more than 5%. At present, leverage is low and the average debt across the portfolio is relatively modest at 4.7x EBITDA.

More detailed information on all companies in the North American and European corporate investment portfolio can be found in the Portfolio Review section.

Overall, we believe the portfolio is well positioned, comprising companies that have competitive advantages and relative resilience as market leaders with strong cash flow characteristics. We believe that the original investment thesis for each company remains valid, although it 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.

Corporate investment – technology. The carrying value of Investcorp's balance sheet co-investment exposure in this sector was $80 million at June 30, 2011.

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%	99%	47%
Investcorp co-investment	$43 million	$24 million	$61 million
No. of investments	24	12	6
No. of exits*	21*	6*	0
Returned capital	$206 million	$42 million	$0 million
DPI (distributions over paid-in capital)	**90%**	**14%**	**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 as well as, in some situations, on a deal-by-deal basis. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in harvest mode. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $297 million deployed and $3 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Partners Fund III was raised in 2008 and is currently 47% deployed.

Corporate investment – MENA. The carrying value of Investcorp's balance sheet co-investment exposure in this sector at June 30, 2011, was $24 million.

In corporate investment – MENA, Investcorp's clients have had the opportunity to participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. The $929 million Investcorp Gulf Opportunity Fund I is near the mid-stage of its investment cycle with 49% of its capital committed. 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.

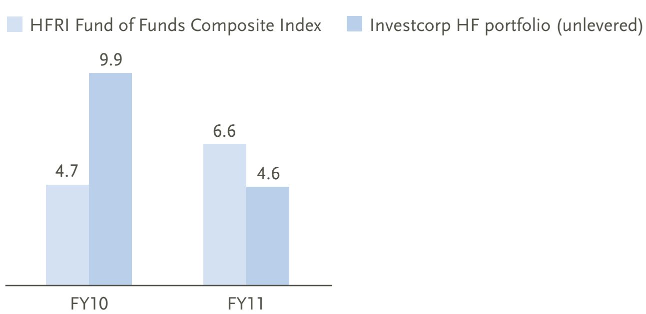
HEDGE FUNDS

Performance

Investcorp's hedge funds co-investment portfolio delivered returns of 6.8% during the fiscal year. The unlevered return on a gross basis, after adjusting for the effects of non-recourse leverage, was approximately 4.6%. The HFRI Fund of Funds Composite Index indicates that the industry generated 6.6% returns over the same period.

Investcorp HF performance vs HFRI

(%)



Source: HFRI

Most of the hedge fund returns were generated in the first half of the fiscal year with some retrenchment in the second half given unstable market conditions in May and June. Overall, the second half of the year witnessed a challenging and difficult market environment. Policy actions of central banks and governments and other cyclical factors frequently changed the direction of the markets. Short term factors such as the earthquake in Japan, the rise in commodity prices and the end of fiscal and monetary stimulus, contributed to the global slowdown. Markets also priced in secular issues such as debt deleveraging in developed markets and the European sovereign debt crisis. Managers in directional hedge fund strategies – long/short equities and macro, as well as equity oriented event driven managers – detracted from value.

Liquidity

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

Time period	Cumulative % available for monetization
Within 1 month	27%
Within 3 months	62%
Within 6 months	70%
Within 12 months	83%
Over 12 months	100%

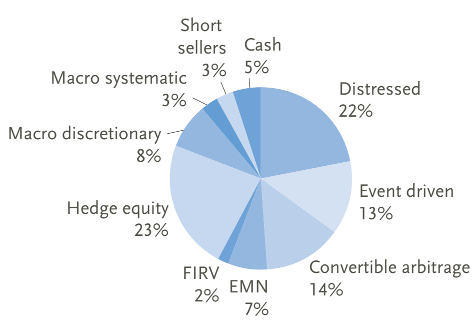
Client portfolios are also constructed with similar guidelines so that during a stress period, the liquidity needs of clients and Investcorp are both satisfied. At June 30, 2011, approximately 62% of Investcorp's hedge funds co-investment portfolio was contractually available for monetization within a three month window. The high availability of liquidity from our hedge funds co-investments is integral to Investcorp's overall liquidity contingency planning. A large portion of the portfolio is invested through separate accounts that, in turn, reduces gating risk.

Portfolio exposures

Our balance sheet hedge funds co-investment portfolio is invested in several external hedge fund managers, including six managers on Investcorp's seeding platform. Total gross exposure was approximately $1,010 million at June 30, 2011, of which $263 million was invested in the six seeded managers. $403 million of the gross investment was financed through non-recourse notes, giving a net balance sheet investment at June 30, 2011 of $607 million. While Investcorp's exposure is directed through several different vehicles, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio 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 co-investment portfolio strategy allocations

At June 30, 2011



During FY11, Investcorp maintained an allocation of approximately 22% to distressed/credit strategies. We have continued to be positive on this strategy but have been moving exposure to late-stage restructurings and post restructured equities. During the course of the year, we increased our allocation to long/short equities by 8%; previously this strategy had been under allocated. This increase in allocation was offset by a decrease in allocation to relative value strategies: convertible arbitrage, equity market neutral and fixed income/relative value; these strategies dropped by about 8%. Allocation to macro strategies remained fairly constant. However, allocation to macro systematic managers increased at the expense of allocation to macro discretionary managers.

Portfolio outlook and positioning

Barring a major systemic risk event, we remain optimistic for hedge fund returns in the next fiscal year. We believe that event driven strategies will provide strong opportunities from corporate activity which is picking up as a result of high corporate cash balances and low interest rates. We expect distressed/credit managers to continue to produce attractive returns, particularly those involved in late-stage restructurings. While the outlook for hedge equities was positive six months ago due to attractive valuations and strong earnings, increased macro uncertainties have led us to a more neutral view. With market trends continuing to be choppy, our outlook on macro managers is neutral. Opportunities have diminished in relative value strategies and we have moderated our view to neutral on these strategies. Due to the exceptional level of long-term macro uncertainty, we expect to further increase our allocation to tail risk mitigation strategies.

Strategy	Outlook
Event	Positive
Distressed	Positive
Hedge equities	Neutral
Macro	Neutral
Convertible arbitrage	Neutral
Fixed income relative value	Neutral
Equity market neutral	Neutral

Source: Investcorp

Single manager seeding platform

Investcorp recently formed strategic partnerships with Ballast Capital Management and Prosiris Capital Management as the latest additions to its seeding platform. Ballast specializes in long/short equity and is one of the few managers that has shown the ability to add alpha on both the long and short side. The investment team at Ballast has more than 40 years of combined long-short equity experience and previously worked together at a multi-billion dollar hedge fund. Prosiris specializes in monetizing long and short investments within the structured credit markets. The team has extensive experience in structured credit trading, credit analysis, structured finance technology and legal and regulatory analysis of credit products. These partnerships bring the number of single manager funds offered to investors to six.

REAL ESTATE INVESTMENT

At June 30, 2011, Investcorp's real estate balance sheet co-investments totaled $189 million compared with $217 million at June 30, 2010. This consisted of $153 million of marked-to-market equity investments and $36 million of debt investments, held at cost less provisions for impairment. The total real estate co-investment amount represents 9.8% of total balance sheet co-investments at June 30, 2011, compared with 12.0% at June 30, 2010.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect the stabilization in real estate valuations as well as the impact of exits and deal placement during the period.

Investcorp co-investments by year ($m)	Carrying value as of June 30, 2011	Carrying value as of June 30, 2010	Change H/(L)
Vintage FY03	**1.1**	0.1	1.0
Vintage FY05	**10.7**	13.3	(2.7)
Vintage FY06	**25.8**	49.5	(23.7)
Vintage FY07	**40.4**	45.4	(5.0)
Vintage FY08	**42.7**	46.2	(3.5)
Vintage FY10	**13.0**	25.9	(12.9)
Vintage FY11	**32.3**	–	32.3
Others	**22.8**	36.3	(13.5)
Total	**188.8**	216.8	(27.9)

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

Investcorp currently has 23 active real estate investment portfolios. At June 30, 2011, 10 of these were on or ahead of plan. The remaining 13 portfolios are weighted to those holding hotel, condominium developments and offices in struggling regions where the economic environment has generally slowed. As of June 30, 2011, the carrying value of the investments on or ahead of plan is $101 million and the carrying value of the challenging investments is $88 million.

The five largest co-investments are Commercial VI, Best Western Hotel, Diversified VII, W South Beach and The Bravern.

Portfolio company ($m)	Carrying value as of June 30, 2011	% of total portfolio	% of total S/H equity
Commercial VI	**18.1**	10%	2%
Best Western Hotel	**16.3**	9%	2%
Diversified VII	**15.5**	8%	1%
W South Beach	**15.2**	8%	1%
Bravern	**14.5**	8%	1%
Five largest co-investments	**79.6**	42%	8%
Remaining co-investments	**109.3**	58%	10%
Total	**188.8**	**100%**	**18%**

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. 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	Properties original/ current	Sector (of remaining properties)	Geographic location (of remaining properties)*
Diversified II	7/3	Office & Industrial	W
Vintage FY03			
Commercial IV	12/2	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	3/1	Retail	SE
Retail III	8/8	Retail	MW
Retail IV	29/23	Retail	SW
Opportunity II	3/1	Opportunistic	W
Opportunity III	3/2	Opportunistic	E
Vintage FY06			
Diversified VI	2/2	Retail & Hotel	SE/SW/MW
Diversified VII	4/4	Industrial/Office/Hotel	E/MW
Hotel	9/9	Hotel	E/SE/SW/MW
Bravern	1/1	Opportunistic	W
Vintage FY07			
280 Park Avenue	1/1	Office	E
Diversified VIII	5/4	Office/Hotel	W/SW/MW/SE
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			
Commercial VI	3/3	Retail & Office	E/SE/SW
Diversified IX	2/2	Office/Hotel	W
Vintage FY11			
Total	**72**		

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

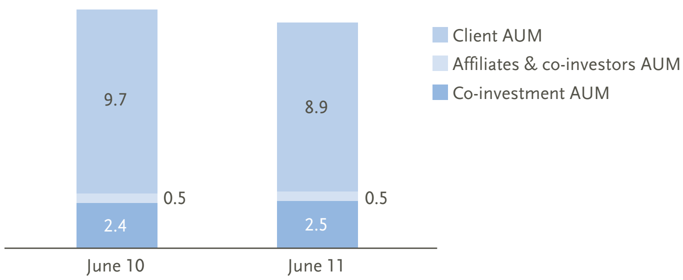
FUNDRAISING

ASSETS UNDER MANAGEMENT

Total assets under management including balance sheet co-investments decreased to $11.8 billion at June 30, 2011 (June 30, 2010: $12.7 billion). Co-investment assets increased slightly from $2.4 billion to $2.5 billion.

Total AUM

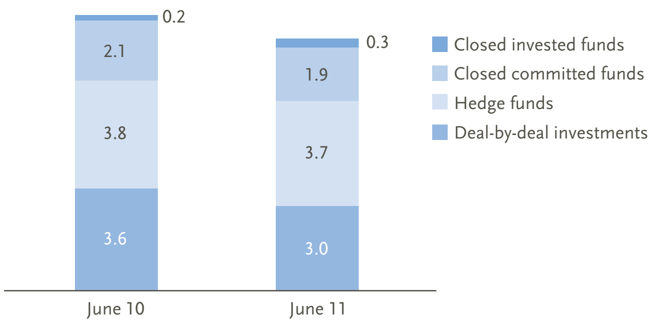
($b)



Client assets under management decreased by 8.4% to $8.9 billion from $9.7 billion primarily as a result of more than $1 billion of realization activity in corporate investment and real estate investment.

Total client AUM

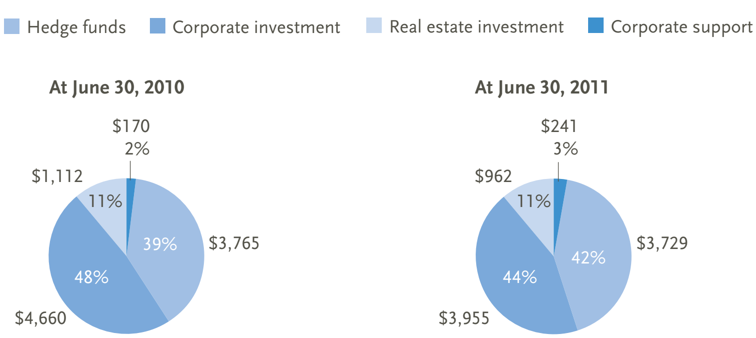
($b)



Corporate investment and hedge funds are the dominant components of client AUM. Corporate investment AUM has declined as a result of realization activity and hedge fund AUM has remained stable. Corporate investment represents 44% of client AUM.

Client AUM

($m)



New fundraising was offset by reductions in AUM from corporate investment and real estate investment exits and redemptions net of performance, resulting in a $0.8 billion decline in client AUM.

Key AUM and fundraising performance indicators (by asset class)

Corporate investment ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,753**	1,853	(5%)
Deal-by-deal investments	**1,988**	2,598	(23%)
Closed-end invested funds	**214**	209	3%
Total client AUM – at period end	**3,955**	4,661	(15%)
Average client AUM	**4,256**	4,581	(7%)
Equity deployed	**228**	346	(34%)
North American and European corporate investment acquisitions deal size*	**236**	337	(30%)
Deal-by-deal placement	**226**	126	79%

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

Hedge funds ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Fund of funds	**2,648**	2,125	25%
Structured and levered products	**211**	351	(40%)
Single managers	**870**	1,289	(33%)
Total client AUM – at period end	**3,729**	3,765	(1%)
Average total client AUM	**3,862**	3,523	10%

Real estate ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Closed funds (mezzanine)	**206**	253	(18%)
Deal-by-deal investments	**756**	859	(12%)
Total client AUM – at period end	**962**	1,111	(13%)
Average client AUM	**1,037**	1,134	(9%)
Equity deployed (excluding mezzanine debt)	**76**	69	11%
Deal-by-deal placement	**58**	54	8%

CLIENT PLACEMENT

Investcorp continued to provide alternative asset management solutions to clients who are predominantly private and institutional investors in the six GCC countries, but also include a number of international institutions.

In FY11 Investcorp displayed strong fundraising momentum in its core Gulf markets and in its core deal-by-deal placement business. Fundraising in the Gulf was $517 million in the period, up 67% from the $310 million raised in FY10. Corporate investment placement was $226 million, a 79% increase over the $126 million placed in FY10. We placed Veritext, which was acquired in May 2010, and FleetMatics, acquired in December 2010. In real estate investment we placed two portfolios: US Commercial Properties VI Portfolio and US Diversified Properties IX Portfolio. We also placed the new product, the Investcorp Special Opportunities Portfolio. We have also seen increased interest in our hedge funds platform from institutional investors in the Gulf, which contributed to new subscriptions into hedge funds from $24 million in FY10 to $233 million in FY11.

Outside the Gulf, most of our fundraising is investment made in hedge funds from institutional investors. In FY11 we saw a decrease in fundraising from the $2 billion raised in the previous two fiscal years as investors held back from committing to new mandates in the volatile markets of the first six months of calendar 2011. Fundraising outside the Gulf was $234 million in FY11 and the pipeline remains healthy. In total, placement and fundraising activities in FY11 raised $751 million compared to $1.4 billion in FY10.

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 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.

In July 2011, we agreed a co-underwriting arrangement with a number of Gulf-based institutional partners who will provide a total of $250 million to co-underwrite corporate investment deals prior to placement.

CLOSED-END FUNDS

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

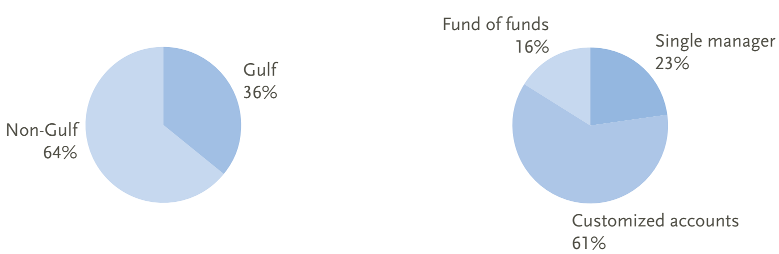
The foregoing information about closed-end funds is being provided to satisfy the requirements of the Central Bank of Bahrain. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction.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

OPEN-END HEDGE FUNDS

At June 30, 2011, hedge fund assets under management were $4.7 billion. $3.7 billion were client assets and $1.0 billion were co-investments.

Investcorp HF assets by region and product

At June 30, 2011



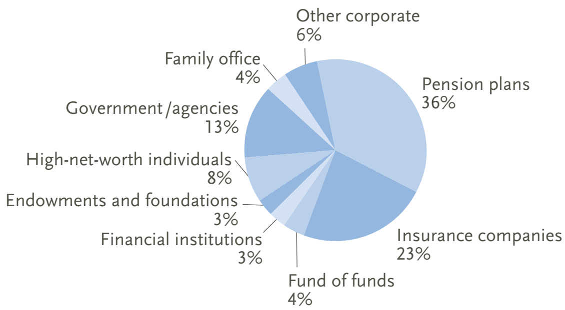
64% of client assets were from US institutional investors and 36% from Gulf HNWIs and institutions. 61% of client hedge fund assets are now invested through customized accounts reflecting the post-crisis trend towards this product. The percentage of assets in fund of fund products has decreased to 16% from 18%. Assets with single managers stand at 23%. Customized accounts and single managers remain an important component of our hedge fund growth strategy.

The percentage of assets from institutions remained stable during the fiscal year. At June 30, 2011, more than 90% of hedge fund assets represented a variety of institutional clients including pension funds, insurance companies, endowments and foundations, and fund of hedge funds. This high level of institutional clients has resulted in a more stable asset base.

During FY11, Investcorp continued several strategic initiatives designed to improve further its client servicing and delivery capabilities in hedge funds.

Investcorp HF assets by investor type

At June 30, 2011



Demystifying hedge funds

Investcorp prepared and launched to clients a series of White Papers based on research into demystifying hedge funds by investigating the sources of hedge fund alpha. This collection of work represents some of the most comprehensive and detailed research into the return drivers of major hedge fund strategies: merger arbitrage, convertible arbitrage, equity market neutral, distressed debt and fixed income relative value.

Hedge fund awards

Investcorp was recognized for its outstanding contribution to the hedge funds industry by Hedge Funds World Middle East. In an award ceremony in Dubai in March 2011, Investcorp won two awards: the 'Special Merit Award for Outstanding Industry Contribution' and 'Best Hedge Fund Manager' for its single manager, Silverback. These annual awards celebrate the leaders, innovators and pioneers in the hedge fund industry who have demonstrated an unparalleled record of success and continually set standards of excellence over the year.

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

Since acquisition we have strengthened the senior management team with the appointment of a new Chief Executive Officer, Bob Cullen and a new head of Information Technology, Frank Licata. An M&A function was created for former private equity professional, Adam Friend. The next priority is to continue to gain market share in the growing deposition services market and expand Veritext's national footprint while pursuing and acquiring accretive tuck-in acquisitions such as Renillo. The acquisition closed in July 2010.

N&W is the only pan-European manufacturer of beverage and snack food vending machines. It offers a full product range in a market otherwise composed of smaller, regional participants. N&W is over four times larger than its nearest competitor, and operates 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 potentials including cost efficiencies and add-on acquisitions.

As a result of the abrupt economic contraction in Europe in 2009, N&W customers reduced or postponed capital expenditure, negatively affecting revenues. Production efficiency and cost controls implemented that year were not sufficient to offset industry volume declines and in December 2009, Investcorp and Barclays Private Equity injected additional capital into N&W and secured lender consent to amend N&W's loan documentation favorably. This provided 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.

During 2010, the company embarked on a rationalization of its entire manufacturing footprint, with a view to reducing the number of European plants over the next few years and to relocating a portion of its manufacturing to Eastern Europe over the next three to five years. The closure of the Danish Odense plant was completed in June 2011. Management is now committed to drive further operational efficiency measures such as pricing optimization, product range rationalization and increased low cost country sourcing for pre-assembly activities, as well as driving growth initiatives such as an international expansion strategy that will focus on Germany, the UK, Eastern Europe, South America and Asia.

Consistent with the overall economic sentiment in Europe, the confidence of N&W's customers started gradually to return at the beginning of calendar 2010 and resulted in a solid rebound in N&W's performance during that year. Despite this good recovery, N&W's end market still remains approximately 20% below pre-crisis levels. Customer interviews suggest that operators are only cautiously positive in their machine spend plans for 2011, suggesting that they will continue to focus on refurbishing and optimizing, rather than replacing, existing vending machines. Demand for new machines by European operators is expected to rebound as they see consumption levels increase and resume their expansion strategy. 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, such as supplying Nespresso with pumps for the new PIXIE machine, launched in 2011. As the leading supplier to all international producers of portioned coffee, CEME is also benefiting from the growth of this market in the US and Japan. It is also benefiting from the growth of steam ironing in Latin America and Eastern Europe. CEME has demonstrated that it can apply its core solenoid technology to extend its product range to meet new applications in vending and industrial markets. For example it is supplying new micro-pumps dispensing concentrated ingredients in the new Coca-Cola freestyle vending machine. In addition, the company is actively seeking to identify acquisition targets in its core and adjacent markets.

CEME 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. However, it was able to mitigate the impact of lower sales volumes on profitability by significant cost reduction measures as well as through continuing productivity and efficiency improvements. This allowed the company to largely protect its EBITDA during the downturn. Gross margins increased by more than 8% during 2009 and through to mid-2010 and, despite the raw material price increase from mid-2010, gross margins are now about 3% higher compared to 2008 levels.

As an uncontested market leader, CEME has seen a significant increase in sale volume starting in 2010 throughout its three divisions. This has been driven by continued positive end market dynamics with strong espresso/capsule growth and generally a good retail performance of coffee and steam appliances in most European countries and increasing demand from the US and emerging markets. Sales in 2011 have returned to pre-crisis levels. Although higher raw material costs has put some pressure on gross margins in the last 18 months, the strong rebound in volume has more than offset margin pressure at an absolute profit level. Management has partially compensated for the effect of increased raw material prices by increasing prices in 2011 and expects medium-term growth trends in its end-markets to remain strong, as espresso and pad-filter machines take share from traditional filter coffee machines, and driven by the switch to steam generators from traditional irons. In addition, projects with key customers such as Nespresso, Coca-Cola and Keurig are expected to support top line development going forward. The acquisition closed in July 2008.

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

Asiakastieto's growth strategy is based on leveraging its leading market position, its well established customer relationships, its resilient cash flow characteristics and its experienced management team to drive growth both in its core risk management and credit information services market, as well as in adjacent market segments. Key value creation initiatives include the improvement of sales force effectiveness by penetrating existing customers better, improving transparency, objective setting and monitoring, and marketing tailored solutions to new customers. They also include ongoing investment in new product development, such as the new ID Theft Protection product, the Corporate Links of Persons in Charge service, and the new real estate offering, all of which were rolled out in the last 24 months. In addition, eight key projects were identified as strategic/high potential during an 'opportunities mapping exercise' in 2010. These will gradually be introduced into the market over the next two years.

The company has been performing very well over the past few years, showing resilience to the weaker economic situation in Finland, due to the nature of its business. Asiakastieto is working to counter potential adverse market conditions and improving its competitiveness by increasing the proportion of value-added products it offers rather than relying on pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States. Its products include B2B trade publications – primarily qualified circulation titles that rank first or second in their sector – live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates (EDA) business is an industry-leading collector and aggregator of industrial equipment purchase data that provided 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 as a result of 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, leveraging its leading market position. The availability of corresponding lead generating data products through EDA gives the company a unique marketing advantage.

The economy in Randall-Reilly's markets continues to show signs of recovery and has rebounded from the 2009 downturn as trucking and infrastructure related construction remain central to the US economy. Trucking tonnage has improved considerably and supply constraints of truck drivers are expected to continue to drive growth in the driver recruiting segment. The construction market, however, remains soft due to a lack of residential and commercial building.

As freight has picked up in the recovery, there has been a lack of qualified truck drivers and this situation is expected to worsen as more drivers are lost in 2011 and 2012 as a result of regulatory changes. Consequently, the biggest turnaround has been Randall-Reilly's truck driver recruiting division which has continued to invest in digest books and online recruiting websites, with exclusive rights in four of the top five trucking rest stop chains. The driver recruiting division has driven the largest increase in sales for the company, as fleets continue to advertise aggressively to hire drivers.

Throughout the downturn, Randall-Reilly continued to invest in its business and completed several strategic acquisitions that have helped broaden the product portfolio and improved the company's presence in its core markets. Randall-Reilly continues to search for acquisitions that increase its scale and product diversification and offer high returns on invested capital. Randall-Reilly also continues to put significant resources into growing the data business and launching ancillary products for EDA that provide enhanced equipment ownership and risk data. Investcorp expects this effort to entrench EDA with its customers and to drive revenue growth in calendar 2011 and beyond. The acquisition closed in February 2008.

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

Berlin has shown itself to be 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 such as expansion within existing markets through new customer wins and increased penetration of existing customers, through geographic expansion, by growing the presence of the company's catalog business, as well as through add-on acquisitions.

In February 2010, Berlin acquired All-Pak, a supplier of rigid packaging. Investcorp and Berlin management invested $51.5 million in additional equity. The acquisition significantly increased the company's scale and scope and improved its presence in the north-east US. In December 2010, Berlin acquired Continental Packaging Solutions, also a provider of rigid packaging solutions. This transaction did not require additional equity. The integration process of All-Pak and Continental has been successful with the timing and realization of synergies tracking at, or above, management's plan. Both acquisitions have strengthened Berlin's competitive position and overall scale in the marketplace, providing significant opportunities for synergies and cost reductions. Many potential targets have also noted Berlin's acquisition strategy and are interested in maintaining an open dialogue with Berlin in case the company wants to pursue additional add-on acquisitions in the future.

Berlin achieved strong growth in 2010 due to improvement in the general economic conditions, to new customer wins and to market share gains. The company further benefitted from tight cost controls and through realizing the benefits of synergies from acquisitions. Berlin remains well positioned for continued strong performance through growth, both organic and through acquisition, through the realization of synergies and through continuing cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services. With headquarters in Denmark, Icopal currently has 30 manufacturing sites and 85 offices throughout Europe and North America. Icopal's products are used for waterproofing (flat roofs and civil engineering projects), building membranes, pitched roofing and roofing accessories, as well as specialized contracting services within flat roofing.

Icopal's business strategy is focused on developing and consolidating the company's market position in existing markets, complementing its product offering and further expanding in Eastern Europe to secure continued growth opportunities. In addition, management is preparing for a strong rebound when demand recovers, drawing upon an institutionalized 'fill-the-gap' planning process with more than 200 growth initiatives for the period 2010-2013. These include setting up an in-house manufacturing capacity for breather membranes, the continued development of green waterproofing solutions and the systematic penetration of synthetic segments, ultimately ensuring continued above-market performance.

While market conditions gradually improved during 2010 in terms of volume, the inflationary raw materials prices kept EBITDA flat. 2011 is expected to be a year of transition, on the one hand marked by structural improvements and select pockets of growth, on the other facing material raw material price inflation.

During the economic recession, management reduced emphasis on Icopal's strategy to grow through add-on acquisitions in order to focus on protecting the core business. Now that market conditions have stabilized and restructuring measures have been implemented, management has again started to look at acquisition opportunities, making four attractive add-ons over the last 18 months. These bolt-ons included leading Austrian-Hungarian bitumen membrane producer Villas and Wolfin, a German high-end synthetic player. This acquisition has strengthened Icopal's position within the European membrane landscape. The acquisition closed in July 2007.

Armacell is a major supplier of engineered foams and expanded rubber products used in construction, industrial, sports, leisure and recreation, automotive, packaging and a wide range of custom applications. 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.

Armacell is undergoing a significant business transformation, having formed two divisions, Global Insulation and Technical Foam, and adding significant talent (including a new top management team), as well as rationalizing its manufacturing footprint. The company is now positioning itself to leverage its economies of scale and scope, to develop and execute global programs and to respond to local market needs.

Industry activity levels in Armacell's traditional markets are currently showing a positive top line trend, although differences in performance exist for various countries and segments. Furthermore, management is implementing a number of sales initiatives both geographic and product focused. Armacell has also increased penetration of emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. Armacell expects to achieve above-market growth through these initiatives, supported by R&D and product development in markets such as industrial, marine and petrochemical. Since the second half of 2010, the company is seeing strong inflationary pressure on raw material prices. To mitigate margin pressure from this, management has been increasing prices as well as introducing a program to reduce costs and complexity. These initiatives will underpin the company's long-term growth potential. 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, with 220 distribution branches in 40 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 rationalization of pricing policies, improving FleetPride's sourcing and supply chain, extending its national accounts and increasing private brands exposure. These initiatives have enabled FleetPride to realize market share gains. In addition to growing organically, management remains highly focused on pursuing strategic add-on acquisitions.

Over the past 18 months, FleetPride has completed 10 acquisitions, adding approximately $100 million in aggregate sales and $11 million in run-rate EBITDA. These included the recent acquisition of Midway Truck Parts in May 2011, the largest acquisition by FleetPride under Investcorp's ownership. In December 2009, FleetPride hired a new Chief Executive Officer with a strong operational background and a new Chief Financial Officer who have launched a number of operating initiatives necessary to improve profitability and general cash flow. Significantly, management has centralized supply chain management and established a national pricing department to change the national pricing model and better control margins. In 2010, FleetPride grew point of sales gross profit margins by approximately 100 basis points.

2010 represented a turning point for the aftermarket truck parts market, when pent-up demand started to convert to a pick up in volume. This trend has continued into 2011 and management expects industry levels to return to pre-crisis levels by 2012.

FleetPride will continue to focus on expanding market coverage, pursuing additional strategic acquisitions, developing its national accounts and private brand growth plans, and continuing to improve margins through rationalization of pricing policies and better purchasing and sourcing strategies. 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 competitor in the French market, with a presence across all regions of France.

Following a sharp decline in sales in calendar 2009 due to the economic environment, management implemented a broad set of commercial action plans, gross margin expansion initiatives and cost cutting measures. These achieved annual benefits in excess of €20 million. Sales recovered slowly in calendar 2010, but profits increased as a result of cost reductions.

In the first five months of calendar 2011, industrial production – the biggest driver for the industrial parts and supplies markets – was up approximately 6% in France. Orexad is benefitting from this industry momentum as well as leveraging its market leading position and best-in-class key account organization to continue taking share from competitors. The company is also continuing its strategy of improving gross margins through continued focus on sales force training, pricing initiatives and further improving the penetration by its own label brand. As a result, in the first half of calendar 2011, Orexad experienced strong sales momentum and growth across all networks and continued gross margin improvement. As a result, EBITDA is significantly above budget and previous periods.

Orexad is also focusing once more on its add-on acquisition strategy and is reviewing several European candidates. 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.

Following the sharp downturn in 2009, activity stabilized in calendar 2010 and has been recovering slowly since the beginning of the year. However, the auto parts market remains soft. The restructuring of Autodistribution's balance sheet, which took place in March 2009, has provided the company with a stable and de-risked financial position.

Management has started the implementation of a far reaching Profit Improvement Plan targeting €30 million of cumulated improvements by the end of calendar 2013. These initiatives include rationalization of the regional organization, turnaround of the loss making subsidiaries, productivity improvements, improvements in transportation and logistics costs, and gross margin increases. The management team has been significantly strengthened and the company is on track to achieve its target. Since the beginning of calendar 2011 activity has been picking up and EBITDA is up significantly on last year.

Management is also carefully monitoring its international presence, seeking long term solutions for its Italian and Polish operations and reviewing strategically attractive acquisition opportunities. 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. It provides 'mission critical' information and software solutions to parties involved in the automotive insurance claims process. CCC's products are sold on a subscription or transaction basis under multi-year contracts, resulting in a recurring and highly predictable revenue stream.

Overall transaction volumes in the industry held up during the downturn as economic climate usually has limited impact on this type of business. With many key customer renewals completed, CCC is focused on future organic growth, with a particular emphasis on several new product introductions in calendar year 2010 that have started to show benefits and are expected to drive meaningful uplift in future years. In particular, growth in the autobody shop business is being driven by the successful introduction of a new shop management solution, CCC One.

In 2011, CCC started to make significant investments in product development. It hired a new Chief Technology Officer to upgrade new product development and to improve technology processes. It has expanded R&D spend on new product introductions and launched a wholly-owned subsidiary in China to develop a new product suite based on CCC technology using local development and sales teams. In addition to growing organically, management continues to pursue potential add-on opportunities to expand into new end markets and countries. The acquisition closed in February 2006.

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

After facing difficult market conditions in 2009, Polyconcept has recovered well and experienced a return to healthy growth rates in 2010 and the first half of 2011. Management expects margins to improve as a result of new product development, of a more favorable product mix and of price increases to offset an inflationary outlook, especially in China. The company reacted promptly to the slowdown by adapting 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 cost savings. At the same time, Polyconcept has focused on strategic projects to foster the long term growth prospects of the group. It has set up a consolidated and harmonized sourcing platform across the group to capture synergies, adapt to new market conditions, develop scalability and build a commercial competitive advantage. The company has revised its product offering to address both the premium and the value segments and this has shown considerable success. Polyconcept has also invested in developing further its promotional branding capabilities in Europe.

In April 2011, Polyconcept acquired Trimark Sportswear Group, a leading Canadian apparel supplier. This transaction did not require additional equity. This marks Polyconcept's fourth acquisition since 2005 and its move into the promotional apparel category in North America. With the addition of Trimark, Polyconcept North America (PCNA) now becomes Canada's largest supplier of both apparel and hard goods under four industry leading brands (Leed's, Bullet, JournalBooks and Trimark).

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

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.

Conditions in SourceMedia's end markets have begun to stabilize and improve. However, the transformational shift from print to online in the publishing industry has continued to reduce overall advertising demand. The company continues to shift from traditional advertising-based print publishing to a community and content-focused enterprise that will deliver products to its customers in both print and electronic formats and has had some success in introducing new products and revenue streams in the past year. The restructuring of SourceMedia's cost base has removed significant costs and the flow through to bottom line revenues is expected to be very high given the operating leverage in the business. Accuity has experienced strong revenue growth in calendar 2010. It has benefitted from increased regulation in the financial services industry which has driven customers to focus on efficiencies that Accuity's solutions provide. Accuity has also invested significant resources in continued international expansion and new product introductions and has begun to see the benefits in its top and bottom lines.

Overall SourceMedia and Accuity's core businesses, market positions and brand awareness remain strong and both companies remain very well positioned to take advantage of the improving outlook. The company will continue to evaluate, selectively, opportunistic add-on acquisitions in support of a diversification strategy, a unified customer database and an enhanced position in the marketplace. The acquisition closed in November 2004.

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

Despite the lagging economic recovery in TelePacific's markets, which has slowed new customer growth and reduced telecommunication usage by existing customers, the company has been successful in growing revenue and performing very strongly relative to its peer group. TelePacific has reduced its industry-leading customer churn rates through superior customer care initiatives, has grown sales and has maintained strong profit margins.

Over the past decade, TelePacific has enjoyed attractive growth and in fiscal 2011, it grew revenues through organic market share gains as well as acquisitions. Recently, attractive acquisition opportunities have emerged that have provided revenue growth, additional scale and/or a strategically important platform. In the last year, TelePacific has acquired or agreed to acquire five companies including the small and medium sized business unit of 01 Communications, a California-based CLEC; Covad Communications' Covad Wireless unit, a fixed wireless broadband data services company; TeleKenex, a provider of Hosted VoIP and managed data solutions to small businesses nationwide; and OCiX Data Center, a data center located in Orange County, CA. In June 2011, TelePacific entered a very promising new geographic region by agreeing to acquire Tel West, a Texas-based CLEC. All of these transactions were financed through a combination of cash on hand and additional debt. These investments will help TelePacific broaden its product options, build scale and reduce its cost structure to continue to succeed in the competitive telecommunications industry.

In addition to the acquisitions, TelePacific has made a significant investment in the rollout of Ethernet-over-Copper (EoC), which provides customers high bandwidth product offerings in a more cost effective way. Overall, the company has improved its competitive position over the last year through new technological platforms in order to provide higher bandwidth with less cost. TelePacific has also broadened its product offering with products such as data centers and hosted VoIP, deepened its presence in existing markets and entered a new geographic market with attractive growth and profitability characteristics. TelePacific's outlook remains positive as it has positioned itself to compete and succeed in its market. The acquisition closed in April 2000.

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

OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

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

OWNERSHIP STRUCTURE

Overview

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

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

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

Shareholding structure

The shareholding structure of Investcorp Bank is outlined in Note 1(A) (iii) to the consolidated financial statements of Investcorp Bank. At June 30, 2011, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 22.7% of the Ordinary Shares of Investcorp Bank which are traded on the Bahrain Bourse and are held by Gulf-based nationals and institutions. SIPCO Limited (SIPCO) directly and indirectly owns 30.6% of Investcorp Bank's ordinary shares. Investcorp Funding Limited (IFL), a subsidiary of Investcorp Bank, holds 7.8% of Investcorp Bank's Ordinary Shares.

The 38.4% of Investcorp Bank's ordinary shares owned directly and indirectly by SIPCO and Investcorp Funding Limited represents:

- management (95 employees) ownership of beneficial interests in 15.9% of Investcorp Bank's Ordinary Shares through Investcorp's Share Incentive Plans (the 'SIP Plans');
- treasury shares, amounting to 14.7% of Investcorp Bank's Ordinary Shares, reserved for management to acquire beneficial interests in Investcorp Bank's Ordinary Shares through the SIP Plans; and
- treasury shares, amounting to 7.8% of Investcorp Bank's Ordinary Shares, available for future sale to strategic shareholders or for management to acquire beneficial interests in Investcorp Bank's Ordinary Shares through the SIP Plans.

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

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

As at June 30, 2011, assets comprising 97.5% of the book value of the Investcorp Group's consolidated assets were owned directly or indirectly by ISA, which is wholly-owned by IHL.

In order to separate voting control from economic ownership, IHL has issued both voting shares and non-voting shares. Investcorp Bank holds 23.1% of the voting shares of IHL (through its ownership of IHL Series A Preference Shares) and 100% of the non-voting shares of Investcorp Bank (through its ownership of IHL Series B Preference Shares). IFL owns 7.8% of the voting shares of IHL. The IHL Series A Preference Shares owned by Investcorp Bank give it 100% of the economic ownership of IHL and, therefore, 100% ownership of the 97.5% of the book value of the Investcorp Group's consolidated assets owned directly or indirectly by ISA.

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

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

Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 65.2%. of Investcorp Bank's ordinary shares directly and through C.P. Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is majority owned by OHL which, in turn, is majority owned by SIPCO. Strategic shareholders own the balance of CPHL and OHL. SIPCO also holds 3.9% of Investcorp Bank's Ordinary Shares directly.

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

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

Information regarding the ownership and trading of Investcorp Bank's Ordinary Shares and Preference Shares by Investcorp Bank's Directors and the ownership of Investcorp Preference Shares by certain members of senior management is provided in the Investcorp Bank Fiscal Year 2011 Corporate Governance Report ('Fiscal Year 2011 Corporate Governance Report') which is a supplement to this Annual Report. The Fiscal Year 2011 Corporate Governance Report also is available on Investcorp's website (www.investcorp.com).

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

The table below shows the distribution by nationality of the holders of the 22.7% of Investcorp Bank's Ordinary Shares that are held by public shareholders and traded on the Bahrain Bourse. International shareholders hold 0.3% of Investcorp Bank's Ordinary Shares, represented by unlisted Global Depositary Receipts.

Nationality	Number of shares	Ownership
American	1,712	0.2%
Bahraini	37,564	4.7%
British	10,504	1.3%
Cayman Islander	8,067	1.0%
Emirati	21,685	2.7%
Greek	600	0.1%
Jordanian	1,045	0.1%
Kuwaiti	19,389	2.4%
Lebanese	300	0.0%
Omani	4,295	0.5%
Qatari	16,183	2.0%
Saudi Arabian	58,406	7.3%
Spanish	100	0.0%
Swiss	2,086	0.3%
Total	**181,936**	**22.7%**

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

Nationality	Number of shares	Ownership
Bahamas	100,000	19.4%
Bahraini	37,600	7.3%
British	4,118	0.8%
Canadian	1,000	0.2%
Cayman Islander (includes SIPCO Preferred Limited)	193,134	37.5%
Emirati	4,000	0.8%
French	1,000	0.2%
German	1,000	0.2%
Indian	950	0.2%
Jordanian	1,000	0.2%
Kuwaiti	118,350	23.0%
Lebanese	500	0.1%
New Zealand	150	0.0%
Omani	22,200	4.3%
Qatari	3,450	0.7%
Saudi Arabian	18,680	3.6%
Swiss	8,000	1.6%
Total	**515,132**	**100.0%**

See Note 16 to Investcorp Bank's consolidated financial statements for the distribution of ownership of Investcorp Bank's Ordinary Shares and Preference Shares by size of shareholding.

CORPORATE GOVERNANCE

Overview

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

Investcorp makes large investments in mostly illiquid asset classes such as corporate and real estate investment. It places a large proportion of these investments with clients and retains a portion for its own balance sheet. These investment activities operate with above-average risk levels and have led to the development of a comprehensive risk management infrastructure and strong corporate governance over the past 29 years. Investcorp's corporate governance practices have been structured around the following three principles:

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

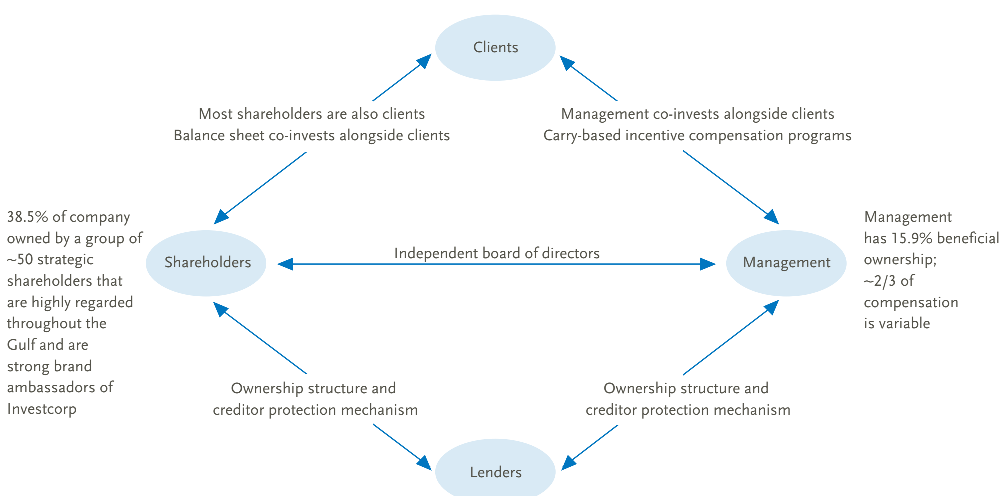
ii. transparency of reporting and actions plus proactive risk control; and

iii. collective decision-making.

Investcorp Bank's corporate governance is subject to the CBB's High Level Controls Module, which incorporate the Corporate Governance Code of the Kingdom of Bahrain.

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

Performance-based incentive compensation: Investcorp's 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 compensation paid to members of senior management and other Investcorp executives 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.

Further, all of Investcorp's employees at the level of Principal and Managing Director (including all of the members of senior management) are required to defer a percentage of their incentive compensation and utilize a portion of that deferred compensation to purchase beneficial interests in Investcorp Bank's Ordinary Shares through the SIP Plans.

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 and Investcorp's management structure 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

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

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

Each Director has signed a formal written appointment letter agreement which addresses a number of matters, including the Director's duties and responsibilities in serving on the Board of Directors, the determination of his annual remuneration, his entitlement to expense reimbursement and access to independent professional advice when needed.

The responsibilities of the Board of Directors, as set out in its Charter, are as follows:

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

The Directors' names, years of service on the Board of Directors, other directorships held by them and attendance of Board of Directors and Committee meetings held during Fiscal Year 2011 are reported in the Fiscal Year 2011 Corporate Governance Report.

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

All of the Directors other than Mr Kirdar are non-executive. In line with the requirements of the CBB's High Level Controls Module, the Board of Directors determines the independence of the Directors each year. The determination of the independence of the Directors made by the Board of Directors during Fiscal Year 2011 is reported in the Fiscal Year 2011 Corporate Governance Report.

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

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

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

Pursuant to the Terms of Reference of the Audit Committee, its responsibilities include:

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

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

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

Pursuant to the Terms of Reference of the Corporate Governance Committee, its responsibilities include:

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

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

Pursuant to the Terms of Reference of the Committee, when acting as a nominating committee, its responsibilities include:

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

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

When acting as a remuneration committee, its responsibilities include:

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

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

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

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

Pursuant to the Terms of Reference of the Committee, its responsibilities include:

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

The names of the members of each of the Executive Committees, their attendance at their relevant Executive Committee meetings during Fiscal Year 2011 and the remuneration paid to them for service on their relevant Executive Committee during Fiscal Year 2011 is reported in the Fiscal Year 2011 Corporate Governance Report.

The Board of Directors and each Executive Committee other than the Corporate Governance Committee will evaluate its performance for the first time by the end of December 2011. The Corporate Governance Committee, which was only established by the Board of Directors in January 2011, will evaluate itself for the first time by the end of March 2012. A report regarding the evaluations conducted each year will be provided at each Ordinary General Meeting of Shareholders beginning in 2012.

For information regarding related party transactions, please see Note 26 to the consolidated financial statements of Investcorp Bank.

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

Transparency for other stakeholders

It is the policy of Investcorp Bank to provide to its shareholders, clients, creditors and other stakeholders public disclosure that is fair, transparent, comprehensive and timely, and the Board of Directors has adopted a Public Disclosure Policy and Procedures Statement to ensure that the standards of this policy are satisfied. In accordance with this Policy and Procedures Statement, Investcorp Bank's financial statements for at least the last three years are maintained on the Investcorp website at all times.

In addition to publishing its annual audited financial statements, Investcorp Bank publishes its unaudited financial statements for the first six months of its financial year (July-December) and shareholder updates for the first three (July-September) and nine months of its financial year (July-March). An annual shareholders meeting, in addition to the Ordinary General Meeting of Shareholders, provides further information and an opportunity for 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, on-going 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, on-going access to the members of the corporate financial management team, usually through one-to-one communications.

iii. Collective decision-making. Investcorp's senior management team adopts a collective decision-making style. The firm's decision-making process is based on a partnership approach and is driven from the bottom up, not from the top down.

The heads of the individual lines of business are all members of the firm's Management Committee. Their responsibilities include making sure that members of their teams are engaged in the decision-making process. Each member of the Management Committee reports to the head of his particular geographic location.

At a higher level is the Coordinators' Committee. This consists of the heads of each location in our geographic target markets plus the Chief Financial Officer and Chief Administrative Officer. Members of the Coordinators' Committee report to the Executive Chairman and Chief Executive Officer.

Collective decision-making is also evident in the Investment Committees within each line of business and in the cross-functional Commitment Committee. The respective Investment Committees and the Commitment Committee review all potential investments. In addition, subject to the approval of the Audit Committee and the Board of Directors, the cross-functional Financial and Risk Management Committee oversees Investcorp's risk management activities and sets Investcorp's risk profile on a Group-wide basis.

Information regarding Investcorp's senior management is available on Investcorp's website (www.investcorp.com).

REGULATION

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

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

In connection with the hedge funds business, Investcorp Bank has one subsidiary that is registered with and regulated by the US Securities and Exchange Commission (SEC) and the US Financial Industry Regulatory Authority as a broker-dealer. Investcorp also has two subsidiaries that are registered with and regulated by the SEC as investment advisers. One of these subsidiaries is also registered with and regulated by the Cayman Islands Monetary Authority ('CIMA'). In addition, many 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 - MENA 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 and the Board of Directors.

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

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

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

Ratings

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

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

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

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

Liquidity management

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

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

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

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

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

Funding structure

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

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

Investcorp's funding sources can be summarized as follows:

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

- **Medium-term funding** comprises committed bank facilities (drawn and revolving), capital markets notes and a portion of committed client deposits that are not on call. This pool is targeted to have 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.

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

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

The notional leverage calculation above reflects a very basic measure of financial risk. It does not give any benefit to the fact that a high proportion of borrowed money may be 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 Investcorp's opinion, a more holistic measure of the risks on the balance sheet and is described in the following section on risk management. Investcorp aims to size its capital base so it can withstand a prolonged stressed environment as well as event risks, while its cash flow and liquidity position can cover interest and debt repayment obligations.

RISK MANAGEMENT

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

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

TYPES OF RISK

Investcorp groups its predominant risks under the following categories:

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

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

Interest rate/currency risk management

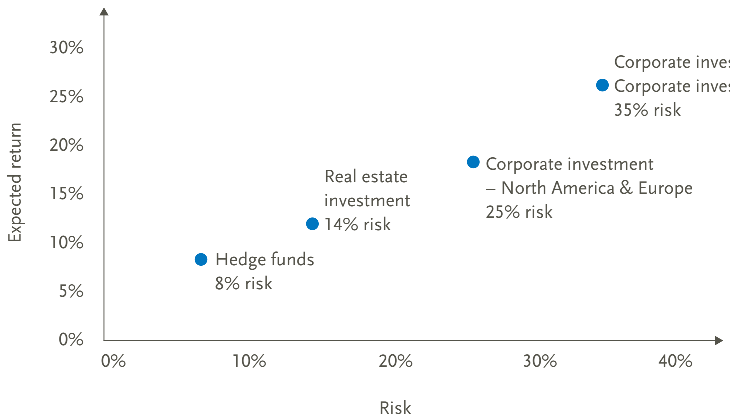
Assets and liabilities give rise to interest rate risk if changes to the level of interest rates impact the value of future cash flows generated from assets or the value of future cash flows paid in respect of liabilities. The exposure of Investcorp's balance sheet to interest rate risk is frequently measured and monitored using sophisticated risk management tools that provide in-depth analysis across all investment and funding sources. The amount of interest rate sensitivity of the balance sheet at June 30, 2011 is shown in Note 22(iv)(b)* of the financial statements of Investcorp Bank B.S.C.

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

*References are to footnotes in the fiscal 2011 Investcorp Bank B.S.C. consolidated financial statements

Line of business investment risks

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



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

Once a company is 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. Individual underwriting and sector exposure limits are imposed in order to manage any over-concentration risks. Finally, when exiting a portfolio company, hedging strategies may be used to mitigate risks associated with the exit process and to protect the expected realization proceeds from downside risks.

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

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

Throughout the investment cycle, there is a strong emphasis on due diligence and proactive post-investment management. In addition to risk-mitigating processes, all investment proposals are scrutinized rigorously by the relevant Investment Committee and 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 risk analysis, as well as meaningful strategy-specific exposure and profit attribution analyses.

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

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

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

One of Investcorp's competitive strengths is the process by which it increases transparency. For example, it establishes separate accounts with managers, thereby controlling leverage and undesirable exposures. 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 last quarter of calendar year 2008. The hedge funds team is mindful of these risks and has incorporated specific actions in its asset allocation, monitoring guidelines and separate accounts in order to cushion or mitigate these risks during periods of extreme market volatility and stress.

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

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

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

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

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

Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events (such as natural disasters, changes in regulation or outsourcing of operations). Investcorp includes in this definition 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 based on 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. Investcorp's operational risk framework, which is based on BIA for regulatory reporting, is being reviewed to include, in the first and second phases, a maker/checker process, an updated review of RCSA and a tracker of material losses by business lines. Subsequently, monitoring and reporting processes of operational risk exposures will be implemented for upward reporting to senior management and the board of directors.

ADEQUACY OF ECONOMIC CAPITAL

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

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

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

Investcorp uses two complementary approaches to determine economic capital:

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

- Long-term economic capital: dynamically modelled by considering organic business objectives and capital requirements to support these. This is based on a Monte Carlo based proprietary Long Range Plan model which estimates the equity cushion at the 99th percentile loss over a five-year horizon across varying economic/operating environments. The model, which incorporates bottom-up input from all businesses regarding base case expectations and variability, is used to project the financial condition of the company at the end of each of the next five years. The Monte Carlo simulations, then project several thousand P&L and balance sheet scenarios, the focus being on the amount of economic capital cushion in the bottom 1% of simulated projections (termed the 'stress-case of the equity cushion'). A stress-case scenario represents multiple and simultaneous stressed conditions across all lines of business over an extended period of time. The objective is to maintain a capital cushion, even in such stress-case scenarios, that will ensure solvency and flexibility for business initiatives.

Investcorp Bank B.S.C.

Consolidated Financial Statements: June 30, 2011

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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, 2011. Based on this assessment, management believes that, as of June 30, 2011 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.

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

August 2, 2011

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. (the 'Bank') and its subsidiaries (together the 'Group') which comprise the consolidated statement of financial position as at June 30, 2011 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2011 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

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 Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 1 of the CBB rulebook) and directives, nor of the memorandum and articles of association of the Bank have occurred during the year ended June 30, 2011 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 2, 2011
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET

June 30, 2011

$000s	June 30, 2011	June 30, 2010	Note	Page
ASSETS				
Cash and short-term funds	**24,649**	21,342		
Placements with financial institutions and other liquid assets	**341,395**	881,469		
Positive fair value of derivatives	**45,033**	74,766	19	115
Receivables and prepayments	**300,436**	315,975	6	102
Loans and advances	**169,832**	247,593	7	103
Co-investments				
Hedge funds	**607,398**	537,274	8	103
Corporate investment	**1,121,735**	1,052,765	9	104
Real estate investment	**188,838**	216,777	10	107
Total co-investments	**1,917,971**	1,806,816		
Premises, equipment and other assets	**59,235**	68,995		
Total assets	**2,858,551**	3,416,956		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from clients – short-term	**318,028**	247,426	12	109
Negative fair value of derivatives	**22,804**	27,199	19	115
Payables and accrued expenses	**202,521**	144,342	13	109
Deposits from clients – medium-term	**95,309**	90,693	12	109
Medium-term debt	**584,912**	1,321,348	14	110
Long-term debt	**574,640**	591,610	15	111
Total liabilities	**1,798,214**	2,422,618		
EQUITY				
Preference share capital	**511,465**	508,678	16	111
Ordinary shares at par value	**200,000**	200,000	16	111
Reserves	**242,880**	596,243		
Treasury shares	**(181,287)**	(161,669)		
Retained earnings excluding unrealized fair value of corporate and real estate co-investments	**139,196**	65,430		
Unrealized fair value of corporate and real estate co-investments	**42,726**	(299,919)		
Ordinary shareholders' equity excluding proposed dividends, unrealized fair value changes and revaluation reserve	**443,515**	400,085		
Proposed appropriations	**74,682**	57,374	18	114
Unrealized fair value changes recognized directly in equity and revaluation reserve	**30,675**	28,201	17	114
Total equity	**1,060,337**	994,338		
Total liabilities and equity	**2,858,551**	3,416,956		

ABDUL-RAHMAN SALIM AL-ATEEQI
Chairman

NEMIR A. KIRDAR
Executive Chairman & CEO

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2011

$000s	2011	2010	Note	Page
FEE INCOME				
Management fees	**93,189**	104,320		
Activity fees	**65,743**	68,652		
Performance fees	**38,508**	45,957		
Fee income (a)	**197,440**	218,929	2	93
ASSET-BASED INCOME				
Hedge funds	**39,489**	91,284		
Corporate investment	**121,664**	122,295		
Real estate investment	**40,555**	(89,912)		
Treasury and other asset-based income	**14,470**	18,108		
Asset-based income (b)	**216,178**	141,775	2	93
Gross operating income (a) + (b)	**413,618**	360,704	2	93
Provisions for impairment	**(2,099)**	(11,669)	11	108
Interest expense	**(56,033)**	(58,030)		
Operating expenses	**(215,173)**	(188,831)	5	102
NET INCOME	**140,313**	102,174		
Basic and fully diluted earnings per ordinary share ($)	**128**	64	18	114

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2011	2010	Note	Page
NET INCOME (AS ABOVE)	**140,313**	102,174		
Other comprehensive income				
Fair value movements – available for sale investments	**(1,860)**	–	17	114
Fair value movements – net unrealized gains on cashflow hedges	**8,229**	8,654	17	114
Revaluation loss on premises and equipment	**(3,034)**	–	17	114
Other comprehensive income	**3,335**	8,654		
TOTAL COMPREHENSIVE INCOME	**143,648**	110,828		

The attached notes 1 to 26 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, 2011

			Reserves			
$000s	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total reserves
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 – net	–	–	–	–	–	–
Loss on sale of treasury shares	–	–	(7,973)	–	–	(7,973)
Proposed preference share dividends	–	–	–	–	–	–
Preference share issuance proceeds	15,132	–	–	–	–	–
Share issue expenses	–	–	(779)	–	–	(779)
Non-vested preference shares issued to employees	(11,309)	–	–	–	–	–
Vesting of preference shares during the year – net	4,855	–	–	–	–	–
Balance at June 30, 2010	508,678	200,000	446,243	100,000	50,000	596,243
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Transfer of unrealized gains to fair value changes	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation on revaluation reserve transferred to retained earnings	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares purchased during the year – net	**–**	**–**	**–**	**–**	**–**	**–**
Loss on sale of treasury shares	**–**	**–**	**(3,444)**	**–**	**–**	**(3,444)**
Preference share dividends paid	**–**	**–**	**–**	**–**	**–**	**–**
Proposed appropriations / transfers:						
Preference share dividend	**–**	**–**	**–**	**–**	**–**	**–**
Ordinary share dividend	**–**	**–**	**–**	**–**	**–**	**–**
Transfer of general reserve to retained earnings	**–**	**–**	**–**	**–**	**(50,000)**	**(50,000)**
Transfer of fair value losses to share premium	**–**	**–**	**(299,919)**	**–**	**–**	**(299,919)**
Charitable contributions by shareholders	**–**	**–**	**–**	**–**	**–**	**–**
Vesting of preference shares during the year – net	**2,787**	**–**	**–**	**–**	**–**	**–**
Balance at June 30, 2011	**511,465**	**200,000**	**142,880**	**100,000**	**–**	**242,880**

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

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

Treasury shares	Retained earnings*	Unrealized fair value changes in corporate and real estate co-investments	Proposed appropriations	Unrealized fair value changes and revaluation reserve recognized directly in equity: Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	Total equity
(150,507)	16,926	(297,031)	–	6,573	3,025	10,765	20,363	894,746
–	102,174	–	–	–	8,654	–	8,654	110,828
–	(1,463)	1,463	–	–	–	–	–	–
–	4,351	(4,351)	–	–	–	–	–	–
–	816	–	–	–	–	(816)	(816)	–
(19,135)	–	–	–	–	–	–	–	(19,135)
7,973	–	–	–	–	–	–	–	–
–	(57,374)	–	57,374	–	–	–	–	–
–	–	–	–	–	–	–	–	15,132
–	–	–	–	–	–	–	–	(779)
–	–	–	–	–	–	–	–	(11,309)
–	–	–	–	–	–	–	–	4,855
(161,669)	65,430	(299,919)	57,374	6,573	11,679	9,949	28,201	994,338
–	**140,313**	**–**	**–**	**(1,860)**	**8,229**	**(3,034)**	**3,335**	**143,648**
–	**(42,726)**	**42,726**	**–**	**–**	**–**	**–**	**–**	**–**
–	**861**	**–**	**–**	**–**	**–**	**(861)**	**(861)**	**–**
(23,062)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(23,062)**
3,444	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**(57,374)**	**–**	**–**	**–**	**–**	**(57,374)**
–	**(61,376)**	**–**	**61,376**	**–**	**–**	**–**	**–**	**–**
–	**(9,306)**	**–**	**9,306**	**–**	**–**	**–**	**–**	**–**
–	**50,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**299,919**	**–**	**–**	**–**	**–**	**–**	**–**
–	**(4,000)**	**–**	**4,000**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,787**
(181,287)	**139,196**	**42,726**	**74,682**	**4,713**	**19,908**	**6,054**	**30,675**	**1,060,337**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2011

$000s	2011	2010	Note	Page
OPERATING ACTIVITIES				
Net income	**140,313**	102,174		
Adjustments for non-cash items in net income				
Depreciation	**6,803**	7,594	5	102
Provisions for impairment	**2,099**	11,669	11	108
Amortization of transaction costs of borrowings	**7,760**	7,834		
Preference shares vesting – net of forfeitures	**2,787**	4,855		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	**50,000**	(63,000)		
Receivables and prepayments	**10,403**	13,378	6	102
Loans and advances	**80,798**	(28,771)	7	103
Deposits from financial institutions	**–**	(15,000)		
Deposits from clients – short-term	**70,602**	(42,447)	12	109
Payables and accrued expenses	**58,179**	53,981	13	109
Co-investments				
Hedge funds	**(70,124)**	77,207	8	103
Corporate investment	**(70,830)**	(149,374)	9	104
Real estate investment	**27,939**	66,430	10	107
Fair value of derivatives	**86,526**	28,279		
Other assets	**(28)**	5		
NET CASH FROM OPERATING ACTIVITIES	**403,227**	74,814		
FINANCING ACTIVITIES				
Deposits from clients – medium-term	**4,616**	7,481	12	109
Medium-term revolvers repaid on maturity	**(150,000)**	–	14	110
Medium-term revolvers repaid and available for drawdown	**(490,000)**	–	14	110
Medium-term debt issued (net of transaction costs)	**88,750**	174,409	14	110
Medium-term debt repaid	**(200,000)**	(492,000)	14	110
Long-term debt repaid	**(62,875)**	(35,499)	15	111
Treasury shares purchased (ordinary) – net	**(23,062)**	(19,135)		
Preference share issuance proceeds – net	**–**	3,044		
Dividends paid	**(57,374)**	–		
NET CASH USED IN FINANCING ACTIVITIES	**(889,945)**	(361,700)		
INVESTING ACTIVITIES				
Investment in premises and equipment	**(49)**	(2,608)		
NET CASH USED IN INVESTING ACTIVITIES	**(49)**	(2,608)		
Net (decrease) in cash and cash equivalents	**(486,767)**	(289,494)		
Cash and cash equivalents at beginning of the year	**839,811**	1,129,305		
Cash and cash equivalents at end of the year	**353,044**	839,811		
Cash and cash equivalents comprise:				
Cash and short–term funds	**24,649**	21,342		
Placements with financial institutions and other liquid assets	**328,395**	818,469		
	353,044	839,811		
Total accessible liquidity comprises:				
Cash and cash equivalents	**353,044**	839,811		
Placements with financial institutions and other liquid assets (non-cash equivalent)	**13,000**	63,000		
Undrawn revolvers	**536,250**	–	14	110
Total accessible liquidity*	**902,294**	902,811		

*In addition to the above, the group has $607.4 million (June 30, 2010: $537.3 million) in hedge funds, which also forms a part of the Group's total liquidity.

Additional cash flow information $000s	2011	2010
Interest paid	**(61,079)**	(53,672)
Interest received	**20,443**	16,126

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

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

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

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

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

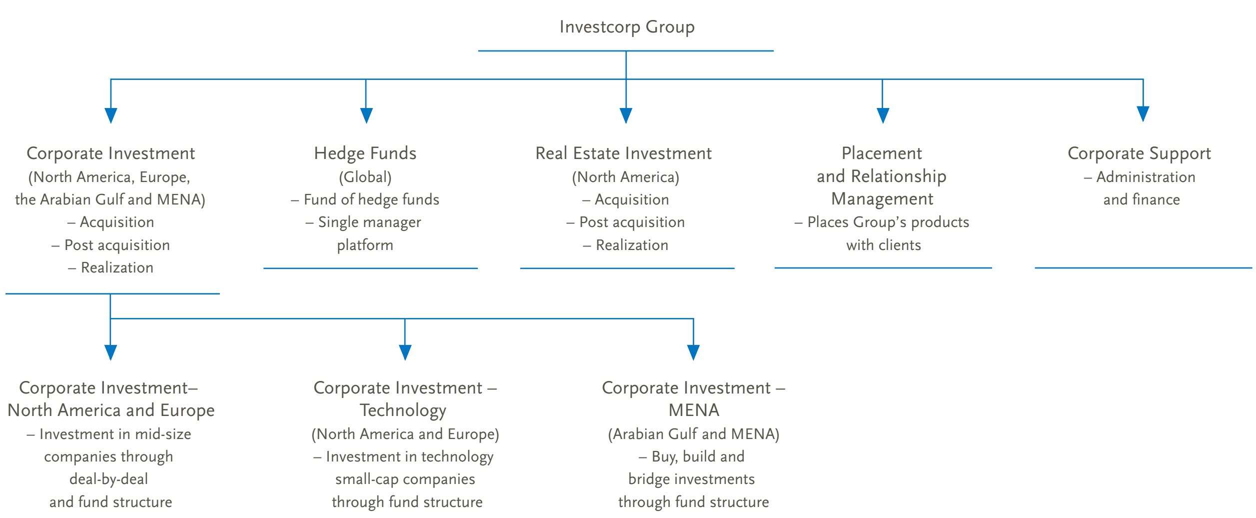
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2011 were authorized for issue in accordance with a resolution of the Board of Directors dated August 2, 2011.

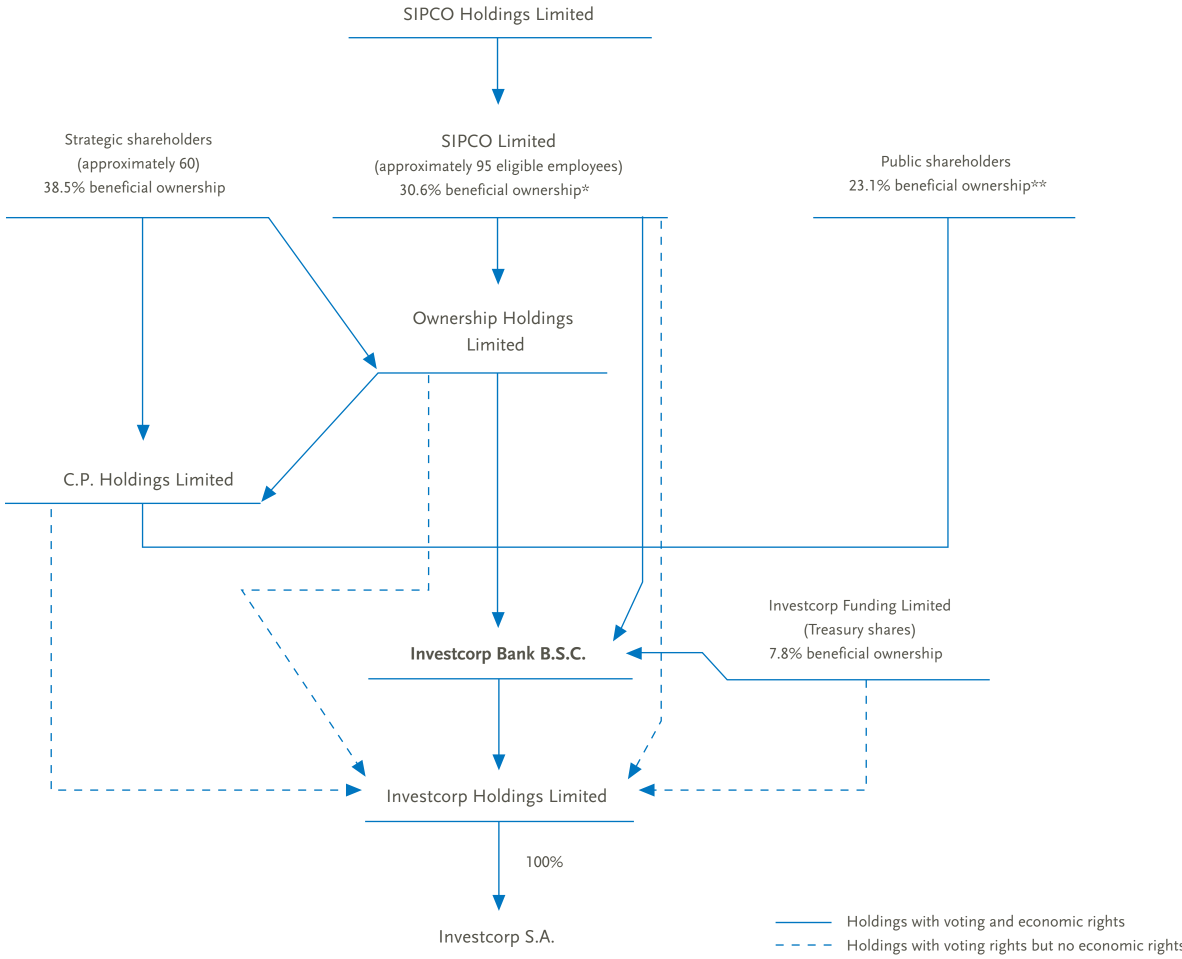
(ii) Activities

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

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



(iii) Ownership



* Includes 14.7% in shares that are held for future sale to management and 3% shares allocated but not vested under the SIP Plan. The Group has approval from the Central Bank of Bahrain (CBB) to hold up to 40% of shares for the SIP Plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

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

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

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

(iv) Subsidiary companies

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes 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, SIPCO Limited and Investcorp Funding Limited ('IFL') own ordinary shares of IHL in the same proportion to their shareholding of the Bank's ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

IHL in turn has a 100% economic and voting interest in Investcorp S.A. ('ISA'), a financial holding company originally incorporated in Luxembourg and transferred to the Cayman Islands during the previous 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 corporate 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 Equities Limited (Cayman Islands)	Company that manages the Group's excess liquidity
	Investcorp AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in the hedge funds program (HFP)
	Investcorp Financial and Investment Services S.A. (Switzerland)	Company that provides M&A advisory services for deal execution in Western Europe
	Investcorp International Limited (UK)	The Group's principal operating subsidiary in the UK, a further subsidiary of which (Investcorp Securities Limited) arranges M&A transactions in the UK
	Investcorp International Holdings Inc. (USA)	The Group's holding company in the United States of America
	Investcorp International Inc. (USA)	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'), in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 1 of the CBB rulebook) and directives. 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.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted during the year applicable for financial years beginning on or after the following dates:

- 2009 Improvements to IFRSs, 1 January 2010
- 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
- IFRS 5 Non-current assets held for sale and discontinued operations, 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
- IFRIC 19 – Extinguishing financial liabilities with equity instruments, 1 July 2010
- Amendments to IFRS 1 – Limited exemption from comparative IFRS 7 disclosures, 1 July 2010
- 2010 Improvements to IFRSs, 1 July 2010

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

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:

- 2010 Improvements to IFRSs, 1 January 2011
- IAS 24 Amendment – Related party disclosures, 1 January 2011
- IFRIC 14 Amendment – Prepayments of a minimum funding requirement, 1 January 2011
- IFRS 1 Amendments – Severe hyperinflation and removal of fixed dates for first time adopters, 1 July 2011
- IFRS 7 Amendment – Financial instruments: disclosures, 1 July 2011

- IAS 12 Amendments – Deferred tax: recovery of underlying assets, 1 January 2012
- IAS 1 Amendment – Presentation of financial statements, 1 July 2012
- IFRS 9 – Financial instruments: classification and measurement, 1 January 2015 (tentative)
- IFRS 10 – Consolidated financial statements, 1 January 2013
- IFRS 11 Joint arrangements, 1 January 2013
- IFRS 12 Disclosure of interests in other entities, 1 January 2013
- IFRS 13 Fair value measurement, 1 January 2013

The management is considering the implications of these standards and amendments, their 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') co-investments in corporate investment and real estate investment (see Notes 9 and 10) and impairment provisions for financial assets other than FVTPL investments (see Note 11).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of 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 corporate investment, real estate investment or hedge funds, including those over which the Group has significant influence, are classified as FVTPL investments when the following criteria are met:

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

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

(b) Other liquid assets

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

(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 the consolidated statement of income and on AFS investments are taken to the consolidated statement of comprehensive income.

(vi) Receivables

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

(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 8.

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

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

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. The resulting change in value of these investments is taken to 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 corporate investment and real estate investment are classified as held–to–maturity investments and are carried at amortized cost, less provision for impairment, if any.

(x) De-recognition of financial instruments

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

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

(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-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying 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 24).

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

(xv) Unfunded deal acquisitions

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

(xvi) Cash and cash equivalents

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

(xvii) 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.

(xviii) Treasury shares

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

(xix) Dividends

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

(xx) 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.

(xxi) Derivative financial instruments

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

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

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

(xxii) 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 investments in, and managing such investments in, alternative investment assets for institutional and high net worth clients through operating centers in the Kingdom of Bahrain, London 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 corporate investment, hedge funds and real estate investment is classified as asset-based income.

B. ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

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

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

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

Each of the five lines of business 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) Corporate investment – North America & Europe ('CI–NA & Europe')

The CI-NA & Europe team, based in London and New York, arranges corporate investments in mid-size companies in North America and Western Europe with a strong track record and potential for growth. These investments are placed primarily on a deal-by-deal basis with the Group's investor base in the Arabian Gulf states, and 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) Corporate investment – Technology ('CI–Technology')

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

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

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

(iv) Hedge funds ('HF')

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

(v) Real estate investment ('RE')

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

(vi) Corporate support

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

C. REVENUE GENERATION

(i) Fee income

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

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

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

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

D. ALLOCATION OF OPERATING EXPENSES

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

F. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a variety of risk based methodologies including Value-at-Risk ('VaR') to determine the required amount of total economic capital that is needed to support growth objectives under normal and extreme stress conditions for each business line. Economic capital is allocated to each business line based on the current amount of capital required to cover potential losses over a one year horizon. This capital allocation is then stressed by developing a five year projection plan which takes into account the current size of the business, expected growth and the associated capital required to support the risks within each reporting segment over the five year term.

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

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

G. BALANCE SHEET AND STATEMENT OF INCOME BY REPORTING SEGMENTS

Consolidated balance sheets as at June 30, 2011 and 2010 by reporting segment are as follows:

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

$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
	June 30, 2010				
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

The consolidated statements of income for the years ended June 30, 2011 and 2010 by reporting segments are as follows:

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

	July 2009 – June 2010				
$000s	Corporate investment	Hedge funds	Real estate investment	Corporate support	Total
FEE INCOME					
Management fees	67,212	24,654	12,454	–	104,320
Activity fees	62,350	–	6,302	–	68,652
Performance fees	26,532	18,841	584	–	45,957
Gross fee income (a)	156,094	43,495	19,340	–	218,929
Expenses attributable to fee income	(94,376)	(38,977)	(16,090)	–	(149,443)
Net fee income	61,718	4,518	3,250	–	69,486
ASSET-BASED INCOME					
Interest income	4,618	–	1,158	11,851	17,627
Treasury and other asset-based income	117,677	91,284	(91,070)	6,257	124,148
Gross asset-based income (loss) (b)	122,295	91,284	(89,912)	18,108	141,775
Provisions 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
Gross operating income (loss) (a) + (b)	278,389	134,779	(70,572)	18,108	360,704

Gross operating income of $255.5 million (2010: $278.4 million) from the corporate investment asset class includes $43.4 million and $19.3 million (2010: $41.4 million and $19.9 million) relating to CI–Technology and CI–MENA, respectively. The balance relates to CI–NA & Europe.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2010: nil). All of the Group's fee income arises from intermediary activities while the asset-based income includes $18.7 million (June 30, 2010: $17.6 million) interest income from items at amortized cost.

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

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9, 10 and 22 (iii) present the geographical split of assets and off-balance sheet items.

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

*Adjusted for related fair value hedges.

$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
	June 30, 2010				
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
Corporate investment	990,209	45,415	17,141	–	1,052,765
Real estate investment					
Debt	–	46,191	–	–	46,191
Equity	170,586	–	–	–	170,586
Total financial assets	1,951,069	1,272,465	17,141	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.

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, 2011				June 30, 2010			
$ millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment ('CI')								
Closed-end committed funds								
CI–NA & Europe	**476**	**206**	**64**	**746**	476	199	71	746
CI–Technology	**424**	**61**	**15**	**500**	419	67	14	500
CI–MENA	**853**	**70**	**6**	**929**	853	70	6	929
Sub total	**1,753**	**337**	**85**	**2,175**	1,748	336	91	2,175
Closed-end invested funds								
CI–Technology	**214**	**36**	**10**	**260**	209	23	10	242
Deal-by-deal investments								
CI–NA & Europe	**1,988**	**831**	**323**	**3,142**	2,598	852	368	3,818
Strategic and other investments	**–**	**73**	**–**	**73**	105	123	–	228
Total corporate investment	**3,955**	**1,277**	**418**	**5,650**	4,660	1,334	469	6,463
Hedge funds								
Fund of hedge funds	**2,648**	**138**	**4**	**2,790**	2,125	77	3	2,205
Single managers	**870**	**263**	**–**	**1,133**	1,289	265	6	1,560
Structured and levered products*	**211**	**609**	**6**	**826**	351	538	2	891
Total hedge funds	**3,729**	**1,010**	**10**	**4,749**	3,765	880	11	4,656
Real estate investment								
Closed-end committed funds	**150**	**27**	**–**	**177**	253	28	4	285
Closed-end invested funds	**56**	**1**	**2**	**59**	–	–	–	–
Deal-by-deal investments	**756**	**166**	**29**	**951**	859	181	32	1,072
Strategic and other investments	**–**	**8**	**–**	**8**	–	8	–	8
Total real estate investment	**962**	**202**	**31**	**1,195**	1,112	217	36	1,365
Corporate support								
Client call accounts held in trust	**241**	**–**	**–**	**241**	170	–	–	170
Total	**8,887**	**2,489**	**459**	**11,835**	9,707	2,431	516	12,654
Summary by category:								
Closed-end committed funds	**1,903**	**364**	**85**	**2,352**	2,001	364	95	2,460
Closed-end invested funds	**270**	**37**	**12**	**319**	209	23	10	242
Hedge funds	**3,729**	**1,010**	**10**	**4,749**	3,765	880	11	4,656
Deal-by-deal investments	**2,985**	**1,078**	**352**	**4,415**	3,732	1,164	400	5,296
Total	**8,887**	**2,489**	**459**	**11,835**	9,707	2,431	516	12,654
Summary by segments:								
Corporate investment								
CI–NA & Europe	**2,464**	**1,037**	**387**	**3,888**	3,074	1,051	439	4,564
CI–Technology	**638**	**97**	**25**	**760**	628	90	24	742
CI–MENA	**853**	**70**	**6**	**929**	853	70	6	929
Strategic and other investments	**–**	**73**	**–**	**73**	105	123	–	228
Hedge funds	**3,729**	**1,010**	**10**	**4,749**	3,765	880	11	4,656
Real estate investment	**962**	**202**	**31**	**1,195**	1,112	217	36	1,365
Corporate support	**241**	**–**	**–**	**241**	170	–	–	170
Total	**8,887**	**2,489**	**459**	**11,835**	9,707	2,431	516	12,654

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

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

Certain of the Group's clients entered into a trust arrangement whereby their call account balances maintained with the Bank were transferred into individual trust fund accounts managed by a common trustee. These trust funds are invested in highly liquid assets which have a credit rating no lower than that of Investcorp, or are placed on deposit with 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	2011	2010
Staff compensation	**130,209**	111,222
Other personnel costs	**17,266**	16,756
Professional fees	**22,999**	15,621
Travel and business development	**9,691**	9,758
Administration and research	**13,476**	12,664
Technology and communication	**3,017**	3,147
Premises	**10,675**	11,156
Depreciation	**6,803**	7,594
Other	**1,037**	913
Total	**215,173**	188,831

6. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2011	June 30, 2010
Subscriptions receivable	**106,884**	143,830
Receivables from investee companies	**102,417**	90,912
Investment disposal proceeds receivable	**58,977**	40,814
Hedge funds related receivables	**10,599**	22,881
Accrued interest receivable	**4,617**	6,396
Prepaid expenses	**29,681**	32,520
Other receivables	**30,692**	16,917
	343,867	354,270
Provisions for impairment (see Note 11)	**(43,431)**	(38,295)
Total	**300,436**	315,975

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

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

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

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

7. LOANS AND ADVANCES

$000s	June 30, 2011	June 30, 2010
Advances to HFP funds, real estate funds and technology funds	–	11,224
Advances to investment holding companies	**114,200**	141,413
Advances to employee investment programs	**97,617**	141,188
Other advances	**7,585**	6,375
	219,402	300,200
Provisions for impairment (see Note 11)	**(49,570)**	(52,607)
Total	**169,832**	247,593

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 from clients. These advances carry interest at market rates. In both cases the advances, in management's opinion, represent a low risk to the Group.

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

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

8. HEDGE FUNDS CO-INVESTMENTS

Co-investments in hedge funds, classified as FVTPL, comprise a portion of the Group's liquidity deployed alongside clients in the various fund of hedge funds and single manager hedge funds products offered by the Group, and similar internal vehicles. The Group currently manages several funds of hedge funds and structured fund products. The underlying hedge fund managers invest in a variety of liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments in several emerging hedge fund managers on its single manager platform. An emerging manager is typically 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, 2011	June 30, 2010
Diversified Strategies Fund ('DSF') and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	**79,873**	76,918
Balanced Fund ('IBF')	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	**36,562**	–
Single manager platform	Investments with single managers that have been seeded on Investcorp's platform	**262,849**	264,777
Structured and leveraged products	Investments across structural theme funds and structured embedded leverage products	**206,664**	195,515
Other hedge funds investments	Mix of small investments across several theme funds	**21,450**	64
Total balance sheet co-investments		**607,398**	537,274

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.

Out of the total co-investment in hedge funds, $8.9 million (June 30, 2010: $19.0 million) comprise funds which are not immediately available for redemption due to gating clauses imposed by the underlying fund managers.

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2011	June 30, 2010
Corporate investment – North America & Europe [See Note 9 (a)]	**944,845**	889,953
Corporate investment – Technology [See Note 9 (b)]	**80,006**	72,111
Corporate investment – MENA [See Note 9 (c)]	**23,711**	18,112
Strategic and other investments [See Note 9 (d)]	**73,173**	72,589
Total corporate co-investments	**1,121,735**	1,052,765

9(a). CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

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

The fair value of unquoted CI–NA & Europe co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve third party capital providers operating at arm's length. An example of a material event would be where a sale is imminent and credible bids have been received from third parties, in which event the fair value would be established with reference to the range of bids received and based on management's assessment of the most likely realization value within 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 recent measure of specific fair value for an individual investment is not available, the fair value is determined by the 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 referred to above.

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

$000s Vintage *	June 30, 2011	June 30, 2010
Vintage 1997 (1997 – 2000)	**182,040**	180,205
Vintage 2001 (2001 – 2004)	**43,901**	137,996
Vintage 2005 (2005 – 2008)	**508,105**	402,353
Vintage 2009 (2009 – 2012)	**210,799**	169,399
Total	**944,845**	889,953

* 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, 2011			June 30, 2010		
$000s	North America	Europe	Total	North America	Europe	Total
Consumer products	**47,743**	**–**	**47,743**	87,447	–	87,447
Industrial products	**–**	**381,465**	**381,465**	15,043	300,540	315,583
Technology and telecom	**182,225**	**–**	**182,225**	178,082	–	178,082
Industrial services	**138,593**	**44,638**	**183,231**	167,529	54,565	222,094
Distribution	**126,801**	**23,380**	**150,181**	73,478	13,269	86,747
Total	**495,362**	**449,483**	**944,845**	521,579	368,374	889,953

9(b). CORPORATE INVESTMENT – TECHNOLOGY

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

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

The carrying values of the Group's co-investments in CI–Technology deals at June 30, 2011 and June 30, 2010 are:

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

$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

9(c). CORPORATE INVESTMENT – MENA

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

The tables below show the carrying values of Gulf Opportunity Fund I investments at June 30, 2011 and June 30, 2010:

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

	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

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

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

9(d). STRATEGIC AND OTHER INVESTMENTS

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

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

These are held as AFS investments and debt instruments at amortized cost, except for investments amounting to $35.9 million (June 30, 2010: $35.9 million) that are classified as FVTPL.

10. REAL ESTATE CO-INVESTMENTS

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

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

The debt investments in real estate properties are classfied as held-to-maturity ('HTM') investments amounting to $35.4 million (June 30, 2010 $46.2 million).

The carrying values of the Group's co-investments in real estate invesment portfolios in the United States at June 30, 2011 and at June 30, 2010 are:

$000s Portfolio type	Number of properties	Region East	Midwest	Southeast	Southwest	West	June 30, 2011 Total
Office	**9**	**31,388**	**–**	**–**	**–**	**12,707**	**44,095**
Hotels	**16**	**16,447**	**3,963**	**3,462**	**5,133**	**8,106**	**37,111**
Retail	**36**	**–**	**1,187**	**6,960**	**7,655**	**–**	**15,802**
Industrial	**4**	**5,162**	**–**	**–**	**–**	**2**	**5,164**
Core plus total	**65**	**52,997**	**5,150**	**10,422**	**12,788**	**20,815**	**102,172**
Mezzanine debt	**–**	**14,986**	**396**	**12,019**	**107**	**129**	**27,637**
Opportunistic	**7**	**19,281**	**–**	**9,643**	**–**	**21,763**	**50,687**
Strategic and other	**–**	**8,342**	**–**	**–**	**–**	**–**	**8,342**
Total	**72**	**95,606**	**5,546**	**32,084**	**12,895**	**42,707**	**188,838**

$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

11. PROVISIONS FOR IMPAIRMENT

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

$000s 12 months to June 30, 2011 Categories	At beginning	Charge/ (write back)	At end
Receivables	**38,295**	**5,136**	**43,431**
Loans and advances	**52,607**	**(3,037)**	**49,570**
Total	**90,902**	**2,099**	**93,001**
12 months to June 30, 2010	79,233	11,669	90,902

12. DEPOSITS FROM CLIENTS

$000s	June 30, 2011	June 30, 2010
SHORT-TERM:		
Call accounts	**162,922**	105,726
Short-term deposits	**5,987**	385
Transitory balances	**149,119**	141,315
Total deposits from clients – short-term	**318,028**	247,426
MEDIUM-TERM:		
Medium-term deposits	**18,598**	22,860
Investment holding companies' deposits	**59,540**	50,949
Discretionary and other deposits	**17,171**	16,884
Total deposits from clients – medium-term	**95,309**	90,693
Total	**413,337**	338,119

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

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

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

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

All deposits bear interest at market rates.

13. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2011	June 30, 2010
Accrued expenses – employee compensation	**74,700**	69,200
Vendor and other trade payables	**35,744**	35,459
Unfunded deal acquisitions	**73,009**	–
Investment related payables	**3,658**	18,654
Deferred income	**4,997**	5,570
Accrued interest payable	**10,413**	15,459
Total	**202,521**	144,342

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

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

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

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

14. MEDIUM-TERM DEBT

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

			June 30, 2011			June 30, 2010		
$000s	Maturity	Tranche type	Size	Average utilization	Current outstanding	Size	Average utilization	Current outstanding
5-year Eurodollar facility	December 2009	Funded	–	–	–	142,000	52,636	–
5-year Eurodollar facility	December 2009	Funded	–	–	–	350,000	160,137	–
5-year Eurodollar facility	July 2010	Revolver	**150,000**	**11,507**	–	150,000	150,000	150,000
5-year Eurodollar facility	July 2010	Funded	**150,000**	**11,507**	–	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	Funded	**50,000**	**10,685**	–	50,000	50,000	50,000
5-year Eurodollar facility	December 2011	Revolver	**500,000**	**423,906**	**50,000**	500,000	500,000	500,000
5.5-year Eurodollar facility	December 2011	Revolver	**40,000**	**33,096**	–	40,000	40,000	40,000
5-year floating rate medium-term note	June 2012	Funded	**19,000**	**19,000**	**19,000**	19,000	19,000	19,000
3-year multi-currency facility	March 2013	Revolver	**46,250**	–	–	–	–	–
3-year multi-currency facility	March 2013	Funded	**281,703**	**271,028**	**281,703**	192,953	49,126	192,953
3-year multi-currency facility	March 2013	Revolver*	**246,500**	–	–	381,500	–	–
5-year Eurodollar facility	April 2013	Revolver	**107,500**	**107,500**	**107,500**	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	**135,500**	**135,500**	**135,500**	135,500	135,500	135,500
Total			**1,726,453**	**1,023,729**	**593,703**	2,218,453	1,413,899	1,344,953
Foreign exchange translation adjustments					**3,328**			(4,011)
Transaction costs of borrowings					**(12,119)**			(19,594)
					584,912			1,321,348

* This is a forward start facility that is not available until the 5-year Eurodollar facility due December 2011 is repaid in full.

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

15. LONG-TERM DEBT

		June 30, 2011		June 30, 2010	
$000s	Final maturity	Average outstanding	Current outstanding	Average outstanding	Current outstanding
PRIVATE NOTES					
GBP 25 million private placement	January 2010	–	–	1,438	–
$40 million private placement	December 2010	**13,933**	–	30,000	30,000
$20 million private placement	November 2011	**20,000**	**20,000**	20,000	20,000
$20 million private placement	April 2012	**20,000**	**20,000**	20,000	20,000
$71.5 million private placement	May 2012	**33,595**	**17,875**	46,684	35,750
$75 million bi-lateral placement	March 2013	**21,151**	**20,000**	41,877	35,000
$35 million private placement	December 2013	**26,250**	**26,250**	26,250	26,250
JPY 37 billion private placement	March 2030	**332,328**	**332,328**	332,328	332,328
$50 million private placement	July 2032	**50,000**	**50,000**	50,000	50,000
		517,257	**486,453**	568,577	549,328
Foreign exchange translation adjustments			**128,501**		85,657
Fair value adjustments			**(37,128)**		(39,904)
Transaction costs of borrowings			**(3,186)**		(3,471)
Total			**574,640**		591,610

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

16. SHARE CAPITAL AND RESERVES

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

	June 30, 2011			June 30, 2010		
	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**	1,000,000	1,000	1,000,000
			2,000,000			2,000,000
Issued share capital						
Ordinary shares	**800,000**	**250**	**200,000**	800,000	250	200,000
Preference shares	**515,132**	**1,000**	**515,132**	515,132	1,000	515,132
			715,132			715,132

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

	June 30, 2011			June 30, 2010		
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%	**283,539**	**396**	**35%**	281,407	368	35%
1% up to less than 5%	**46,455**	**4**	**6%**	28,651	2	4%
5% up to less than 10%	**98,434**	**2**	**12%**	111,501	3	14%
10% up to less than 20%	**167,965**	**2**	**22%**	83,058	1	10%
More than 20%*	**–**	**–**	**–**	171,660	1	22%
Treasury shares	**203,607**	**2**	**25%**	123,723	1	15%
	800,000	**406**	**100%**	800,000	376	100%

* Represented by 21.5% shares held by the custodian of the GDR Depositary.

	June 30, 2011			June 30, 2010		
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%	**75,265**	**94**	**14%**	78,107	94	15%
1% up to less than 5%	**66,200**	**5**	**13%**	66,200	5	13%
5% up to less than 10%	**–**	**–**	**–**	–	–	–
10% up to less than 20%	**370,000**	**4**	**72%**	370,000	4	72%
More than 20%	**–**	**–**	**–**	–	–	–
Forfeited shares*	**3,667**	**1**	**1%**	825	1	–
	515,132	**104**	**100%**	515,132	104	100%

*Represents forfeited shares allocated to employees.

Ordinary share capital

The Bank de-listed its Global Depository Receipts ('GDRs') from the London Stock Exchange with effect from October 4, 2010. During the year, the Group purchased a total of 6,289,653 of the outstanding Regulation S GDRs, representing 7.9% of Investcorp's issued share capital.

Capital management

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

Preference share capital

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

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

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

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. During the current year the Bank has proposed netting fair value losses on corporate and real estate co-investments amounting to $299.9 million against the share premium after obtaining regulatory approvals. This proposed netting is subject to approval by the shareholders.

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. During the year, the Bank has proposed to transfer $50 million of general reserve to retained earnings. This proposed transfer is subject to approval by the shareholders.

Treasury shares

203,607 (2010: 123,723) ordinary shares were held as treasury shares as at June 30, 2011. Out of these 141,238 shares (June 30 2010: 123,723 shares) are held by SIPCO Limited which are funded by the Group.

Treasury shares also include 24,000 shares (2010: 40,000) allocated to the employees but not vested. These shares were allocated to employees at $460 per share, being their fair value on the allotment date. The shares vest on a systematic basis over four years with the first vesting being on July 1, 2012 and the Bank has taken an income statement charge of $1.0 million (2010: $1.0 million) based on the management's best estimate of the number of shares that are likely to vest.

Unrealized fair value changes on corporate and real estate co-investments

This consists of unrealized fair value changes on corporate and real estate co-investments classified as FVTPL assets which have been taken through the income statement.

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

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

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

$000s	Available for sale investments	Cash flow hedges	Revaluation reserve	Total
Balance at June 30, 2009	6,573	3,025	10,765	20,363
Net realized loss recycled to statement of income	–	5,838	–	5,838
Net unrealized gains for the year	–	2,816	–	2,816
Transfer of depreciation to retained earnings	–	–	(816)	(816)
Balance at June 30, 2010	6,573	11,679	9,949	28,201
Net realized loss recycled to statement of income	–	1,279	–	1,279
Net unrealized (losses)/gains for the year	(1,860)	6,950	–	5,090
Revaluation loss on premises and equipment	–	–	(3,034)	(3,034)
Transfer of depreciation to retained earnings	–	–	(861)	(861)
Balance at June 30, 2011	**4,713**	**19,908**	**6,054**	**30,675**

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

18. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

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

$000s	2011	2010
Net income	**140,313**	102,174
Less: proposed preference shares dividend	**(61,376)**	(57,374)
Net income attributable to ordinary shareholders	**78,937**	44,800
Weighted average ordinary shares	**617,425**	699,851
Basic and fully diluted earnings per ordinary share – on weighted average shares ($)	**128**	64
Proposed appropriations:		
Ordinary shares dividend	**9,306**	–
Preference shares dividend	**61,376**	57,374
Charitable contributions by shareholders	**4,000**	–
	74,682	57,374

The proposed ordinary share dividend is $15 (2010: nil) per share payable only on issued shares, excluding treasury shares (other than shares allocated to the employees but not vested) that are held on the record date.

The proposed preference share dividend of $120 (2010: $120) per share represents an annual dividend on issued preference shares, excluding the forfeited shares, at the rate of 12%.

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 hedges fair value changes, revaluation reserve and proposed appropriations, by the number of ordinary shares outstanding at year end, is $743.66 per share (June 30, 2010: $591.60 per share). On a fully diluted basis, taking into account all allocated, unvested shares issued at year end, the book value per ordinary share is $714.89 per share (June 30, 2010: $570.01 per share).

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

- the hedging instrument, the underlying hedged item, the nature of the risk being hedged and the risk management objective and strategy must be formally documented at the inception of the hedge;
- it must be clearly demonstrated that the hedge, through changes in the value of the hedging instrument, is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item;
- the effectiveness of the hedge must be capable of being reliably measured; and
- the hedge must be assessed on an 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 2011 and 2010:

$000s	June 30, 2011			June 30, 2010		
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	**440,377**	**4,081**	**(48)**	431,158	16,926	(261)
(ii) Cashflow hedges						
Coupon on long-term debt	**92,570**	**863**	**–**	81,481	3,199	–
Total forward foreign exchange contracts	**532,947**	**4,944**	**(48)**	512,639	20,125	(261)
Interest rate risk being hedged using interest rate swaps						
(i) Fair value hedges – fixed rate debt	**563,062**	**23,440**	**–**	563,855	4,563	–
(ii) Cashflow hedges – floating rate debt	**500,000**	**–**	**(1,503)**	–	–	–
Total interest rate hedging contracts	**1,063,062**	**23,440**	**(1,503)**	563,855	4,563	–
Total – hedging derivatives	**1,596,009**	**28,384**	**(1,551)**	1,076,494	24,688	(261)
(B) DERIVATIVES ON BEHALF OF CLIENTS						
Forward foreign exchange contracts	**32,007**	**1,507**	**(1,526)**	15,483	27	(165)
Total – derivatives on behalf of clients	**32,007**	**1,507**	**(1,526)**	15,483	27	(165)
(C) OTHER DERIVATIVES						
Interest rate swaps	**350,000**	**11,645**	**(12,412)**	350,000	16,738	(18,752)
Forward foreign exchange contracts	**346,359**	**2,830**	**(3,787)**	264,971	17,532	(7,322)
Currency options	**2,251**	**15**	**(15)**	2,251	71	(71)
Cross currency swaps	**265,838**	**652**	**(3,513)**	334,800	15,710	–
Interest rate options	**–**	**–**	**–**	100,000	–	(628)
Total – other derivatives	**964,448**	**15,142**	**(19,727)**	1,052,022	50,051	(26,773)
Total – derivative financial instruments	**2,592,464**	**45,033**	**(22,804)**	2,143,999	74,766	(27,199)

* Collateral amounting to $20.8 million (June 30, 2010 : $55.8 million) has been offset against the underlying derivatives positive fair value.

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

	June 30, 2011				
	Notional amounts by term to maturity				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	**436,549**	**–**	**3,828**	**–**	**440,377**
Interest rate swaps	**–**	**17,875**	**34,678**	**510,509**	**563,062**
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	**92,570**	**–**	**–**	**–**	**92,570**
Interest rate swaps	**–**	**–**	**500,000**	**–**	**500,000**
Derivatives on behalf of clients:					
Forward foreign exchange contracts	**30,399**	**1,608**	**–**	**–**	**32,007**
Other derivatives:					
Interest rate swaps	**–**	**300,000**	**–**	**50,000**	**350,000**
Forward foreign exchange contracts	**305,151**	**940**	**40,268**	**–**	**346,359**
Currency options	**–**	**–**	**2,251**	**–**	**2,251**
Cross currency swaps	**–**	**92,524**	**142,370**	**30,944**	**265,838**
	864,669	**412,947**	**723,395**	**591,453**	**2,592,464**

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
Derivatives 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

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2011 were $25.5 million (June 30, 2010: gains of $47.7 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $22.8 million (June 30, 2010: losses of $48.3 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, 2011				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk					
Fixed coupon on long-term debt *	**(8,065)**	**(8,065)**	**(64,516)**	**(225,806)**	**(306,452)**
	(8,065)	**(8,065)**	**(64,516)**	**(225,806)**	**(306,452)**

	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)

* 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, 2011 was $0.7 million (June 30, 2010: $1.0 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	June 30, 2011	June 30, 2010
Investment commitments to closed-end committed funds	**169,911**	200,672
Other investment commitments	**3,213**	4,203
Total investment commitments	**173,124**	204,875
Non-cancelable operating leases	**57,809**	63,712
Guarantees and letters of credit issued to third parties	**13,993**	14,046
Capital guarantees	**–**	5,876

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

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

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

In addition, the Group has also issued indemnification letters and back stop guarantees in support of performance obligations of operating partners and investee companies. These mainly relate to real estate investment and amount to $132.7 million (June 30, 2010: $132.7 million).

21. REGULATORY CAPITAL ADEQUACY

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

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

- standardized approach for credit risk
- the VaR model for market risk
- basic indicator approach for operational risk

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

$000s	June 30, 2011	June 30, 2010
Gross Tier 1 capital	**1,049,570**	977,816
Less: regulatory deductions	**(22,195)**	(22,860)
Tier 1 capital – net (a)	**1,027,375**	954,956
Gross Tier 2 capital	**10,767**	16,522
Less: regulatory deductions	**(10,767)**	(16,522)
Tier 2 capital – net (b)	**–**	–
Regulatory capital base under Basel II (a) + (b)	**1,027,375**	954,956

	June 30, 2011		June 30, 2010	
Risk weighted exposure $000s	Principal/ notional amounts	Risk weighted equivalents	Principal/ notional amounts	Risk weighted equivalents
Credit risk				
Claims on sovereigns	**67**	**–**	67	–
Claims on non-central government public sector entities	**8,487**	**–**	15,675	–
Claims on banks	**247,722**	**50,444**	610,147	122,929
Claims on corporates	**532,370**	**436,370**	800,874	564,885
Co-investments (including hedge funds)	**1,917,971**	**2,842,177**	1,806,816	2,669,708
Other assets	**75,070**	**75,070**	73,715	73,715
Off-balance sheet items				
Commitments and contingent liabilities	**377,647**	**183,133**	421,229	255,674
Derivative financial instruments	**2,592,464**	**19,952**	2,143,999	29,734
Credit risk weighted exposure		**3,607,146**		3,716,645
Market risk				
Market risk weighted exposure		**7,904**		7,148
Operational risk				
Operational risk weighted exposure		**386,890**		454,169
Total risk weighted exposure (b)		**4,001,940**		4,177,962
Risk asset ratio (a)/(b)		**25.7%**		22.9%
Minimum required as per CBB regulatory guidelines under Basel II		**12.0%**		12.0%
Capital cushion over minimum required as per CBB guidelines		**547,142**		453,601

22. RISK MANAGEMENT

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

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

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

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

(i) Counterparty credit risk

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

Counterparty 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 high external rating and hence carry a minimal counterparty credit risk. The table below analyzes the Group's maximum counterparty credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2011							
	Neither past due nor impaired (a)						
	Credit risk rating		Past due but not impaired	Impaired*	Provisions	Maximum credit risk	Average
$000s	High	Standard	(b)	(c)	(d)	(a+b+c+d)	balance
Short-term funds	**24,498**	**–**	**–**	**–**	**–**	**24,498**	**34,226**
Placements with financial institutions and other liquid assets	**341,395**	**–**	**–**	**–**	**–**	**341,395**	**349,507**
Positive fair value of derivatives	**45,033**	**–**	**–**	**–**	**–**	**45,033**	**84,352**
Receivables and prepayments	**–**	**171,107**	**99,582**	**43,497**	**(43,431)**	**270,755**	**298,086**
Loans and advances	**–**	**169,625**	**–**	**49,777**	**(49,570)**	**169,832**	**136,223**
Co-investments – debt	**–**	**72,949**	**–**	**–**	**–**	**72,949**	**76,781**
Guarantees	**–**	**146,714**	**–**	**–**	**–**	**146,714**	**149,679**
Total	**410,926**	**560,395**	**99,582**	**93,274**	**(93,001)**	**1,071,176**	

June 30, 2010							
	Neither past due nor impaired (a)						
	Credit risk rating		Past due but not impaired	Impaired*	Provisions	Maximum credit risk	Average
$000s	High	Standard	(b)	(c)	(d)	(a+b+c+d)	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	–	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	–	91,606	–	–	–	91,606	63,288
Guarantees	–	152,643	–	–	–	152,643	175,227
Total	977,477	639,261	118,552	108,386	(90,902)	1,752,774	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2010: nil).

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

$000s	June 30, 2011	June 30, 2010
Up to 1 month	**37,802**	26,564
> 1 up to 3 months	**34,398**	11,996
> 3 up to 6 months	**912**	2,010
> 6 months up to 1 year	**4,873**	443
Over 1 year	**21,597**	77,539
Total	**99,582**	118,552

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, 2011 amounts to $1,034 million (June 30, 2010: $736 million).

(ii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management aims to arrange diversified funding sources and maintain long-dated maturities of liabilities. The Group manages assets with funding liquidity in mind, and monitors funding liquidity on a daily basis.

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

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

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

	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								
Hedge funds	288,516	196,642	485,158	52,116	–	–	–	537,274
Corporate investment	–	216,685	216,685	836,080	–	–	–	1,052,765
Real estate investment	–	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 financial institutions	–	–	–	–	–	–	–	–
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	

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 plus interest) determined by using the forward yield curve for the relevant periods. However, the Group manages the inherent funding liquidity risk based on future cash flows discounted to present values.

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

	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	32,339	–	91,333	28,971	–	–	152,643
Total undiscounted financial liabilities	742,778	113,718	1,575,305	135,536	619,854	60,014	3,247,205

(iii) Concentration risk

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

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

	June 30, 2011			June 30, 2010		
$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	**855,936**	**146,714**	**1,002,650**	1,311,565	146,767	1,458,332
Europe	**59,203**	**–**	**59,203**	262,277	–	262,277
Middle East	**9,237**	**–**	**9,237**	25,353	5,876	31,229
Other	**86**	**–**	**86**	936	–	936
Total	**924,462**	**146,714**	**1,071,176**	1,600,131	152,643	1,752,774

$000s	June 30, 2011 Assets exposed to credit risk	June 30, 2011 Off-balance sheet exposed to credit risk	June 30, 2011 Total credit risk exposure	June 30, 2010 Assets exposed to credit risk	June 30, 2010 Off-balance sheet exposed to credit risk	June 30, 2010 Total credit risk exposure
INDUSTRY SECTOR						
Banking and finance	**521,471**	**50,116**	**571,587**	1,053,935	50,116	1,104,051
Consumer products	**73,196**	**377**	**73,573**	50,121	430	50,551
Consumer services	**56,450**	**–**	**56,450**	77,792	–	77,792
Distribution	**32,979**	**–**	**32,979**	63,472	–	63,472
Industrial products	**70,226**	**–**	**70,226**	157,479	–	157,479
Real estate	**114,399**	**86,221**	**200,620**	137,300	86,221	223,521
Technology and telecom	**47,682**	**–**	**47,682**	30,337	–	30,337
Others	**8,059**	**10,000**	**18,059**	29,695	15,876	45,571
Total	**924,462**	**146,714**	**1,071,176**	1,600,131	152,643	1,752,774

(iv) Market price risk

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

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

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

(iv) (a) Foreign currency risk

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

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

$000s Long (short)	June 30, 2011 Net hedged exposure	June 30, 2011 Net unhedged exposure	June 30, 2010 Net hedged exposure	June 30, 2010 Net unhedged exposure
Bahraini Dinar*	**–**	**39,667**	–	40,249
Euro	**412,247**	**68**	374,141	150
Pounds Sterling	**16,593**	**(56)**	36,368	245
Japanese Yen	**(411,276)**	**213**	(399,310)	594
	17,564	**39,892**	11,199	41,238

* Currency exchange rate currently pegged against the US dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. Value at Risk 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. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

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

$000s	2011	2010
Average FX VaR	**13**	27
Year end FX VaR	**5**	14
Maximum FX VaR	**91**	133
Minimum FX VaR	**1**	2

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with strict exposure limits that are approved by the Board of Directors. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $27.2 million (June 30, 2010: $16.8 million), which earn interest at an effective rate approximating 10.4% (June 30, 2010: 9.3%) per annum.
- Deposits from clients amounting to $7.2 million (June 30, 2010: $3.0 million) on which interest is paid at an effective rate of 0.9% (June 30, 2010: 5.1%) per annum reflecting the underlying maturity structure.
- Long-term debt amounting to $125 million (June 30, 2010: $25 million) on which interest is paid at an effective rate of 2.9% (June 30, 2010: 8.1%) per annum reflecting the underlying maturity structure.

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

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

(a) Figures in parenthesis above represent loss.

(b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%.

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for -200 basis points
Currency	June 30, 2010	
Euro	(6,654)	2,148
Pounds Sterling	(1,226)	352
Japanese Yen	942	(201)
US Dollar	(14,555)	3,866
Others	115	(4)
Total	(21,378)	6,161

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

For the current year the change in US Dollar sensitivity is due to the $400 million pay fixed, receive floating interest rate swap entered in to by the Bank to hedge its exposure to 1-year LIBOR rates for the next fiscal year. The change in Euro sensitivity is mainly due to the yield curve uplift and change in the tenor profile of the underlying deals.

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

(iv) (c) Equity price risk

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

Co-investments in corporate investment and real estate investment

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

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

June 30, 2011

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

June 30, 2010

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

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

Co-investments in hedge funds

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

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

$000s	2011	2010
Average VaR	**40,583**	43,714
Year end VaR	**37,920**	40,410
Maximum VaR	**43,799**	49,072
Minimum VaR	**37,920**	40,271

(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 the 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.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value except for fixed rate liabilities effectively carried at amortized cost. The fair value of medium and long-term debt amounts to $1,016.3 million (June 30, 2010: $1,878.5 million) as compared to the carrying value of $1,159.6 million (June 30, 2010: $1,912.9 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, 2011			
$000s	Level 1	Level 2	Level 3	Total
Financial assets				
Placements with financial institutions and other liquid assets	**–**	**128,000**	**–**	**128,000**
Positive fair value of derivatives	**–**	**45,033**	**–**	**45,033**
Co-investments				
Hedge funds	**–**	**607,398**	**–**	**607,398**
Corporate investment	**3,571**	**–**	**1,080,661**	**1,084,232**
Real estate investment	**–**	**–**	**153,392**	**153,392**
Total financial assets	**3,571**	**780,431**	**1,234,053**	**2,018,055**
Financial liabilities				
Negative fair value of derivatives	**–**	**22,804**	**–**	**22,804**
Total financial liabilities	**–**	**22,804**	**–**	**22,804**

	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
Corporate investment	914	–	1,006,436	1,007,350
Real estate investment	–	–	170,586	170,586
Total financial assets	914	865,040	1,177,022	2,042,976
Financial liabilities				
Negative fair value of derivatives	–	27,199	–	27,199
Total financial liabilities	–	27,199	–	27,199

During the year ended June 30, 2011, there has been no transfer between Level 1 and Level 2 fair value measurements, but there has been a transfer of $2.6 million (2010: nil) from Level 3 to Level 1. This transfer represents the listing of an investment, previously categorized under Level 3, on the stock exchange.

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

	June 30, 2011					
$000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations/ placements	Other movements**	At end
CI–NA & Europe						
Level 3	**889,953**	**92,543**	**97,014**	**(253,177)**	**112,012**	**938,345**
Others	**–**	**6,500**	**–**	**–**	**–**	**6,500**
Sub-total	**889,953**	**99,043**	**97,014**	**(253,177)**	**112,012**	**944,845**
CI–Technology						
Level 3	**45,288**	**3,016**	**13,745**	**–**	**4,199**	**66,248**
Others	**26,823**	**–**	**(765)**	**(15,722)**	**3,422**	**13,758**
Sub-total	**72,111**	**3,016**	**12,980**	**(15,722)**	**7,621**	**80,006**
CI–MENA						
Level 3	**18,112**	**3,820**	**589**	**–**	**1,190**	**23,711**
Others	**–**	**–**	**–**	**–**	**–**	**–**
Sub-total	**18,112**	**3,820**	**589**	**–**	**1,190**	**23,711**
Strategic investments and other						
Level 3	**53,083**	**1,000**	**292**	**(2,969)**	**951**	**52,357**
Others	**19,506**	**–**	**–**	**–**	**1,310**	**20,816**
Sub-total	**72,589**	**1,000**	**292**	**(2,969)**	**2,261**	**73,173**
Real estate investment						
Level 3	**170,586**	**72,511**	**(7,287)**	**(83,353)**	**935**	**153,392**
Others	**46,191**	**–**	**–**	**(15,745)**	**5,000**	**35,446**
Sub-total	**216,777**	**72,511**	**(7,287)**	**(99,098)**	**5,935**	**188,838**
Total	**1,269,542**	**179,390**	**103,588**	**(370,966)**	**129,019**	**1,310,573**

* Includes $1.9 million fair value movement in available for sale investments.

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

	June 30, 2010					
$000s	At beginning	New acquisitions	Fair value movements	Movements relating to realizations	Other movements*	At end
CI–NA & Europe						
Level 3	769,392	156,256	97,690	(112,144)	(21,241)	889,953
Others	–	–	–	–	–	–
Sub-total	769,392	156,256	97,690	(112,144)	(21,241)	889,953
CI–Technology						
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
CI–MENA						
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 investment						
Level 3	239,077	36,986	(101,387)	(4,666)	576	170,586
Others	44,130	28,969	–	(26,908)	–	46,191
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

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

All the fair value movements noted above relate to financial assets based on Level 3, except for $0.8 million loss (2010: $0.2 million gain) for movements relating to Level 1 assets of CI–Technology.

24. EMPLOYEE COMPENSATION

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

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

Similar to most other investment institutions, 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 $1.0 million (2010: $0.4 million).

Programs for investment profit participation

The Group's investment professionals in its corporate investment 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, certain of 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 four year period that will terminate in October 2012. 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 corporate investment, real estate investment 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, 2011 is $97.6 million (June 30, 2010: $141.2 million).

Share ownership program

SIPCO Holdings Limited ('SHL') sponsors various share incentive plans under which eligible employees have previously received a portion of their annual performance incentive compensation in the form of a beneficial interest in the ordinary shares of the Bank via shares of SIPCO Limited and a beneficial interest in the preference shares of Investcorp Bank via shares in SIPCO Preferred Limited. These are restricted shares that have different vesting periods. These shares were awarded at their then current fair value.

Accordingly, under each plan, the Group does not incur any costs or expenses other than the fair value of these shares as they vest, since these awards occurred at the fair value of the shares. Both plans are therefore fully paid up employee share ownership programs pursuant to which employees have effectively paid fair value for purchasing the shares.

25. 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, 2011	June 30, 2010
Ordinary shares		
Directors	**44,582**	40,723
Senior managers*	**112,762**	115,485
Total	**157,344**	156,208
Preference shares		
Directors	**15,900**	16,900
Senior managers	**7,731**	10,173
Total	**23,631**	27,073

* 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, 10,704 (June 30, 2010: 6,721) 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 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, 2011 amounted to $5.9 million (2010: $6.1 million). Total dividends for the directors during the year, including preference share dividends, amounted to $3.3 million (2010: $2.0 million).

Further, of the staff compensation for the year set out in Note 5, $54.3 million (2010: $53.8 million) is attributable to senior management (excluding directors that are included above). The above mentioned remuneration of directors and senior management's remuneration is short-term in nature.

26. 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 the HFP and the parent company through which the employees invest in the beneficial ownership of the Bank's ordinary shares.

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

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

In addition to the compensation and benefits to employees and senior management and directors' remuneration disclosed in Notes 24 and 25, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		June 30, 2011	June 30, 2010
Management fees	Investee companies	**19,126**	23,457
	Client companies	**56,992**	48,736
	Client companies associated with the HFP	**28,347**	28,574
Activity fees	Investee companies	**28,691**	41,376
Performance fees	Client companies associated with the HFP	**6,084**	18,841
	Client companies	**31,134**	584
Asset-based income	Investee companies	**20,427**	2,749
	Client companies	**5,447**	4,942
Interest expense	Client companies	**(220)**	(415)
Provisions for impairment	Employee investment programs	**1,025**	(4,181)

In addition to the compensation and benefits to employees disclosed in Note 24 and senior management and directors' remuneration disclosed in Note 25, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2011			June 30, 2010		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	**4,806**	**12,518**	**–**	13,663	64,329	–
Investee companies	**73,201**	**–**	**–**	66,255	–	–
Investment holding companies	**88,290**	**5,424**	**169,911**	92,785	4,387	200,672
Client fund companies associated with the HFP	**8,162**	**–**	**–**	9,405	–	–
Directors and senior management	**1,061**	**630**	**–**	3,838	5,984	–
	175,520	**18,572**	**169,911**	185,946	74,700	200,672

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 $422 million as at June 30, 2011 (June 30, 2010: $465 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing.

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

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