

**INVESTCORP S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2013**

# INVESTCORP S.A.

## CONSOLIDATED FINANCIAL STATEMENTS

### JUNE 30, 2013

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A.

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Investcorp S.A. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 30 June 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors' responsibility for the consolidated financial statements*

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

### *Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
INVESTCORP S.A. (continued)

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2013, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*

29 July 2013

Manama, Kingdom of Bahrain

# INVESTCORP S.A.

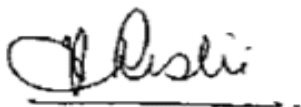
## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2013

### CONSOLIDATED STATEMENT OF INCOME

<i>\$000s</i>	<i>2013</i>	<i>2012</i>	<i>Notes</i>	<i>Page</i>
<b>FEE INCOME</b>				
AUM fees	88,795	96,651		
Deal fees	240,738	139,374		
<i>Fee income (a)</i>	<u>329,533</u>	<u>236,025</u>	2	19
<b>ASSET BASED INCOME</b>				
Hedge funds	25,307	(50,218)		
Corporate investment	256	59,840		
Real estate investment	125	17,270		
Treasury and other asset based income	2,044	754		
<i>Asset based income (b)</i>	<u>27,732</u>	<u>27,646</u>	2	19
<b>Gross operating income (a) + (b)</b>	357,265	263,671	2	19
Provisions for impairment	(5,424)	(1,088)	11	35
Interest expense	(61,692)	(46,691)	2	19
Operating expenses	(185,269)	(148,480)	5	29
<b>NET INCOME</b>	<u>104,880</u>	<u>67,412</u>		

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>\$000s</i>	<i>2013</i>	<i>2012</i>	<i>Notes</i>	<i>Page</i>
<b>NET INCOME (AS ABOVE)</b>	<u>104,880</u>	<u>67,412</u>		
Other comprehensive income that could be recycled to statement of income				
Fair value movements - available for sale investments	(61)	(1,986)	17	41
Fair value movements - cash flow hedges	(12,536)	(15,286)	17	41
<b>Other comprehensive loss</b>	<u>(12,597)</u>	<u>(17,272)</u>		
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>92,283</u>	<u>50,140</u>		



Rishi Kapoor  
Director



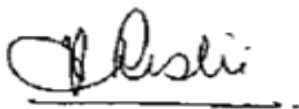
Jonathan Minor  
Director

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

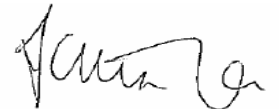
# INVESTCORP S.A.

## CONSOLIDATED BALANCE SHEET JUNE 30, 2013

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>	<i>Notes</i>	<i>Page</i>
<b>ASSETS</b>				
Cash and short-term funds	90,962	146,783		
Placements with financial institutions and other liquid assets	453,105	194,567		
Positive fair value of derivatives	62,811	81,250	18	42
Receivables and prepayments	276,409	270,197	6	30
Advances	139,983	188,602	7	31
<u>Co-investments</u>				
Hedge funds	315,762	414,098	8	32
Corporate investment	906,609	1,221,790	9	33
Real estate investment	156,505	154,460	10	35
Total co-investments	1,378,876	1,790,348		
Premises, equipment and other assets	16,488	17,775		
<b>TOTAL ASSETS</b>	<b>2,418,634</b>	<b>2,689,522</b>		
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Deposits from clients - short-term	196,743	156,909	12	36
Negative fair value of derivatives	43,003	39,160	18	42
Payables and accrued expenses	122,792	202,722	13	37
Deposits from clients - medium-term	88,200	119,241	12	36
Medium-term debt	482,489	567,256	14	38
Long-term debt	419,078	560,491	15	39
<b>TOTAL LIABILITIES</b>	<b>1,352,305</b>	<b>1,645,779</b>		
<b>EQUITY</b>				
Preference share capital	511,465	511,465	16	40
Ordinary shares at par value	200,000	200,000	16	40
Reserves	229,421	233,046		
Treasury shares	(163,551)	(163,575)		
Retained earnings	219,062	189,362		
<i>Ordinary shareholders' equity excluding proposed appropriations and unrealized fair value changes and revaluation reserve recognized directly in equity</i>	484,932	458,833		
Proposed appropriations	75,180	66,096		
Unrealized fair value changes and revaluation reserve recognized directly in equity	(5,248)	7,349	17	41
<b>TOTAL EQUITY</b>	<b>1,066,329</b>	<b>1,043,743</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,418,634</b>	<b>2,689,522</b>		



Rishi Kapoor  
Director



Jonathan Minor  
Director

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

# INVESTCORP S.A.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2013

	Preference share capital	Ordinary share capital	Reserves			Treasury shares	Retained earnings	Proposed appropriations	Fair value changes and revaluation reserve recognised directly in equity			Total equity
			Share premium	Statutory reserve	Total				Available for sale investments	Cash flow hedges	Total	
<b>\$000s</b>												
<b>Balance at July 1, 2011</b>	<b>511,465</b>	<b>200,000</b>	<b>142,880</b>	<b>100,000</b>	<b>242,880</b>	<b>(181,287)</b>	<b>187,976</b>	<b>74,682</b>	<b>4,713</b>	<b>19,908</b>	<b>24,621</b>	<b>1,060,337</b>
Total comprehensive income / (loss)	-	-	-	-	-	-	67,412	-	(1,986)	(15,286)	(17,272)	50,140
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	7,878	-	-	-	-	-	7,878
Loss on sale and vesting of treasury shares	-	-	(9,834)	-	(9,834)	9,834	-	-	-	-	-	-
Approved appropriations for fiscal 2011 paid / forfeited:												
Preference share dividend paid	-	-	-	-	-	-	-	(61,376)	-	-	-	(61,376)
Ordinary share dividend paid	-	-	-	-	-	-	-	(9,306)	-	-	-	(9,306)
Preference share dividend forfeited	-	-	-	-	-	-	70	-	-	-	-	70
Charitable contributions by shareholders paid	-	-	-	-	-	-	-	(4,000)	-	-	-	(4,000)
Proposed preference share dividend	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(4,720)	4,720	-	-	-	-
<b>Balance at June 30, 2012</b>	<b>511,465</b>	<b>200,000</b>	<b>133,046</b>	<b>100,000</b>	<b>233,046</b>	<b>(163,575)</b>	<b>189,362</b>	<b>66,096</b>	<b>2,727</b>	<b>4,622</b>	<b>7,349</b>	<b>1,043,743</b>
Total comprehensive income / (loss)	-	-	-	-	-	-	104,880	-	(61)	(12,536)	(12,597)	92,283
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(3,601)	-	-	-	-	-	(3,601)
Loss on sale and vesting of treasury shares	-	-	(3,625)	-	(3,625)	3,625	-	-	-	-	-	-
Approved appropriations for fiscal 2012 paid:												
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	(4,720)	-	-	-	(4,720)
Proposed preference share dividend	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(9,304)	9,304	-	-	-	-
Proposed charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-
<b>Balance at June 30, 2013</b>	<b>511,465</b>	<b>200,000</b>	<b>129,421</b>	<b>100,000</b>	<b>229,421</b>	<b>(163,551)</b>	<b>219,062</b>	<b>75,180</b>	<b>2,666</b>	<b>(7,914)</b>	<b>(5,248)</b>	<b>1,066,329</b>

The attached notes 1 to 23 are an integral part of these consolidated financial statements.

# INVESTCORP S.A.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

<i>\$000s</i>	<i>2013</i>	<i>2012</i>	<i>Notes</i>	<i>Page</i>
<b>OPERATING ACTIVITIES</b>				
Net income	104,880	67,412		
Adjustments for non-cash items in net income				
Depreciation	4,371	3,768	5	29
Provisions for impairment	5,424	1,088	11	35
Amortization of transaction costs of borrowings	7,891	7,437		
Employee share awards expense	5,826	3,265		
Net income adjusted for non-cash items	128,392	82,970		
<b>Changes in:</b>				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	(43,880)	10,000		
Receivables and prepayments	(9,638)	15,699	6	30
Advances	46,621	(19,193)	7	31
Deposits from clients - short-term	39,834	(101,703)	12	36
Payables and accrued expenses	(79,930)	11,315	13	37
Co-investments				
Hedge funds	98,336	193,300	8	32
Corporate investment	315,120	(102,041)	9	33
Real estate investment	(2,045)	34,378	10	35
Fair value of derivatives	(115,877)	2,140		
Other assets	(249)	(55)		
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>376,684</b>	<b>126,810</b>		
<b>FINANCING ACTIVITIES</b>				
Deposits from clients - medium-term	(31,041)	23,932	12	36
Medium-term revolvers (repaid) drawn	(43,824)	50,346	14	38
Medium-term revolvers repaid on maturity	(107,500)	(50,000)	14	38
Medium-term debt issued (net of transaction costs)	480,079	-	14	38
Medium-term debt repaid	(417,203)	(19,000)	14	38
Long-term debt repaid	(20,000)	(57,875)	15	39
Treasury shares (purchased) sold - net	(9,427)	4,613		
Dividends paid	(66,096)	(70,612)		
Charitable contributions paid	-	(4,000)		
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(215,012)</b>	<b>(122,596)</b>		
<b>INVESTING ACTIVITY</b>				
Investment in premises and equipment	(2,835)	(736)		
<b>NET CASH USED IN INVESTING ACTIVITY</b>	<b>(2,835)</b>	<b>(736)</b>		
Net increase (decrease) in cash and cash equivalents	158,837	3,478		
Cash and cash equivalents at beginning of the year	338,350	334,872		
Cash and cash equivalents at end of the year	497,187	338,350		
<b>Cash and cash equivalents comprise:</b>				
Cash and short-term funds	37,237	19,114		
Cash in transit	53,725	127,669		
Placements with financial institutions and other liquid assets	406,225	191,567		
	497,187	338,350		
*In addition to the above the group has \$315.8 million (June 30, 2012: \$414.1 million) in hedge funds and \$46.9 million (June 30, 2012: \$3 million) in placement in financial institutions which also forms a part of the Group's total liquidity.				
<b>Additional cash flow information</b>				
<i>\$000s</i>	<i>2013</i>	<i>2012</i>		
Interest paid	(53,999)	(53,978)		
Interest received	18,177	17,180		

The attached notes 1 to 23 are an integral part of these consolidated financial statements.



# **INVESTCORP S.A.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013**

### **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **A. ORGANIZATION**

##### **(i) Incorporation**

Investcorp S.A. (the "Company") was originally incorporated as a limited liability company in the Grand Duchy of Luxembourg and qualified as a financial holding company. On May 18, 2010, the Company shifted its domicile to the Cayman Islands as a limited liability company incorporated as an exempted company. The address of the registered office of the Company is at the offices of Paget Brown Trust Company Ltd., Boundary Hall, Cricket Square, P.O. Box 1111, Grand Cayman, KY1-1102, Cayman Islands.

The Company is a holding company owning various subsidiaries (together the "Group" or "Investcorp"). The activities of the Company are substantially transacted through its subsidiaries. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

The consolidated financial statements for the year ended June 30, 2013 were authorized for issue in accordance with a resolution of the Board of Directors dated July 29, 2013.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

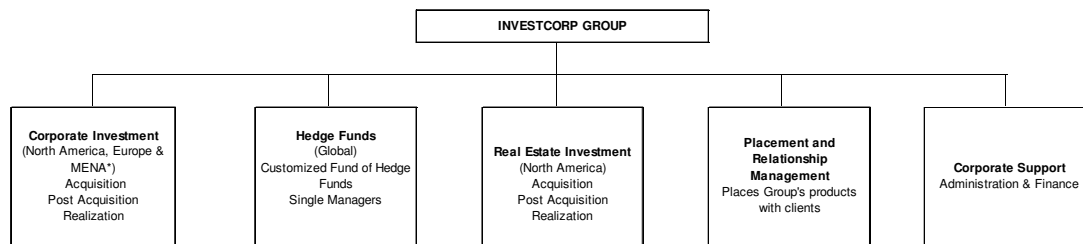
### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### A. ORGANIZATION (continued)

##### (ii) 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.

In performing its principal roles, the Group provides products in three broad alternative investment asset classes. The alternative investment asset classes in which the Group specializes are corporate investment, hedge funds and real estate investment. Each of the asset classes is comprised of its own dedicated team of investment professionals and is supported by a common placement and relationship management team and corporate support units.



\*Includes Turkey

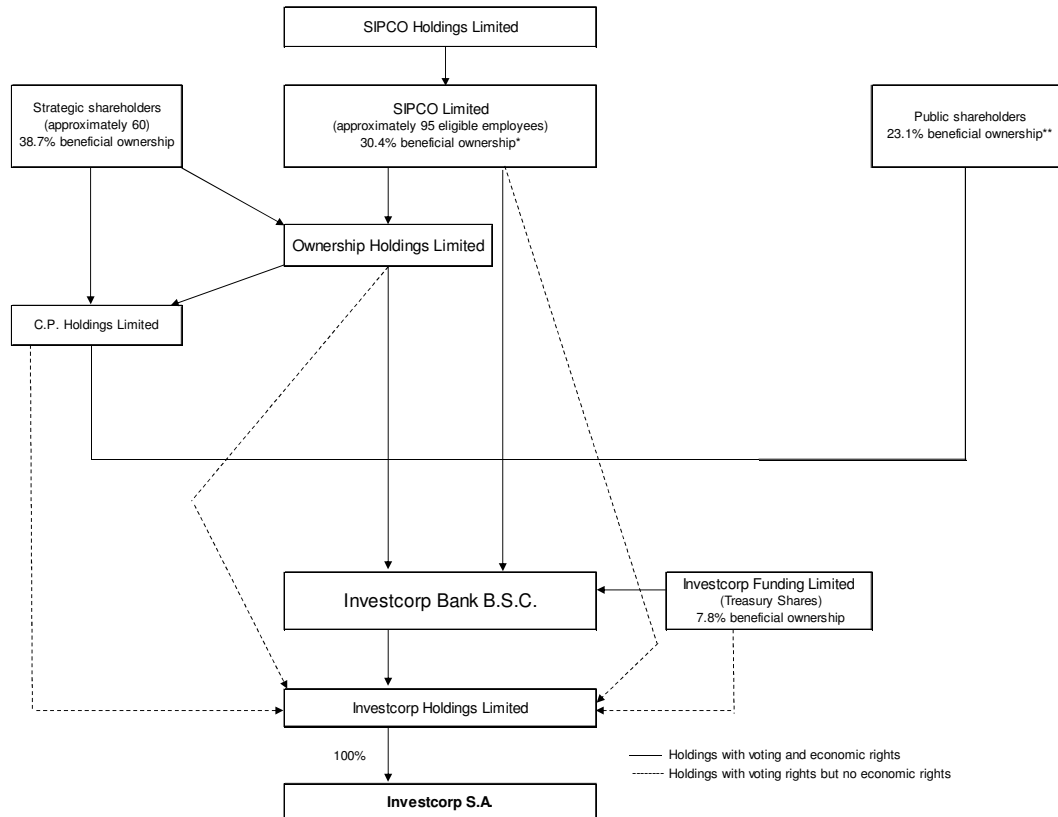
# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### A. ORGANIZATION (continued)

##### (iii) Ownership



\* Includes 8.3% in shares that are held for future grant to management and 6.4% shares granted but not acquired under the Employee Share Ownership Plan.

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

Investcorp Bank B.S.C. (the “Bank”), the indirect parent of the Company, 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.

# **INVESTCORP S.A.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013**

### **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **A. ORGANIZATION (continued)**

##### **(iv) Subsidiary companies**

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

The Company and its subsidiaries are the principal asset holding operating entities within the Bank and its consolidated subsidiaries group and consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of the Bank are held by the Company or subsidiaries that are owned directly or indirectly by the Company.

# INVESTCORP S.A.

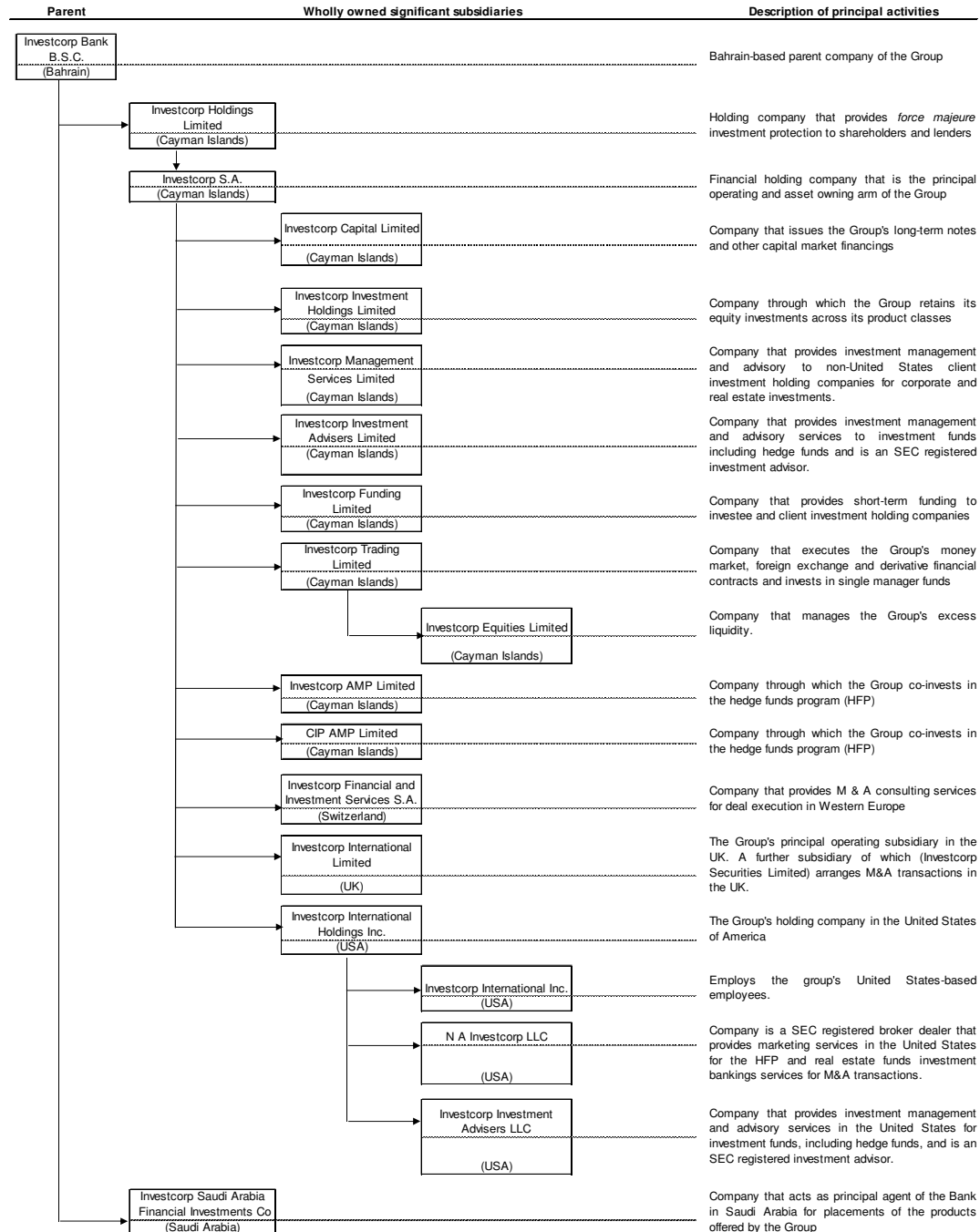
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### A. ORGANIZATION (continued)

##### (iv) Subsidiary companies (continued)

The Bank and the Group structure along with significant subsidiaries is illustrated below:



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 thousands (\$000s) unless otherwise stated.

##### *New and amended standards and interpretations*

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

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

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

##### *Standards issued but not yet effective*

Standards issued but not yet effective, which the Group reasonably expects to be applicable at a future date are listed below together with their effective date.

- IAS 19 Employee Benefits (Revised), 1 January 2013
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011), 1 January 2013
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32, 1 January 2014
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7, 1 January 2013
- IFRS 9 Financial Instruments: Classification and Measurement, 1 January 2015
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate 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

With the exception of IFRS 10, 11, 12 and IAS 28, the Directors of the Company do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 10 replaced IAS 27 in so far as it relates to consolidated financial statements. In October 2012 the IASB announced amendments to IFRS 10 and 12. These amendments define an Investment Entity and require a parent that is an Investment Entity to measure its investments, in particular, subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. As currently drafted, we expect that the Company will qualify as an Investment Entity. However, we have decided not to early adopt this standard.

##### *i) Accounting convention*

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

##### *ii) Going concern*

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

##### *iii) Use of estimates and judgments*

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### iv) *Classification of financial assets*

##### a) Investments

On initial investment, management decides whether an investment should be classified as held to maturity, held for trading, carried as FVTPL, or Available-For-Sale (AFS).

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

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

1. they have readily available reliable measures 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 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.

##### v) *Basis of consolidation*

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



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### vi) *Foreign currencies*

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

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

#### vii) *Receivables*

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

#### viii) *Advances*

Advances are stated at amortized cost, net of any impairment provisions.

#### ix) *Co-investments in hedge funds*

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

#### x) *Co-investments in corporate investment and real estate investment*

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

##### xi) *De-recognition of financial instruments*

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

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

##### xii) *Trade date accounting*

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

##### xiii) *Impairment and un-collectability of financial assets*

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by 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 the case of financial assets other than AFS, the impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

Impairment is determined as follows:

- a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and
- b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### xiv) *Premises and equipment*

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

The Company carries 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 asset revaluation reserve included in the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

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

Leasehold and building improvements	10 - 15 years
Operating assets	3 - 23 years

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

##### xv) *Payables, accruals and provisions*

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 22).

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

##### xvi) *Unfunded deal acquisitions*

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### xvii) *Cash and cash equivalents*

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

##### xviii) *Borrowings*

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

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

##### xix) *Treasury shares*

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

##### xx) *Share awards*

Share awards to employees are accounted and expense recognized over the vesting period. The determination of the amount to be recognized is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

##### xxi) *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.

##### xxii) *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.

##### xxiii) *Derivative financial instruments*

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *xxii) Derivative financial instruments (continued)*

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 18.

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.

##### *xxiv) Income and expenses*

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

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

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

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

Taxation on income from foreign subsidiaries is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

### 2. SEGMENT REPORTING

As at June 30, 2013, the business segments reported are based on the two primary reporting segments into which the Group classifies its activities. This change from the basis adopted in the prior year has been made to be in conformity with management's reporting and monitoring of the Group's activities. The comparative information has also been reclassified accordingly.

#### A. REPORTING SEGMENTS

The Group's activities are classified into two reporting segments:

##### *i) Fee Business*

The Group acts as an intermediary by acquiring, managing and realizing investments in alternative assets for institutional and high net worth clients. The Group operates through centers in the Arabian Gulf, US and Europe. 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. International clients primarily include institutional investors in the United States and Europe.

##### *ii) Co-investment Business*

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### B. ASSET CLASSES AND PRODUCTS

The Group classifies its two primary reporting segments further on the basis of asset classes and products:

Asset Classes	Products
1) Corporate investment	- Deal by deal offerings - Closed-end fund(s)
2) Hedge funds	- Customized fund of hedge funds - Single managers
3) Real estate investment	- Deal by deal offerings - Closed-end fund(s)

The asset classes, together with their related product offerings, are described in further detail below:

##### i) **Corporate Investment (“CI”)**

The CI teams are based in London, New York and the Kingdom of Bahrain. The CI teams based in London and New York arrange and manage corporate investments in mid-size companies, with a strong track record and potential for growth, in North America and Western Europe. The CI team based in the Kingdom of Bahrain primarily looks at growth capital investments in the wider MENA region, including Turkey. These CI investments are placed primarily on a deal-by-deal basis with the Group's investor base in the Arabian Gulf states, and also offered through conventional fund structures where participation is extended to 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) **Hedge Funds (“HF”)**

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### B. ASSET CLASSES AND PRODUCTS (continued)

##### iii) *Real Estate Investment ("RE")*

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### C. REVENUE GENERATION

##### i) *Fee income*

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

##### *AUM fees*

AUM fees consist of management and performance fees earned on hedge fund assets under management and management fees earned on CI and RE from investment holding companies, investee companies and closed-end funds.

##### *Deal fees*

Deal fees are comprised of activity fees and performance fees on CI and RE investments.

Activity fees comprise acquisition fees earned by the Group from investee companies on new CI or RE acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from clients at the time of placing a new CI or RE investment 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, recapitalization, restructuring and disposal.

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

##### ii) *Asset based income*

This includes realized as well as unrealized gains and losses over previously reported values of FVTPL co-investments in CI and RE, value appreciation on the Group's co-investment in hedge funds, cash or pay-in-kind interest from various CI and RE debt investments 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 and interest earned on other advances) is treated as treasury and other asset based income.



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### D. SEGREGATION OF ASSETS

Assets directly attributable to the Co-investment Business segment are primarily in the form of co-investments by the Group in each asset class, and any associated working capital items. All other assets, including cash and receivables relating to realization or redemption from a co-investment and fair value of derivatives, are recorded under the Fee Business segment.

#### E. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

Total equity allocated to the Fee Business is determined by the amount of economic capital needed to support ongoing underwriting activity and associated working capital requirements. The remaining amount of total equity is allocated to the Co-investment Business. Revaluation reserves and other components of equity are allocated to the relevant reporting segment on the basis of the asset or liability to which they relate.

Having determined the assets directly attributable to each reporting segment, and the economic capital requirements, the Group allocates liabilities (debt funding) to each reporting segment based on the relative maturity profile of the segment's assets. All long term debt and a small proportion of drawn medium term debt, including secured loans are allocated to the Co-investment Business. Client deposits, the residual bulk amount of medium term debt, other associated working capital and fair value of derivatives are allocated to the fee business.

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

#### F. ALLOCATION OF OPERATING EXPENSES

A portion of the operating expenses for the Co-investment Business reporting segment are allocated on an ex-ante basis using a fixed rate charge on the aggregate balance sheet co-investments, excluding underwriting, at the beginning of the year. There is an additional potential expense for the co-investment business in the form of incentive payments if the ex-post net asset based income from co-investment business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business reporting segment.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### G. STATEMENT OF INCOME AND BALANCE SHEET BY REPORTING SEGMENTS

The consolidated statements of income for the years ended June 30, 2013 and June 30, 2012 by reporting segments are as follows:

<i>\$000s</i>	<b>2013</b>	<b>2012</b>
<b>Fee Business</b>		
AUM fees		
<i>Hedge funds</i>	35,464	31,020
<i>Corporate investment</i>	47,875	56,581
<i>Real estate investment</i>	5,456	9,050
Total AUM fees	88,795	96,651
Deal fees		
<i>Hedge funds</i>	6,007	(491)
<i>Corporate investment</i>	212,347	126,987
<i>Real estate investment</i>	22,384	12,878
Total deal fees	240,738	139,374
Treasury and other asset based income	2,044	754
<b>Gross income attributable to fee business (a)</b>	331,577	236,779
Provisions for impairment	(5,424)	(1,088)
Interest expense	(29,975)	(16,758)
Operating expenses attributable to fee business (b)	(173,025)	(134,569)
<b>Net fee business income (c)</b>	123,153	84,364
<b>Co-Investment Business</b>		
<b>Asset based income</b>		
<i>Hedge funds</i>	25,307	(50,218)
<i>Corporate investment</i>	256	59,840
<i>Real estate investment</i>	125	17,270
<b>Gross income attributable to co-investment business (d)</b>	25,688	26,892
Interest expense	(31,717)	(29,933)
Operating expenses attributable to co-investment business (e)	(12,244)	(13,911)
<b>Net co-investment business income (f)</b>	(18,273)	(16,952)
<b>Net income (c) + (f)</b>	104,880	67,412
<b>Gross operating income (a) + (d)</b>	357,265	263,671
<b>Gross operating expenses (b) + (e)</b>	(185,269)	(148,480)

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### G. STATEMENT OF INCOME AND BALANCE SHEET BY REPORTING SEGMENTS (continued)

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2012: nil).

\$193.4 million (2012: \$84.2 million) of deal fees relates to activity fees and \$47.3 million (2012: \$55.2 million) represents performance fees.

Treasury and other income includes \$2.0 million (2012: \$0.7 million) of interest income. CI and RE asset based income includes \$5.5 million (2012: \$5.2 million) and \$4.7 million (2012: \$8.4 million) of interest income respectively.

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

IFRS also requires an entity to report its assets and revenues segmented by geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9 and 20 (iii) present the geographical split of assets and off-balance sheet items.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 2. SEGMENT REPORTING (continued)

#### G. STATEMENT OF INCOME AND BALANCE SHEET BY REPORTING SEGMENTS (continued)

Consolidated balance sheets as at June 30, 2013 and June 30, 2012 by reporting segment are as follows:

<i>June 30, 2013</i> <i>\$000s</i>	<i>Co-investment Business</i>	<i>Fee Business</i>	<i>Total</i>
<b>Assets</b>			
Cash and short-term funds	-	90,962	90,962
Placements with financial institutions and other liquid assets	-	453,105	453,105
Positive fair value of derivatives	-	62,811	62,811
Receivables and prepayments	17,157	259,252	276,409
Advances	-	139,983	139,983
Co-investments - retention			
<i>Hedge funds</i>	315,762	-	315,762
<i>Corporate investment</i>	873,609	-	873,609
<i>Real estate investment</i>	156,505	-	156,505
Co-investments - underwriting			
<i>Corporate investment</i>	-	33,000	33,000
Premises, equipment and other assets	-	16,488	16,488
<b>Total assets</b>	<b>1,363,033</b>	<b>1,055,601</b>	<b>2,418,634</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Deposits from clients - short-term	-	196,743	196,743
Negative fair value of derivatives	-	43,003	43,003
Payables and accrued expenses	25,277	97,515	122,792
Deposits from clients - medium term	-	88,200	88,200
Medium-term debt	42,435	440,054	482,489
Long-term debt	419,078	-	419,078
<b>Total liabilities</b>	<b>486,790</b>	<b>865,515</b>	<b>1,352,305</b>
<b>Total equity</b>	<b>876,243</b>	<b>190,086</b>	<b>1,066,329</b>
<b>Total liabilities and equity</b>	<b>1,363,033</b>	<b>1,055,601</b>	<b>2,418,634</b>
<i>June 30, 2012</i> <i>\$000s</i>	<i>Co-investment Business</i>	<i>Fee Business</i>	<i>Total</i>
<b>Assets</b>			
Cash and short-term funds	-	146,783	146,783
Placements with financial institutions and other liquid assets	-	194,567	194,567
Positive fair value of derivatives	-	81,250	81,250
Receivables and prepayments	49,480	220,717	270,197
Advances	-	188,602	188,602
Co-investments - retention			
<i>Hedge funds</i>	414,098	-	414,098
<i>Corporate investment</i>	1,063,984	-	1,063,984
<i>Real estate investment</i>	154,460	-	154,460
Co-investments - underwriting			
<i>Corporate investment</i>	-	157,806	157,806
Premises, equipment and other assets	-	17,775	17,775
<b>Total assets</b>	<b>1,682,022</b>	<b>1,007,500</b>	<b>2,689,522</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Deposits from clients - short-term	-	156,909	156,909
Negative fair value of derivatives	-	39,160	39,160
Payables and accrued expenses	10,131	192,591	202,722
Deposits from clients - medium term	-	119,241	119,241
Medium-term debt	255,222	312,034	567,256
Long-term debt	560,491	-	560,491
<b>Total liabilities</b>	<b>825,844</b>	<b>819,935</b>	<b>1,645,779</b>
<b>Total equity</b>	<b>856,178</b>	<b>187,565</b>	<b>1,043,743</b>
<b>Total liabilities and equity</b>	<b>1,682,022</b>	<b>1,007,500</b>	<b>2,689,522</b>

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 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.

<i>June 30, 2013</i> <i>\$000s</i>	<i>Designated as</i> <i>FVTPL</i>	<i>Items at</i> <i>amortized cost</i>	<i>AFS</i>	<i>Derivatives</i>	<i>Total</i>
<b>Financial assets</b>					
Cash and short-term funds	-	90,962	-	-	90,962
Placements with financial institutions and other liquid assets	-	453,105	-	-	453,105
Positive fair value of derivatives	-	-	-	62,811	62,811
Receivables	-	246,885	-	-	246,885
Advances	-	139,983	-	-	139,983
<u>Co-investments</u>					
Hedge funds	315,762	-	-	-	315,762
Corporate investment	873,604	16,982	16,023	-	906,609
Real estate investment	-	-	-	-	-
Debt	-	36,424	-	-	36,424
Equity	120,081	-	-	-	120,081
<b>Total financial assets</b>	<b>1,309,447</b>	<b>984,341</b>	<b>16,023</b>	<b>62,811</b>	<b>2,372,622</b>
<b>Non-financial assets</b>					
Prepayments					29,524
Premises, equipment and other assets					16,488
<b>Total assets</b>					<b>2,418,634</b>
<b>Financial liabilities</b>					
Deposits from clients*	-	284,943	-	-	284,943
Negative fair value of derivatives	-	-	-	43,003	43,003
Payables and accrued expenses	-	116,860	-	-	116,860
Medium term debt	-	482,489	-	-	482,489
Long term debt*	-	419,078	-	-	419,078
<b>Total financial liabilities</b>	<b>-</b>	<b>1,303,370</b>	<b>-</b>	<b>43,003</b>	<b>1,346,373</b>
<b>Non-financial liabilities</b>					
Deferred income					5,932
<b>Total liabilities</b>					<b>1,352,305</b>

\* Adjusted for related fair value hedges.

<i>June 30, 2012</i> <i>\$000s</i>	<i>Designated as</i> <i>FVTPL</i>	<i>Items at</i> <i>amortized cost</i>	<i>AFS</i>	<i>Derivatives</i>	<i>Total</i>
<b>Financial assets</b>					
Cash and short-term funds	-	146,783	-	-	146,783
Placements with financial institutions and other liquid assets	3,000	191,567	-	-	194,567
Positive fair value of derivatives	-	-	-	81,250	81,250
Receivables	-	231,710	-	-	231,710
Advances	-	188,602	-	-	188,602
<u>Co-investments</u>					
Hedge funds	414,098	-	-	-	414,098
Corporate investment	1,149,345	56,851	15,594	-	1,221,790
Real estate investment	-	-	-	-	-
Debt	-	43,444	-	-	43,444
Equity	111,016	-	-	-	111,016
<b>Total financial assets</b>	<b>1,677,459</b>	<b>858,957</b>	<b>15,594</b>	<b>81,250</b>	<b>2,633,260</b>
<b>Non-financial assets</b>					
Prepayments					38,487
Premises, equipment and other assets					17,775
<b>Total assets</b>					<b>2,689,522</b>
<b>Financial liabilities</b>					
Deposits from clients*	-	276,150	-	-	276,150
Negative fair value of derivatives	-	-	-	39,160	39,160
Payables and accrued expenses	-	196,305	-	-	196,305
Medium term debt	-	567,256	-	-	567,256
Long term debt*	-	560,491	-	-	560,491
<b>Total financial liabilities</b>	<b>-</b>	<b>1,600,202</b>	<b>-</b>	<b>39,160</b>	<b>1,639,362</b>
<b>Non-financial liabilities</b>					
Deferred income					6,417
<b>Total liabilities</b>					<b>1,645,779</b>

\* Adjusted for related fair value hedges.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 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 product category at the consolidated balance sheet date are as follows:

<i>\$millions</i>	June 30, 2013				June 30, 2012			
	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
<b>Corporate Co-investments</b>								
<b>Corporate investments</b>								
<i>Closed-end committed funds</i>								
CI - NA & Europe	899	279	68	1,246	900	267	79	1,246
CI - MENA	-	-	-	-	853	70	6	929
Sub total	899	279	68	1,246	1,753	337	85	2,175
<i>Closed-end invested funds</i>								
CI - NA & Europe	159	33	7	199	213	31	10	254
CI - MENA	523	52	4	579	-	-	-	-
Sub total	682	85	11	778	213	31	10	254
<i>Deal-by-deal investments</i>	1,904	520	198	2,622	2,112	876	319	3,307
Strategic and other investments	-	70	-	70	-	88	-	88
<b>Total corporate investments</b>	<b>3,485</b>	<b>954</b>	<b>277</b>	<b>4,716</b>	<b>4,078</b>	<b>1,332</b>	<b>414</b>	<b>5,824</b>
<b>Hedge funds*</b>								
<i>Multi-strategy fund of hedge fund products</i>	1,998	134	-	2,132	2,090	86	1	2,177
<i>Single managers</i>	1,564	189	1	1,754	1,351	254	4	1,609
<i>Structured and other products</i>	129	135	-	264	107	371	4	482
<b>Total hedge funds</b>	<b>3,691</b>	<b>458</b>	<b>1</b>	<b>4,150</b>	<b>3,548</b>	<b>711</b>	<b>9</b>	<b>4,268</b>
<b>Real estate investments</b>								
<i>Closed-end committed funds</i>	75	25	-	100	75	25	-	100
<i>Closed-end invested funds</i>	98	26	2	126	98	15	2	115
<i>Deal-by-deal investments</i>	971	110	26	1,107	844	124	28	996
<i>Strategic and other investments</i>	-	9	-	9	-	8	-	8
<b>Total real estate investments</b>	<b>1,144</b>	<b>170</b>	<b>28</b>	<b>1,342</b>	<b>1,017</b>	<b>172</b>	<b>30</b>	<b>1,219</b>
<b>Client call accounts held in trust</b>	<b>288</b>	<b>-</b>	<b>-</b>	<b>288</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>179</b>
<b>Total</b>	<b>8,608</b>	<b>1,582</b>	<b>306</b>	<b>10,496</b>	<b>8,822</b>	<b>2,215</b>	<b>453</b>	<b>11,490</b>
Summary by products:								
<i>Closed-end committed funds</i>	974	304	68	1,346	1,828	362	85	2,275
<i>Closed-end invested funds</i>	780	111	13	904	311	46	12	369
<i>Hedge funds</i>	3,691	458	1	4,150	3,548	711	9	4,268
<i>Deal-by-deal investments</i>	2,875	709	224	3,808	2,956	1,096	347	4,399
<i>Client call accounts held in trust</i>	288	-	-	288	179	-	-	179
<b>Total</b>	<b>8,608</b>	<b>1,582</b>	<b>306</b>	<b>10,496</b>	<b>8,822</b>	<b>2,215</b>	<b>453</b>	<b>11,490</b>
Summary by asset classes:								
<i>Corporate Investment</i>	3,485	954	277	4,716	4,078	1,332	414	5,824
<i>Hedge Funds</i>	3,691	458	1	4,150	3,548	711	9	4,268
<i>Real estate Investments</i>	1,144	170	28	1,342	1,017	172	30	1,219
<i>Client call accounts held in trust</i>	288	-	-	288	179	-	-	179
<b>Total</b>	<b>8,608</b>	<b>1,582</b>	<b>306</b>	<b>10,496</b>	<b>8,822</b>	<b>2,215</b>	<b>453</b>	<b>11,490</b>

\* 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 are stated at current fair values while the other categories are stated at their carrying cost.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 4. ASSETS UNDER MANAGEMENT (continued)

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 held by a common trustee. These trust funds are invested in highly liquid assets, which have a credit rating no lower than that of Investcorp, or placed on deposit with Investcorp. Client monies held in trust earn the return generated from the investment of such assets, 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

<b><i>\$000s</i></b>	<b><i>2013</i></b>	<b><i>2012</i></b>
Staff compensation & benefits	102,779	72,519
Other personnel & charges	17,804	9,655
Professional fees	21,406	23,383
Travel and business development	9,739	9,095
Administration and research	11,909	14,460
Technology and communication	2,970	2,984
Premises	10,846	10,509
Depreciation	4,371	3,768
Other	3,445	2,107
Total	185,269	148,480

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 6. RECEIVABLES AND PREPAYMENTS

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Subscriptions receivable	4,074	44,363
Receivables from investee and holding companies	150,385	152,906
Investment disposal proceeds receivable	71,342	6,910
Hedge funds related receivables	19,986	29,491
Accrued interest receivable	3,710	4,912
Prepaid expenses	29,524	38,487
Other receivables	7,800	114
	286,821	277,183
Provisions for impairment (see Notes 11 & 20(i))	(10,412)	(6,986)
<b>Total</b>	<b>276,409</b>	<b>270,197</b>

Receivables arise largely from subscriptions by clients to the Group's investment products, fees earned in respect of the Group's investment management, investment performance and other transactional services, interest accruals on 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 clients sign a binding agreement confirming their participation in an investment offering. These are typically collected over the short-term, and, in the interim period prior to receipt of cash, are collateralized by the underlying investment assets.

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

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 hedge funds through internal parallel vehicles.

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

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



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 7. ADVANCES

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Advances to CI closed-end funds	8,750	11,939
Advances to investment holding companies	61,145	79,584
Advances to employee investment programs	74,051	94,667
Other advances	9,887	14,264
	153,833	200,454
Provisions for impairment (see Notes 11 & 20(i))	(13,850)	(11,852)
Total	139,983	188,602

Advances arise largely as a result of the Group extending working capital advances to investment holding companies and include advances for employee investment programs.

Advances to the CI closed-end funds represent amounts invested on behalf of the Group's clients in the acquisitions and expenses of the funds in the interim period prior to receipt of the associated capital call from clients. These advances carry interest at market rates. The advances, in management's opinion, represent a low risk to the Group.

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 8. HEDGE FUNDS CO-INVESTMENTS

The Group's co-investments in hedge funds, classified as FVTPL, comprise the following:

<i><b>\$000s</b></i>	<i><b>June 30, 2013</b></i>	<i><b>June 30, 2012</b></i>
Customized fund of hedge funds	209,268	246,474
Single managers	106,494	167,624
Total balance sheet co-investments	315,762	414,098

Out of the total co-investment in hedge funds, \$87.9 million (June 30, 2012: \$29.0 million) comprise funds which are not immediately available for redemption due to the liquidity nature of the instruments held by the underlying managers, although this is still considered as part of the total liquidity in accordance with the Group's loan covenants.

A portion of the Group's co-investment in hedge funds is utilized to secure a structured revolving facility. At June 30, 2013, \$6.5 million (June 30, 2012: \$50.3 million) was the drawn balance from this facility (see note 14).

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 9. CORPORATE CO-INVESTMENTS

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
CI co-investments [See Note 9 (a)]	836,441	1,134,229
Strategic and other investments [See Note 9 (b)]	70,168	87,561
<b>Total corporate co-investments</b>	<b>906,609</b>	<b>1,221,790</b>

#### 9 (a) CI CO-INVESTMENTS

The Group's CI co-investments are classified as FVTPL investments.

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

The carrying values of the Group's CI co-investments at June 30, 2013 and June 30, 2012 are:

<i>\$000s</i>	<i>June 30, 2013</i>				<i>June 30, 2012</i>			
	<i>North America</i>	<i>Europe</i>	<i>MENA*</i>	<i>Total</i>	<i>North America</i>	<i>Europe</i>	<i>MENA*</i>	<i>Total</i>
Consumer Products	14,065	15,509	21,903	51,477	12,656	-	17,440	30,096
Consumer Services	-	-	44,110	44,110	-	-	-	-
Distribution	62,815	5,231	6,533	74,579	164,769	39,394	6,537	210,700
Industrial Products	-	264,371	-	264,371	-	344,005	-	344,005
Industrial Services	95,929	66,164	4,881	166,974	238,338	62,231	-	300,569
Telecom	113,013	-	-	113,013	165,601	-	-	165,601
Technology								
<i>Digital Content</i>	6,373	43,634	-	50,007	6,525	18,704	-	25,229
<i>Enterprise Software</i>	7,229	19,086	-	26,315	7,663	16,841	-	24,504
<i>IT Services</i>	11,608	-	-	11,608	-	-	-	-
<i>Wireless Data</i>	33,734	-	-	33,734	29,347	-	-	29,347
<i>Infrastructure &amp; Others</i>	253	-	-	253	4,178	-	-	4,178
<b>Total</b>	<b>345,019</b>	<b>413,995</b>	<b>77,427</b>	<b>836,441</b>	<b>629,077</b>	<b>481,175</b>	<b>23,977</b>	<b>1,134,229</b>

\*Including Turkey

# **INVESTCORP S.A.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013**

### **9. CORPORATE CO-INVESTMENTS (continued)**

#### **9 (b) STRATEGIC AND OTHER INVESTMENTS**

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

1. Investments made for strategic reasons;
2. Instruments obtained on disposal of exited investments.

These are held as AFS investments and debt instruments at amortized cost, except for investments amounting to \$37.2 million (June 30, 2012: \$36.3 million) that are classified as FVTPL, of which \$26.2 million (June 30, 2012: \$25.3 million) was valued based on information provided by the investment manager.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 10. REAL ESTATE CO-INVESTMENTS

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

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

Certain of the debt investments in real estate properties are classified as held-to-maturity ("HTM") investments amounting to \$36.4 million (June 30, 2012: \$43.4 million).

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2013 and at June 30, 2012 are:

**\$000s**

PORTFOLIO TYPE	June 30, 2013	June 30, 2012
Core Plus	91,180	83,438
Debt	29,424	26,927
Opportunistic	26,484	35,878
Strategic and other	9,417	8,217
Total	156,505	154,460

### 11. PROVISIONS FOR IMPAIRMENT

Specific impairment provisions for receivables and advances are as follows:

<b>\$000s</b>				
<b>12 months to June 30, 2013</b>				
<b>Categories</b>	<b>At beginning</b>	<b>Charge</b>	<b>Written-off</b>	<b>At end</b>
Receivables (Note 6 & 22(i))	6,986	3,426	-	10,412
Advances (Note 7 & 22(i))	11,852	1,998	-	13,850
Total	18,838	5,424	-	24,262
12 months to June 30, 2012	93,001	1,088	(75,251)	18,838

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 12. DEPOSITS FROM CLIENTS

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
<b><u>SHORT-TERM:</u></b>		
Call accounts	117,276	152,871
Short-term deposits	55,512	4,038
Transitory balances	23,955	-
<b>Total deposits from clients - short-term</b>	<b>196,743</b>	<b>156,909</b>
<b><u>MEDIUM-TERM:</u></b>		
Medium-term deposits	32	37,438
Investment holding companies' deposits	77,174	66,605
Discretionary and other deposits	10,994	15,198
<b>Total deposits from clients - medium-term</b>	<b>88,200</b>	<b>119,241</b>
<b>Total</b>	<b>284,943</b>	<b>276,150</b>

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

Call accounts comprise amounts left on deposit by clients and deposits by the trust with the Group 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.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 13. PAYABLES AND ACCRUED EXPENSES

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Accrued expenses - employee compensation	40,801	16,785
Vendor and other trade payables	8,542	19,632
Unfunded deal acquisitions	52,838	153,104
Investment related payables	3,860	3,658
Deferred income	5,932	6,417
Accrued interest payable	10,819	3,126
Total	122,792	202,722

Accrued expenses for employee compensation include the incentive and retention component of the Group's overall employee related costs and end of service benefits payable to individuals employed by the Group in the Kingdom of Bahrain.

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

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 14. MEDIUM-TERM DEBT

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

\$000s	Final Maturity	Tranche Type	June 30, 2013				June 30, 2012			
			Size	Available	Average utilization	Current outstanding	Size	Available	Average utilization	Current outstanding
5-year Eurodollar facility	December 2011	Revolver	-	-	-	-	-	-	115,164	-
5-year floating rate medium-term note	June 2012	Funded	-	-	-	-	-	-	18,429	-
3-year multi-currency facility	March 2013	Funded	-	-	135,449	-	281,703	281,703	281,703	281,703
3-year multi-currency facility	March 2013	Revolver	-	-	7,729	-	292,750	292,750	55,737	-
5-year Eurodollar facility	April 2013	Revolver	-	-	36,919	-	107,500	107,500	107,500	107,500
5-year Eurodollar facility	April 2013	Funded	-	-	78,330	-	135,500	135,500	135,500	135,500
2-year structured facility	February 2014	Revolver	55,000	55,000	7,116	6,522	55,000	55,000	12,598	50,346
3-year multi-currency facility	September 2015	Funded	251,713	251,713	79,859	251,713	296,133	-	-	-
3-year multi-currency facility	September 2015	Revolver	197,937	197,937	-	-	232,867	-	-	-
5-year fixed rate bonds	November 2017	Funded	250,000	250,000	165,753	250,000	-	-	-	-
Total				754,650	511,155	508,235		872,453	726,631	575,049
Foreign exchange translation adjustments						(684)				(2,747)
Fair value adjustments relating to interest rate swap hedges						(5,993)				-
Transaction costs of borrowings						(19,069)				(5,046)
						482,489				567,256

All medium-term facilities, except for the 5 year fixed rate bonds, carry LIBOR-based floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 3-year multi-currency amortizing facility and the 5 year fixed rate bonds are subject to certain customary covenants, including maintaining certain minimum levels of net worth and liquidity ratio and operating below a maximum leverage ratio.

The 2-year structured revolving facility of \$55 million (June 30, 2012: \$55 million) is secured, to the extent it is drawn, by an equivalent amount of the Group's co-investments in hedge funds.

The \$529 million, 3 year multi-currency facility became fully available for draw down in March 2013. The facility has contractual amortizations in September 2013 of 15%, a further 20% in September 2014 and final maturity in September 2015 of the remaining 65% balance. The first amortizing repayment contractually due in September 2013 of \$79 million, 15% of the facility, was prepaid from surplus liquidity in June 2013.



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 15. LONG-TERM DEBT

\$000s	Final Maturity	June 30, 2013		June 30, 2012	
		Average outstanding	Current outstanding	Average outstanding	Current outstanding
<b>PRIVATE NOTES</b>					
\$20 Million Private Placement	November 2011	-	-	6,776	-
\$20 Million Private Placement	April 2012	-	-	19,945	-
\$71.5 Million Private Placement	May 2012	-	-	17,826	-
\$75 Million Bi-lateral Placement	March 2013	2,981	-	20,000	20,000
\$35 Million Private Placement	December 2013	26,250	26,250	26,250	26,250
JPY 37 Billion Private Placement	March 2030	332,328	332,328	332,328	332,328
\$50 Million Private Placement	July 2032	50,000	50,000	50,000	50,000
		411,559	408,578	473,125	428,578
Foreign exchange translation adjustments			41,409		133,604
Fair value adjustments relating to interest rate swap hedges			(28,367)		1,131
Transaction costs of borrowings			(2,542)		(2,822)
Total			419,078		560,491

Long-term debt issuances by the Group predominantly carry contractual 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 ratio, and operating below a maximum leverage ratio.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 16. SHARE CAPITAL AND RESERVES

#### *Ordinary Share Capital*

The Company's subscribed ordinary share capital comprises 200,000 (June 30, 2012: 200,000) ordinary shares of \$1,000 (June 30, 2012: \$1,000) each.

#### *Preference share capital*

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

These preference shares are callable in part or in whole at the Company's option any time on or after their first call dates at par plus dividend due up to the call date. The first call dates for these preference shares are 5 years from the date of their issuances.

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

#### *Treasury shares*

These represent the Bank's ordinary shares purchased by the Group and also those purchased by SIPCO Limited, which are funded by the Group. These shares are treated as treasury shares in the financial statements and are deducted from the Equity of the Group.

179,702 (June 30 2012: 170,698) ordinary shares were held as treasury shares at June 30, 2013 and this includes 50,932 shares (June 30, 2012: 87,936 shares) that have been granted to employees as part of deferred incentive compensation but have not started vesting yet. 18,070 shares (June 30, 2012: 16,000 shares) that have been granted to employees and have commenced vesting but have not vested as at June 30, 2013 are not counted as treasury shares (see Note 22).

#### *Dividend per share*

The proposed ordinary share dividend is \$15.00 (June 30, 2012: \$7.50) per share payable only on issued shares, excluding treasury shares (other than shares acquired by the employees but not vested) that are held on the record date.

The proposed preference share dividend of \$120 (2012: \$120) per share represents an annual dividend on issued preference shares, excluding the preference shares allocated to employees that have been forfeited, at the rate of 12%.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

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

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:

<u>\$000s</u>	Available for sale investments	Cash flow hedges	Total
Balance at June 30, 2011	4,713	19,908	24,621
Net realized gain recycled to statement of income	-	(792)	(792)
Net unrealized losses for the year	(1,986)	(14,494)	(16,480)
<b>Balance at June 30, 2012</b>	<b>2,727</b>	<b>4,622</b>	<b>7,349</b>
Net realized gain recycled to statement of income	-	(297)	(297)
Net unrealized losses for the year	(61)	(12,239)	(12,300)
<b>Balance at June 30, 2013</b>	<b>2,666</b>	<b>(7,914)</b>	<b>(5,248)</b>

Refer to Note 18 for fair valuation of cash flow hedges.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 18. 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.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

<b>Type of hedge</b>	<b><i>Changes in fair value of underlying hedged item relating to the hedged risk</i></b>	<b><i>Changes in fair value of hedging instrument</i></b>
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.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2013 and June 30, 2012:

Description	June 30, 2013			June 30, 2012		
	Notional value	Positive fair value	Negative fair value*	Notional value	Positive fair value*	Negative fair value
<b>\$000s</b>						
<b>A) HEDGING DERIVATIVES</b>						
<u>Currency risk being hedged using forward foreign exchange contracts</u>						
<i>i) Fair value hedges</i>						
On balance sheet exposures	396,123	316	(8,387)	455,855	19,603	(85)
<i>ii) Cash flow hedges</i>						
Forecasted transactions	-	-	-	2,578	50	-
Coupon on long-term debt	74,156	-	(3,412)	84,674	3,573	-
<b>Total forward foreign exchange contracts</b>	<b>470,279</b>	<b>316</b>	<b>(11,799)</b>	<b>543,107</b>	<b>23,226</b>	<b>(85)</b>
<u>Interest rate risk being hedged using interest rate swaps</u>						
<i>i) Fair value hedges - fixed rate debt</i>	751,973	47,692	(11,595)	550,585	37,790	-
<i>ii) Cash flow hedges - floating rate debt</i>	75,000	342	(7,274)	650,000	-	(16,938)
<b>Total interest rate hedging contracts</b>	<b>826,973</b>	<b>48,034</b>	<b>(18,869)</b>	<b>1,200,585</b>	<b>37,790</b>	<b>(16,938)</b>
<b>Total - Hedging Derivatives</b>	<b>1,297,252</b>	<b>48,350</b>	<b>(30,668)</b>	<b>1,743,692</b>	<b>61,016</b>	<b>(17,023)</b>
<b>B) DERIVATIVES ON BEHALF OF CLIENTS</b>						
Forward foreign exchange contracts	-	-	-	27,698	1,650	(1,690)
<b>Total - Derivatives on behalf of clients</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,698</b>	<b>1,650</b>	<b>(1,690)</b>
<b>C) OTHER DERIVATIVES</b>						
Interest rate swaps	330,925	9,986	(10,068)	50,000	15,327	(15,328)
Forward foreign exchange contracts	500,350	4,474	(1,637)	374,701	2,988	(4,586)
Currency options	2,251	1	(1)	2,251	20	(20)
Cross currency swaps	52,332	-	(598)	250,680	249	(513)
Interest rate options	250,000	-	(31)	-	-	-
<b>Total - Other Derivatives</b>	<b>1,135,858</b>	<b>14,461</b>	<b>(12,335)</b>	<b>677,632</b>	<b>18,584</b>	<b>(20,447)</b>
<b>TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>2,433,110</b>	<b>62,811</b>	<b>(43,003)</b>	<b>2,449,022</b>	<b>81,250</b>	<b>(39,160)</b>

\* Collateral funded by the Group amounting to \$9.5 million has been taken against the underlying derivatives negative fair values. Collateral with the Group of \$39.3 million as of June 30, 2012 was offset against the underlying derivatives positive fair value.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2013:

June 30, 2013 \$000s	Notional amounts by term to maturity				Total
	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	
<b>Derivatives held as fair value hedges:</b>					
Forward foreign exchange contracts	396,123	-	-	-	396,123
Interest rate swaps	-	27,488	255,732	468,753	751,973
<b>Derivatives held as cash flow hedges:</b>					
Forward foreign exchange contracts	74,156	-	-	-	74,156
Interest rate swaps	-	-	50,000	25,000	75,000
<b>Other Derivatives:</b>					
Interest rate swaps	-	280,925	-	50,000	330,925
Forward foreign exchange contracts	500,350	-	-	-	500,350
Currency options	-	2,251	-	-	2,251
Cross currency swaps	-	-	52,332	-	52,332
Interest rate options	-	-	250,000	-	250,000
	<u>970,629</u>	<u>310,664</u>	<u>608,064</u>	<u>543,753</u>	<u>2,433,110</u>

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

June 30, 2012 \$000s	Notional amounts by term to maturity				Total
	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	
<b>Derivatives held as fair value hedges:</b>					
Forward foreign exchange contracts	198,700	257,155	-	-	455,855
Interest rate swaps	-	-	34,696	515,889	550,585
<b>Derivatives held as cash flow hedges:</b>					
Forward foreign exchange contracts	-	84,674	-	-	84,674
Interest rate swaps	400,000	100,000	-	150,000	650,000
Forecasted transactions	2,578	-	-	-	2,578
<b>Derivatives on behalf of clients:</b>					
Forward foreign exchange contracts	3,253	24,445	-	-	27,698
<b>Other Derivatives:</b>					
Interest rate swaps	-	-	-	50,000	50,000
Forward foreign exchange contracts	352,653	22,048	-	-	374,701
Currency options	-	-	2,251	-	2,251
Cross currency swaps	-	-	250,680	-	250,680
	<u>957,184</u>	<u>488,322</u>	<u>287,627</u>	<u>715,889</u>	<u>2,449,022</u>

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### *Fair value hedges*

Losses arising from fair value hedges during the year ended June 30, 2013 were \$ 22.1 million (2012: gains of \$20.7 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were \$24.7 million (2012: losses of \$23.0 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:

<i>June 30, 2013</i> <i>\$000s</i>	<i>Up to 3 months</i>	<i>&gt;3 months up to 1 year</i>	<i>&gt;1 year up to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<b>Currency risk</b>					
Coupon on long-term debt	(6,540)	(6,540)	(52,323)	(156,970)	(222,373)
<b>Interest rate risk</b>					
Fixed coupon on long-term debt *	(2,020)	(2,020)	(16,160)	(58,580)	(78,780)
	<u>(8,560)</u>	<u>(8,560)</u>	<u>(68,483)</u>	<u>(215,550)</u>	<u>(301,153)</u>
 <i>June 30, 2012</i> <i>\$000s</i>	 <i>Up to 3 months</i>	 <i>&gt;3 months up to 1 year</i>	 <i>&gt;1 year up to 5 years</i>	 <i>Over 5 years</i>	 <i>Total</i>
<b>Currency risk</b>					
Coupon on long-term debt	(8,154)	(8,154)	(65,231)	(212,001)	(293,540)
<b>Interest rate risk</b>					
Fixed coupon on long-term debt *	(2,020)	(2,020)	(16,160)	(62,620)	(82,820)
	<u>(10,174)</u>	<u>(10,174)</u>	<u>(81,391)</u>	<u>(274,621)</u>	<u>(376,360)</u>
* 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, 2013 was \$0.3 million (June 30, 2012: \$1.5 million).



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 19. COMMITMENTS AND CONTINGENT LIABILITIES

<i>\$000s</i>	<i>June 30, 2013</i>	<i>June 30, 2012</i>
Investment commitments to closed-end funds	42,713	146,843
Other investment commitments	34,370	2,860
Total investment commitments	77,083	149,703
Non-cancelable operating leases	45,520	49,591
Guarantees and letters of credit issued to third parties	53,766	63,993

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

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

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

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT

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

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital. The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently aggregated to determine the economic capital cushion. This cushion is then 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, 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 18). With respect to the counterparty credit risk exposure arising from other financial assets, the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks through documented netting and margin arrangements with counterparties, where possible, via ISDA and CSA agreements.

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### i) Counterparty credit risk (continued)

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

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

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

Internal rating categories are summarized as follows:

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

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents 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. During the current and previous year, none of the advances were restructured.

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

June 30, 2013 \$000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Credit risk rating							
	High	Standard					
Short-term funds	90,962	-	-	-	-	90,962	60,346
Placements with financial institutions and other liquid assets	411,876	41,229	-	-	-	453,105	287,417
Positive fair value of derivatives	36,427	26,384	-	-	-	62,811	65,381
Receivables	-	242,811	4,074	10,412	(10,412)	246,885	205,775
Advances	-	141,983	-	11,850	(13,850)	139,983	103,231
Co-investments - debt	-	53,406	-	-	-	53,406	76,851
Guarantees	-	53,766	-	-	-	53,766	58,880
Total	539,264	559,579	4,074	22,262	(24,262)	1,100,917	

June 30, 2012 \$000s	Neither past due nor impaired (a)		Past due but not impaired (b)	Impaired* (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Credit risk rating							
	High	Standard					
Short-term funds	145,303	1,467	-	-	-	146,770	48,396
Placements with financial institutions and other liquid assets	165,187	29,380	-	-	-	194,567	287,213
Positive fair value of derivatives	54,006	27,244	-	-	-	81,250	70,473
Receivables	-	208,901	22,809	6,986	(6,986)	231,710	210,722
Advances	-	188,602	-	11,852	(11,852)	188,602	122,051
Co-investments - debt	-	100,295	-	-	-	100,295	86,622
Guarantees	-	63,993	-	-	-	63,993	105,354
Total	364,496	619,882	22,809	18,838	(18,838)	1,007,187	

\* Fair value of collaterals relating to impaired exposures is nil (June 30, 2012: nil).

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### i) Counterparty credit risk (continued)

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

<i>\$000s</i>	June 30, 2013	June 30, 2012
Up to 1 month	456	2,261
> 1 up to 3 months	632	6,251
> 3 up to 6 months	2,598	2,947
> 6 months up to 1 year	388	51
Over 1 year	-	11,299
<b>Total</b>	<b>4,074</b>	<b>22,809</b>

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, 2013 amounts to \$68.7 million (June 30, 2012: \$403 million).

The breakdown of provisions being carried against advances and receivables by geographical region and industry sector is as follows:

<i>\$000s</i>	June 30, 2013	June 30, 2012
<b>Geographical region</b>		
North America	22,506	17,082
Europe	1,581	1,581
Other	175	175
<b>Total</b>	<b>24,262</b>	<b>18,838</b>

<i>\$000s</i>	June 30, 2013	June 30, 2012
<b>Industry sector</b>		
Banking and finance	1,985	1,986
Consumer products	56	56
Distribution	1,686	1,604
Industrial products	70	70
Industrial services	995	-
Real estate	17,238	14,929
Technology and telecom	2,057	18
Others	175	175
<b>Total</b>	<b>24,262</b>	<b>18,838</b>

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### ii) Funding liquidity risk (continued)

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

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

June 30, 2013 \$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
<b>Assets</b>								
Cash and short-term funds	90,962	-	90,962	-	-	-	-	90,962
Placement with financial institutions and other liquid assets	453,105	-	453,105	-	-	-	-	453,105
Positive fair value of derivatives	4,790	519	5,309	141	577	56,784	-	62,811
Receivables and prepayments	99,446	36,892	136,338	140,071	-	-	-	276,409
Advances	1,553	21,366	22,919	117,064	-	-	-	139,983
<b>Co-investments</b>								
Hedge funds	214,023	23,272	237,295	78,467	-	-	-	315,762
Corporate investment	33,000	105,482	138,482	768,127	-	-	-	906,609
Real estate investment	-	39,559	39,559	116,946	-	-	-	156,505
Premises, equipment and other assets	153	-	153	5,349	8,312	2,674	-	16,488
<b>Total assets</b>	<b>897,032</b>	<b>227,090</b>	<b>1,124,122</b>	<b>1,226,165</b>	<b>8,889</b>	<b>59,458</b>	<b>-</b>	<b>2,418,634</b>
<b>Liabilities</b>								
Deposits from clients - short term	167,387	18,533	185,920	10,823	-	-	-	196,743
Negative fair value of derivatives	18,810	67	18,877	11,831	-	12,295	-	43,003
Payables and accrued expenses	95,027	21,849	116,876	5,916	-	-	-	122,792
Deposits from clients - medium term	-	-	-	88,200	-	-	-	88,200
Medium-term debt	10,000	14,408	24,408	458,081	-	-	-	482,489
Long-term debt	-	25,956	25,956	-	-	393,122	-	419,078
<b>Total liabilities</b>	<b>291,224</b>	<b>80,813</b>	<b>372,037</b>	<b>574,851</b>	<b>-</b>	<b>405,417</b>	<b>-</b>	<b>1,352,305</b>
Net gap	<b>605,808</b>	<b>146,277</b>	<b>752,085</b>	<b>651,315</b>	<b>8,889</b>	<b>(345,959)</b>	<b>-</b>	
Cumulative liquidity gap	<b>605,808</b>	<b>752,085</b>	<b>752,085</b>	<b>1,403,399</b>	<b>1,412,288</b>	<b>1,066,329</b>	<b>1,066,329</b>	

June 30, 2012 \$000s	Up to 3 months	>3 months up to 1 year	Sub-Total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
<b>Assets</b>								
Cash and short-term funds	146,783	-	146,783	-	-	-	-	146,783
Placement with financial institutions and other liquid assets	191,567	3,000	194,567	-	-	-	-	194,567
Positive fair value of derivatives	7,455	11,322	18,777	1,352	588	44,970	15,563	81,250
Receivables and prepayments	81,839	31,124	112,963	157,234	-	-	-	270,197
Advances	9,963	40,907	50,870	137,732	-	-	-	188,602
<b>Co-investments</b>								
Hedge funds	277,690	104,009	381,699	32,399	-	-	-	414,098
Corporate investment	197,757	178,868	376,625	845,165	-	-	-	1,221,790
Real estate investment	4,477	25,625	30,102	124,358	-	-	-	154,460
Premises, equipment and other assets	13	-	13	3,246	13,133	1,383	-	17,775
<b>Total assets</b>	<b>917,544</b>	<b>394,855</b>	<b>1,312,399</b>	<b>1,301,486</b>	<b>13,721</b>	<b>46,353</b>	<b>15,563</b>	<b>2,689,522</b>
<b>Liabilities</b>								
Deposits from clients - short term	156,909	-	156,909	-	-	-	-	156,909
Negative fair value of derivatives	3,004	3,850	6,854	514	-	12,529	19,263	39,160
Payables and accrued expenses	169,471	26,856	196,327	6,395	-	-	-	202,722
Deposits from clients - medium term	-	-	-	119,241	-	-	-	119,241
Medium-term debt*	-	12,705	12,705	554,551	-	-	-	567,256
Long-term debt	-	19,404	19,404	26,038	-	466,873	48,176	560,491
<b>Total liabilities</b>	<b>329,384</b>	<b>62,815</b>	<b>392,199</b>	<b>706,739</b>	<b>-</b>	<b>479,402</b>	<b>67,439</b>	<b>1,645,779</b>
Net gap	<b>588,160</b>	<b>332,040</b>	<b>920,200</b>	<b>594,747</b>	<b>13,721</b>	<b>(433,049)</b>	<b>(51,876)</b>	
Cumulative liquidity gap	<b>588,160</b>	<b>920,200</b>	<b>920,200</b>	<b>1,514,947</b>	<b>1,528,668</b>	<b>1,095,619</b>	<b>1,043,743</b>	

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### ii) Funding liquidity risk (continued)

##### Contractual maturity of financial liabilities on an undiscounted basis

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

<i>June 30, 2013</i> <i>\$000s</i>	<i>Up to</i> <i>3 months</i>	<i>&gt;3 months</i> <i>up to 1 year</i>	<i>&gt;1 year</i> <i>up to 5 years</i>	<i>&gt;5 years</i> <i>up to 10 years</i>	<i>&gt;10 years</i> <i>up to 20 years</i>	<i>Over</i> <i>20 years</i>	<i>Total</i>
Financial liabilities							
Deposits from clients	167,948	19,291	100,728	-	-	-	287,967
Payables and accrued expenses	95,027	21,849	5,916	-	-	-	122,792
Medium-term debt	10,051	44,323	593,533	-	-	-	647,907
Long-term debt	8,560	35,884	68,483	85,604	553,683	-	752,214
	281,586	121,347	768,660	85,604	553,683	-	1,810,880
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	969,211	154	53,173	-	-	-	1,022,538
Contractual amounts receivable	(950,297)	(288)	(53,292)	-	-	-	(1,003,877)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	1,763	(9,095)	(19,798)	(13,149)	11,064	-	(29,215)
Commitments	35,798	36,583	39,810	10,412	-	-	122,603
Guarantees	53,766	-	-	-	-	-	53,766
Total undiscounted financial liabilities	391,827	148,701	788,553	82,867	564,747	-	1,976,695

<i>June 30, 2012</i> <i>\$000s</i>	<i>Up to</i> <i>3 months</i>	<i>&gt;3 months</i> <i>up to 1 year</i>	<i>&gt;1 year</i> <i>up to 5 years</i>	<i>&gt;5 years</i> <i>up to 10 years</i>	<i>&gt;10 years</i> <i>up to 20 years</i>	<i>Over</i> <i>20 years</i>	<i>Total</i>
Financial liabilities							
Deposits from clients	156,909	657	120,514	-	-	-	278,080
Payables and accrued expenses	169,471	26,856	6,395	-	-	-	202,722
Medium-term debt*	2,276	34,856	596,226	-	-	-	633,358
Long-term debt	10,254	33,016	108,707	101,739	636,798	52,020	942,534
	338,910	95,385	831,842	101,739	636,798	52,020	2,056,694
Derivatives:							
Contracts settled on a gross basis:							
Contractual amounts payable	559,637	387,110	256,406	-	-	-	1,203,153
Contractual amounts receivable	(567,521)	(400,372)	(253,475)	-	-	-	(1,221,368)
Contracts settled on a net basis:							
Contractual amounts payable (receivable)	(3,921)	(3,509)	(29,773)	(25,400)	(3,813)	(119)	(66,535)
Commitments	1,900	35,642	150,291	11,461	-	-	199,294
Guarantees	63,993	-	-	-	-	-	63,993
Total undiscounted financial liabilities	392,998	114,256	955,291	87,800	632,985	51,901	2,235,231

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### 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 regularly monitored.

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

	June 30, 2013			June 30, 2012		
	<i>Assets exposed to credit risk</i>	<i>Off-balance sheet items exposed to credit risk</i>	<i>Total credit risk exposure</i>	<i>Assets exposed to credit risk</i>	<i>Off-balance sheet items exposed to credit risk</i>	<i>Total credit risk exposure</i>
<b><i>\$000s</i></b>						
<b>Geographical Region</b>						
North America	795,861	53,766	849,627	631,153	63,993	695,146
Europe	175,158	-	175,158	233,832	-	233,832
Middle East	76,031	-	76,031	78,209	-	78,209
Total	1,047,050	53,766	1,100,816	943,194	63,993	1,007,187

	June 30, 2013			June 30, 2012		
	<i>Assets exposed to credit risk</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Total credit risk exposure</i>	<i>Assets exposed to credit risk</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Total credit risk exposure</i>
<b><i>\$000s</i></b>						
<b>Industry Sector</b>						
Banking and Finance	753,526	116	753,642	505,721	116	505,837
Consumer products	35,123	150	35,273	52,749	377	53,126
Consumer services	17,051	-	17,051	68,742	-	68,742
Distribution	10,152	-	10,152	29,517	-	29,517
Industrial products	69,355	-	69,355	106,958	-	106,958
Real estate	88,481	53,500	141,981	134,079	53,500	187,579
Technology and Telecom	60,474	-	60,474	44,207	-	44,207
Others	12,888	-	12,888	1,221	10,000	11,221
Total	1,047,050	53,766	1,100,816	943,194	63,993	1,007,187

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### 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 investments and real estate investments, as well as on its debt financings. For the purpose of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

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

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

#### iv) (a) Foreign currency risk

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

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

<i>\$000s</i>	<i>June 30, 2013</i>		<i>June 30, 2012</i>	
<i>Long (Short)</i>	<i>Net hedged exposure</i>	<i>Net unhedged exposure</i>	<i>Net hedged exposure</i>	<i>Net unhedged exposure</i>
Bahraini Dinar*	-	39,762	-	39,774
Saudi Riyal*	-	14,742	-	98
Euro	134,292	31	367,331	356
Pounds Sterling	17,673	2	58,168	122
Japanese Yen	(331,075)	185	(467,559)	521
	(179,110)	54,722	(42,060)	40,871

\* Currency exchange rate currently pegged against the US Dollar.

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



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### iv) Market price risk (continued)

##### iv) (a) Foreign currency risk (continued)

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

<i>\$000s</i>	<i>2013</i>	<i>2012</i>
Average FX VaR	7	6
Year end FX VaR	4	11
Maximum FX VaR	28	28
Minimum FX VaR	1	1

##### iv) (b) Interest rate risk

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

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

- Investments amounting to \$35.4 million (June 30, 2012: \$51.1 million), which earn interest at an effective rate approximating 11.9% (June 30, 2012: 11.6%) per annum.
- Deposits from clients amounting to \$55.5 million (June 30, 2012: \$37.7 million) on which interest is paid at an effective rate of 5.1% (June 30, 2012: 4.7%) per annum.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### iv) Market price risk (continued)

#### iv) (b) Interest rate risk (continued)

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.

<i>\$000s</i>	<i>Sensitivity to net income for +200 basis points</i>	<i>Sensitivity to net income for -200 basis points</i>
<i>Currency</i>	<i>June 30, 2013</i>	
Euro	(6,843)	394
Pounds Sterling	(781)	195
Japanese Yen	643	(89)
US Dollar	(4,178)	1,548
Others	(125)	24
Total	(11,284)	2,072

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%

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

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### iv) Market price risk (continued)

##### 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 and RE co-investments (see Note 21) to changes in multiples / discount rates / quoted bid prices..

June 30, 2013 \$000s		Factor	Change	Balance sheet exposure	Projected Balance sheet Exposure		Impact on Income	
					For increase	For decrease	For increase	For decrease
CI co-investments	EBITDA Multiples	+/- 0.5x		692,360	775,221	608,986	82,861	(83,374)
	Revenue Multiples	+/- 0.5x		112,188	115,390	109,728	3,202	(2,460)
	Quoted bid price	+/- 1%		31,893	32,212	31,574	319	(319)
Real estate co-investments	Capitalization Rate	+/- 1%		120,081	137,066	95,200	16,985	(24,881)

June 30, 2012 \$000s		Factor	Change	Balance sheet exposure	Projected Balance sheet Exposure		Impact on Income	
					For increase	For decrease	For increase	For decrease
CI co-investments	EBITDA Multiples	+/- 0.5x		1,006,019	1,086,918	913,401	80,899	(92,618)
	Revenue Multiples	+/- 0.5x		76,815	84,537	69,093	7,722	(7,722)
	Quoted bid price	+/- 1%		6,258	6,321	6,195	63	(63)
Real estate co-investments	Capitalization Rate	+/- 1%		111,016	149,277	76,103	38,261	(34,913)

In the opinion of the Group's management there is no material sensitivity in the net income of the Group to any reasonable possible changes in the fair value of 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, which has significantly reduced over the financial year ended June 30, 2013.

\$000s	2013	2012
Average VaR	23,005	37,154
Year end VaR	19,326	31,060
Maximum VaR	27,467	41,598
Minimum VaR	19,326	31,060

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 20. RISK MANAGEMENT (continued)

#### v) Operational risk

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

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Fair value adjustments arise from re-measurement to fair value of investments, derivatives and liabilities which are hedged. Nonetheless the actual amount that is realized in a future realization transaction may differ from the current estimate of fair value, given the inherent uncertainty surrounding valuations of unquoted investments.

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 certain liabilities carried at amortized cost. The fair value of medium and long term debt amounts to \$768.0 million (June 30, 2012: \$813.0 million) as compared to carrying value of \$923.2 million (June 30, 2012: \$1,135.6 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).

During the current financial year there was a transfer of \$25.6 million (2012: nil) from level 3 to level 1 under corporate investment. This represents the listing on a stock exchange of a previously unquoted investment. Further, hedge funds exposure of \$87.9 million (June 30, 2012: nil) comprised of illiquid side pocket investments was classified as level 3 during the current financial year. The year to date fair value changes on this hedge funds exposure amounts to a gain of \$5.8 million.

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

<b>June 30, 2013</b> <b>\$000s</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Positive fair value of derivatives	-	62,811	-	62,811
<u>Co-investments</u>				
Hedge funds	-	227,827	87,935	315,762
Corporate investments	31,893	-	857,734	889,627
Real estate investments	-	-	120,081	120,081
<b>Total financial assets</b>	<b>31,893</b>	<b>290,638</b>	<b>1,065,750</b>	<b>1,388,281</b>
<b>Financial liabilities</b>				
Negative fair value of derivatives	-	43,003	-	43,003
<b>Total financial liabilities</b>	<b>-</b>	<b>43,003</b>	<b>-</b>	<b>43,003</b>

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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:

<i>June 30, 2013 \$000s</i>	<i>At beginning</i>	<i>Net new acquisitions</i>	<i>Fair value movements*</i>	<i>Movements relating to realizations / placements</i>	<i>Other movements**</i>	<i>At end</i>
<b>CI co-investments</b>						
Level 3	1,106,811	96,186	(27,667)	(362,572)	(8,210)	804,548
Others	27,418	-	15,075	(32,470)	21,870	31,893
<b>Sub-total</b>	<b>1,134,229</b>	<b>96,186</b>	<b>(12,592)</b>	<b>(395,042)</b>	<b>13,660</b>	<b>836,441</b>
<b>CI - Strategic investments and other</b>						
Level 3	51,870	-	14,562	(13,675)	429	53,186
Others	35,691	-	-	(18,709)	-	16,982
<b>Sub-total</b>	<b>87,561</b>	<b>-</b>	<b>14,562</b>	<b>(32,384)</b>	<b>429</b>	<b>70,168</b>
<b>RE co-investments</b>						
Level 3	111,016	7,448	(13,774)	(11,095)	26,486	120,081
Others	43,444	5,685	-	(12,720)	15	36,424
<b>Sub-total</b>	<b>154,460</b>	<b>13,133</b>	<b>(13,774)</b>	<b>(23,815)</b>	<b>26,501</b>	<b>156,505</b>
<b>Total</b>	<b>1,376,250</b>	<b>109,319</b>	<b>(11,804)</b>	<b>(451,241)</b>	<b>40,590</b>	<b>1,063,114</b>

\* Includes \$61 thousand fair value loss in available for sale investments.

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

<i>June 30, 2012 \$000s</i>	<i>At beginning</i>	<i>Net new acquisitions</i>	<i>Fair value movements*</i>	<i>Movements relating to realizations / placements</i>	<i>Other movements**</i>	<i>At end</i>
<b>CI co-investments</b>						
Level 3	1,028,304	188,567	21,329	(74,296)	(57,093)	1,106,811
Others	20,258	16,132	(2,563)	(10,187)	3,778	27,418
<b>Sub-total</b>	<b>1,048,562</b>	<b>204,699</b>	<b>18,766</b>	<b>(84,483)</b>	<b>(53,315)</b>	<b>1,134,229</b>
<b>CI - Strategic investments and other</b>						
Level 3	52,357	-	(1,583)	-	1,096	51,870
Others	20,816	-	-	-	14,875	35,691
<b>Sub-total</b>	<b>73,173</b>	<b>-</b>	<b>(1,583)</b>	<b>-</b>	<b>15,971</b>	<b>87,561</b>
<b>RE co-investments</b>						
Level 3	153,392	2,894	(3,455)	(41,815)	-	111,016
Others	35,446	7,729	-	(5,671)	5,940	43,444
<b>Sub-total</b>	<b>188,838</b>	<b>10,623</b>	<b>(3,455)</b>	<b>(47,486)</b>	<b>5,940</b>	<b>154,460</b>
<b>Total</b>	<b>1,310,573</b>	<b>215,322</b>	<b>13,728</b>	<b>(131,969)</b>	<b>(31,404)</b>	<b>1,376,250</b>

\* Includes \$2 million fair value loss in available for sale investments.

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

All the fair value movements noted above relate to financial assets based on Level 3, except for \$15.1 million gain (2012: \$2.6 million loss) for movements relating to Level 1 assets of CI Co-investments.

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 22. EMPLOYEE COMPENSATION

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

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

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

Consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's senior professional staff 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.

#### **Programs for Investment Profit Participation**

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



# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 22. EMPLOYEE COMPENSATION (continued)

#### Programs for Investment Participation

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

The Group 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 varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2013 is \$74.1 million (June 30, 2012: \$94.7 million).

#### Employees Share Ownership Plans

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

SIPCO shares are granted to the employees at their fair value on the grant date. The fair value of SIPCO shares for purposes of the plan is estimated considering their non-transferability and the indirect nature of the underlying beneficial ownership. The value of SIPCO shares granted during the year is \$2.3 million (2012: \$13.9 million). The start and end date of the vesting period for each grant varies from plan to plan and is based on continued employment as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognized as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

An income statement charge of \$5.8 million (2012: \$3.3 million) was taken by the Group based on management's best estimate of the number of shares that are likely to vest. The grant date value of shares vested during the year amounted to \$12.8 million (2012: \$8.4 million). The details of shares granted, vested and forfeited during the year are as follows:

<b><i>Number of shares</i></b>	<b>2013</b>	<b>2012</b>
Granted during the year	3,126	19,950
Vested during the year	(23,958)	(17,459)
Forfeited during the year	(14,101)	(9,792)

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 23. RELATED PARTY TRANSACTIONS

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

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

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

In addition to the compensation and benefits to employees disclosed in Note 22, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

<b><i>\$000s</i></b>		<b>2013</b>	<b>2012</b>
AUM fees	Investee companies	13,658	19,154
	Client companies	41,007	53,250
	Client companies associated with the HF	37,743	34,151
Deal fees	Investee companies	82,512	45,726
	Client companies	47,379	55,202
Asset based income	Investee companies	19,092	32,867
	Client companies	1,732	1,835
Interest expense	Client companies	(132)	407
Provisions for impairment	Employee investment programs	(1,522)	(156)

# INVESTCORP S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013

### 23. RELATED PARTY TRANSACTIONS (continued)

Of the staff compensation for the year set out in Note 5, \$50.8 million (2012: \$24.9 million) is attributable to senior management (including an employee who is also a director). Of the above mentioned remuneration of senior management, \$38.4 million (June 30, 2012: \$21.6 million) is short term in nature.

In addition to the compensation and benefits to employees disclosed in Note 22, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2013			June 30, 2012		
	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
<b><u>\$000s</u></b>						
<b><u>Outstanding balances</u></b>						
Strategic shareholders	4,825	14,227	-	4,806	12,507	-
Investee companies	81,496	-	-	99,595	-	-
Investment holding companies	145,990	89,139	42,713	153,741	66,610	146,843
Client fund companies associated with the HFP	64,874	-	-	29,491	-	-
Directors and senior management	1,105	448	-	1,096	630	-
	<u>298,290</u>	<u>103,814</u>	<u>42,713</u>	<u>288,729</u>	<u>79,747</u>	<u>146,843</u>

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.