INVESTCORP S.A.

CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2014
FISCAL YEAR 2014

CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Building a better
working world

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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 2014, 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.

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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 2014, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

3 August 2014
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2014

CONSOLIDATED STATEMENT OF INCOME

$000s	***2014***	*2013*	*Notes*	*Page*
FEE INCOME				
AUM fees	77,658	88,795		
Deal fees	266,228	240,738		
Fee income ***(a)***	343,886	329,533	2	20
ASSET BASED INCOME				
Hedge funds	28,197	25,307		
Corporate investment	23,760	256		
Real estate investment	(7,813)	125		
Treasury and other asset based income	(424)	2,044		
Asset based income ***(b)***	43,720	27,732	2	20
Gross operating income (a) + (b)	387,606	357,265	2	20
Provisions for impairment	(1,371)	(5,424)	12	37
Interest expense	(59,463)	(61,692)	2	20
Operating expenses	(195,601)	(185,269)	5	30
NET INCOME	131,171	104,880		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	***2014***	*2013*	*Notes*	*Page*
NET INCOME (AS ABOVE)	131,171	104,880		
Other comprehensive income that could be recycled to statement of income				
Fair value movements - available for sale investments	(1,181)	(61)	17	42
Fair value movements - cash flow hedges	1,931	(12,536)	17	42
Other comprehensive income (loss)	750	(12,597)		
TOTAL COMPREHENSIVE INCOME	131,921	92,283		

Rishi Kapoor
Director

Jonathan Minor
Director

The attached Notes 1 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2014

$000s	***June 30, 2014***	***June 30, 2013***	*Notes*	*Page*
ASSETS				
Cash and short-term funds	95,368	90,962		
Placements with financial institutions and other liquid assets	125,944	453,105		
Positive fair value of derivatives	66,570	62,811	18	43
Receivables and prepayments	203,347	276,409	6	31
Advances	121,619	139,983	7	32
Underwritten investments	112,372	33,000	8	33
Co-investments				
Hedge funds	476,418	315,762	9	34
Corporate investment	910,807	873,609	10	35
Real estate investment	130,017	156,505	11	36
Total co-investments	1,517,242	1,345,876		
Premises, equipment and other assets	13,255	16,488		
TOTAL ASSETS	2,255,717	2,418,634		
LIABILITIES AND EQUITY				
LIABILITIES				
Due to a related party	202,886	284,943		
Payables and accrued expenses	150,722	122,792	13	38
Negative fair value of derivatives	25,157	43,003	18	43
Medium-term debt	474,165	482,489	14	39
Long-term debt	408,135	419,078	15	40
TOTAL LIABILITIES	1,261,065	1,352,305		
EQUITY				
Preference share capital	391,222	511,465	16	41
Ordinary shares at par value	200,000	200,000	16	41
Reserves	215,907	229,421		
Treasury shares	(158,212)	(163,551)		
Retained earnings	286,944	219,062		
Ordinary shareholders' equity excluding proposed appropriations and unrealized fair value changes and revaluation reserve recognized directly in equity	544,639	484,932		
Proposed appropriations	63,289	75,180		
Unrealized fair value changes and revaluation reserve recognized directly in equity	(4,498)	(5,248)	17	42
TOTAL EQUITY	994,652	1,066,329		
TOTAL LIABILITIES AND EQUITY	2,255,717	2,418,634		

Rishi Kapoor
Director

Jonathan Minor
Director

The attached Notes 1 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

			Reserves						Unrealized fair value changes and revaluation reserve recognized directly in equity			
$000s	**Preference share capital**	**Ordinary share capital**	**Share premium**	**Statutory reserve**	**Total**	**Treasury shares**	**Retained earnings**	**Proposed appropriations**	**Available for sale investments**	**Cash flow hedges**	**Total**	**Total equity**
Balance at July 1, 2012	**511,465**	**200,000**	**133,046**	**100,000**	**233,046**	**(163,575)**	**189,362**	**66,096**	**2,727**	**4,622**	**7,349**	**1,043,743**
Total comprehensive income / (loss)	-	-	-	-	-	-	104,880	-	(61)	(12,536)	(12,597)	92,283
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(3,601)	-	-	-	-	-	(3,601)
Loss on sale 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 charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-
Proposed preference share dividend	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(9,304)	9,304	-	-	-	-
Balance at June 30, 2013	**511,465**	**200,000**	**129,421**	**100,000**	**229,421**	**(163,551)**	**219,062**	**75,180**	**2,666**	**(7,914)**	**(5,248)**	**1,066,329**
Total comprehensive income / (loss)	-	-	-	-	-	-	131,171	-	(1,181)	1,931	750	131,921
Preference shares purchased during the year	(120,243)	-	(6,000)	-	(6,000)	-	-	-	-	-	-	(126,243)
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(2,175)	-	-	-	-	-	(2,175)
Loss on sale of treasury shares	-	-	(7,514)	-	(7,514)	7,514	-	-	-	-	-	-
Approved appropriations for fiscal 2013 paid:												
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	(9,304)	-	-	-	(9,304)
Charitable contribution paid	-	-	-	-	-	-	-	(4,500)	-	-	-	(4,500)
Proposed charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-
Proposed preference share dividend	-	-	-	-	-	-	(49,376)	49,376	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(9,413)	9,413	-	-	-	-
Balance at June 30, 2014	**391,222**	**200,000**	**115,907**	**100,000**	**215,907**	**(158,212)**	**286,944**	**63,289**	**1,485**	**(5,983)**	**(4,498)**	**994,652**

The attached Notes 1 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

$000s	***2014***	*2013*	**Notes**	***Page***
OPERATING ACTIVITIES				
Net income	131,171	104,880		
Adjustments for non-cash items in net income				
Depreciation	4,505	4,371		
Provisions for impairment	1,371	5,424	12	37
Amortization of transaction costs of borrowings	7,225	7,891		
Employee share awards expense	9,300	5,826	22	62
Net income adjusted for non-cash items	153,572	128,392		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non cash equivalent)	46,880	(43,880)		
Receivables and prepayments	72,990	(9,638)	6	31
Advances	17,065	46,621	7	32
Underwritten investments	(79,372)	112,164	8	33
Payables and accrued expenses	27,930	(79,930)	13	38
Due to a related party	(82,057)	8,793		
Co-investments				
Hedge funds - net of secured financing	(107,063)	54,512	9	34
Corporate investment	(38,379)	202,956	10	35
Real estate investment	26,488	(2,045)	11	36
Fair value of derivatives	58	(115,877)		
Other assets	150	(249)		
NET CASH FROM OPERATING ACTIVITIES	38,262	301,819		
FINANCING ACTIVITIES				
Medium-term debt issued (net of transaction costs)	178,146	480,079	14	39
Medium-term debt repaid	(251,713)	(524,703)	14	39
Long-term debt repaid	(26,250)	(20,000)	15	40
Treasury shares purchased - net	(11,475)	(9,427)		
Preference shares purchased	(126,243)	-	16	41
Dividends paid	(70,680)	(66,096)		
Charitable contributions paid	(4,500)	-		
NET CASH USED IN FINANCING ACTIVITIES	(312,715)	(140,147)		
INVESTING ACTIVITY				
Investment in premises and equipment	(1,422)	(2,835)		
NET CASH USED IN INVESTING ACTIVITY	(1,422)	(2,835)		
Net (decrease) increase in cash and cash equivalents	(275,875)	158,837		
Cash and cash equivalents at beginning of the year	497,187	338,350		
Cash and cash equivalents at end of the year	221,312	497,187		
Cash and cash equivalents comprise:				
Cash and short-term funds	22,336	37,237		
Cash in transit	73,032	53,725		
Placements with financial institutions and other liquid assets	125,944	406,225		
	221,312	497,187		

In addition to the above, the Group has undrawn and available balance of $464.89 million (June 30, 2013: $246.42 million) from its revolving medium term facilities.

Additional cash flow information

$000s	***2014***	*2013*
Interest paid	(60,768)	(53,999)
Interest received	9,681	18,177

The attached Notes 1 to 24 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

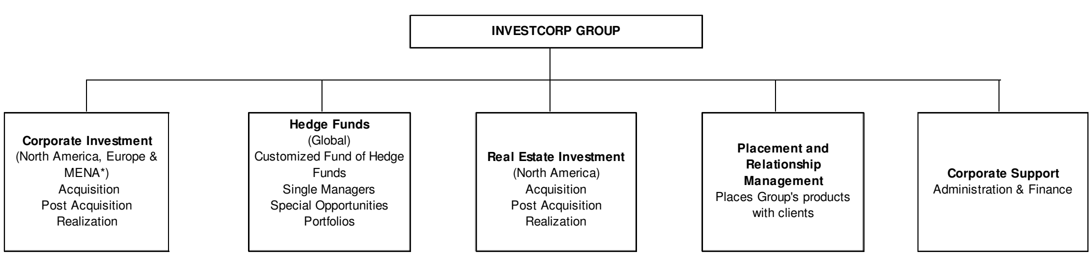
The Company is a holding company owning various subsidiaries (together, the "Group" or "Investcorp"). The activities of the Company are substantially transacted through its subsidiaries. The ultimate parent of the Group is SIPCO Holdings Limited ("SHL"), incorporated in the Cayman Islands [see Note 1.A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

The consolidated financial statements for the year ended June 30, 2014 were authorized for issue in accordance with a resolution of the Board of Directors of the Company effective on August 3, 2014.

(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.

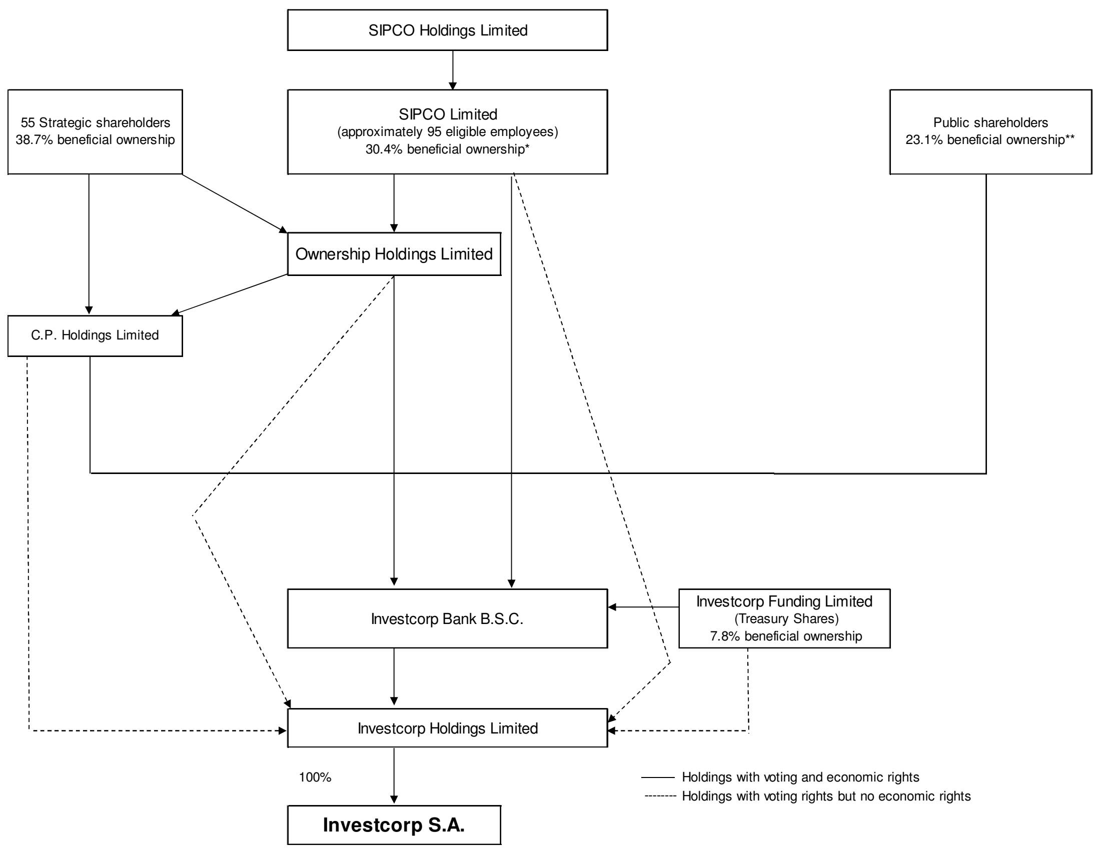


*Includes Turkey

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. ORGANIZATION (CONTINUED)

(iii) Ownership



* Includes 9.4% in shares that are held for future grant to management and 4.4% shares granted but not acquired under the various Employee Share Ownership Plans. The Bank has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of it's shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

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

The Company is indirectly owned by Investcorp Banks B.S.C. (“Investcorp Bank”), which is controlled by Ownership Holdings Limited (“OHL”), through its shareholding directly, and indirectly through its control of C.P. Holdings Limited (“CPHL”), of the issued ordinary shares of Investcorp. OHL is, in turn, ultimately controlled by SHL. SIPCO Limited (‘SIPCO’), an SHL subsidiary, is the entity through which Group employees own beneficial interests in the ordinary shares of Investcorp Bank.

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. ORGANIZATION (CONTINUED)

The ordinary shares and Series A preference shares of IHL carry voting rights. IHL, in turn, has a 100% economic and voting interest in the Company.

The Group is, therefore, controlled by its employees through their beneficial ownership as a group via SHL, SIPCO, OHL, CPHL, Investcorp Bank and IHL.

SHL, SIPCO, OHL, CPHL and IHL are companies incorporated in the Cayman Islands. Investcorp Bank is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability.

The Company owns 97.9% of the assets of Investcorp Bank and its consolidated subsidiaries (the "Investcorp Bank Group") and it is therefore an integral part of the Investcorp Bank Group. For that reason, certain of the disclosures in these Notes relate to the Investcorp Bank Group or the Board of Directors of Investcorp Bank notwithstanding references to the "Group".

(iv) Subsidiary companies

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is an entity to which the Group is exposed, or has rights over its variable returns through its involvement with the entity and has the ability to affect these returns through its control over the entity, excluding entities which meet the below criteria:

a) Where there are contractual or other restrictions imposed on the Group's ability to appoint the majority of the Board of Directors, or

b) Where a majority of the economic risk and reward accrues to third parties other than the Group, or

c) Investment entities as defined under IFRS 10.

The Company and its subsidiaries are the principal asset holding and operating entities within the Investcorp Bank 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 Investcorp Bank Group are held by the Company or subsidiaries that are owned directly or indirectly by the Company.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies (continued)

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

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

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 disclosure relating to underwritten investments and the following new and amended IFRS and the IFRS Interpretations Committee (the "IFRIC") interpretations which became effective for accounting periods beginning on or after 1 January 2013:

- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 19 Employee Benefits (Revised 2011)
- IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

The adoption of the above new standards and amendments did not have any material impact on the Group's Consolidated Balance Sheet and Statement of Income. IFRS 7 and IFRS 13 had some impact on disclosures as detailed below.

Further, the Group made the following reclassification in presenting the current year financial statements. These reclassifications did not have any impact on any previously reported net income or equity.

- Short and medium term balances from clients that were disclosed on a look through basis separately in the past have been reclassified as due to a related party to conform with the current year presentation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required are provided in Note 21.

In addition to the above, the Group has decided to adopt early the amendments to IFRS 10, IFRS 12 and IAS 27. These amendments are effective for annual periods beginning on or after 1 January 2014. The adoption of the above resulted in the Group qualifying as an Investment Entity. However, the adoption of these standards did not have any material impact on the consolidated financial statements.

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.

- IFRS 9 Financial Instruments: Classification and Measurement (1 January 2018)
- IFRS 15 Revenue from contracts with customers (1 January 2017)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014)
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 (effective for annual periods beginning on or after 1 January 2014)

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 10 and 11), the determination of performance fees on assets under management and impairment provisions for financial assets other than FVTPL investments (see Note 12).

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

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 Investcorp Bank’s 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 9.

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 changes 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.

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 has expired.

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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xiv) Premises and equipment

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

The Group 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 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 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 approved benefit plans (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 the agreements for which are signed, but have not been funded, as of the balance sheet date.

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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxiii) 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 as at the end of the reporting period.

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 of the investment.

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, 2014, the business segments reported are based on the two primary reporting segments into which the Group classifies its activities.

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 investment 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.

2. SEGMENT REPORTING (CONTINUED)

A. REPORTING SEGMENT (CONTINUED)

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

The Group co-invests along with its clients in all the alternative investment asset 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.

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 - Special opportunities portfolios
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 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 Investcorp Bank 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 customized funds of hedge funds, special opportunities portfolios and a 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.

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 American 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 with the Investcorp Bank 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 this investor base Western institutional investors 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.

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;
- other fees earned on single manager funds managed by third party managers, where Investcorp receives fees calculated on the basis of AUM; and
- management and consulting fees earned on CI and RE investments 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 consulting services.

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.

2. SEGMENT REPORTING (CONTINUED)

C. REVENUE GENERATION (CONTINUED)

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.

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, 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 loans secured by co-investment assets, are allocated to the Co-investment Business. Amounts due to related parties, the residual 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 using a fixed rate charge on the aggregate balance sheet co-investments, excluding underwriting, at the beginning and middle 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.

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, 2014 and June 30, 2013 by reporting segments are as follows:

$000s	*2014*	*2013*
FEE BUSINESS		
AUM fees		
Hedge funds	28,754	35,464
Corporate investment	42,862	47,875
Real estate investment	6,042	5,456
Total AUM fees	77,658	88,795
Deal fees		
Hedge funds	11,579	6,007
Corporate investment	225,017	212,347
Real estate investment	29,632	22,384
Total deal fees	266,228	240,738
Treasury and other asset based income	(424)	2,044
Gross income attributable to fee business (a)	343,462	331,577
Provisions for impairment	(1,371)	(5,424)
Interest expense	(29,461)	(29,975)
Operating expenses attributable to fee business (b)	(185,167)	(173,025)
NET FEE BUSINESS INCOME (c)	127,463	123,153
CO-INVESTMENT BUSINESS		
Asset based income		
Hedge funds	28,197	25,307
Corporate investment	23,760	256
Real estate investment	(7,813)	125
Gross income attributable to co-investment business (d)	44,144	25,688
Interest expense	(30,002)	(31,717)
Operating expenses attributable to co-investment business (e)	(10,434)	(12,244)
NET CO-INVESTMENT BUSINESS INCOME (f)	3,708	(18,273)
NET INCOME (c) + (f)	131,171	104,880
Gross operating income (a) + (d)	387,606	357,265
Gross operating expenses (b) + (e)	(195,601)	(185,269)

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 (2013: nil).

$201.8 million (2013: $193.4 million) of deal fees relates to activity fees and $64.2 million (2013: $47.3 million) represents performance fees.

Treasury and other income includes $2.7 million (2013: $2.0 million) of interest income. CI and RE asset based income includes $3.1 million (2013: $5.5 million) and $2.7 million (2013: $4.7 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 10 and 20 (iii) present the geographical split of assets and off-balance sheet items.

2. SEGMENT REPORTING (CONTINUED)

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

Consolidated balance sheets as at June 30, 2014 and June 30, 2013 by reporting segment are as follows:

June 30, 2014 *$000s*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	95,368	95,368
Placements with financial institutions and other liquid assets	-	125,944	125,944
Positive fair value of derivatives	-	66,570	66,570
Receivables and prepayments	6,056	197,291	203,347
Advances	-	121,619	121,619
Underwritten investments			
Corporate investment	-	85,809	85,809
Real estate investment	-	26,563	26,563
Co-investments - retention			
Hedge funds	476,418	-	476,418
Corporate investment	910,807	-	910,807
Real estate investment	130,017	-	130,017
Premises, equipment and other assets	-	13,255	13,255
Total assets	1,523,298	732,419	2,255,717
Liabilities and Equity			
Liabilities			
Due to a related party	-	202,886	202,886
Payables and accrued expenses	16,977	133,745	150,722
Negative fair value of derivatives	-	25,157	25,157
Medium-term debt	271,100	203,065	474,165
Long-term debt	408,135	-	408,135
Total liabilities	696,212	564,853	1,261,065
Total equity	827,086	167,566	994,652
Total liabilities and equity	1,523,298	732,419	2,255,717

2. SEGMENT REPORTING (CONTINUED)

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

June 30, 2013 ***$000s***	***Co-investment Business***	***Fee Business***	***Total***
Assets			
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
Underwritten investments			
Corporate investment	-	33,000	33,000
Co-investments - retention			
Hedge funds	315,762	-	315,762
Corporate investment	873,609	-	873,609
Real estate investment	156,505	-	156,505
Premises, equipment and other assets	-	16,488	16,488
Total assets	1,363,033	1,055,601	2,418,634
Liabilities and Equity			
Liabilities			
Due to a related party	-	284,943	284,943
Payables and accrued expenses	25,277	97,515	122,792
Negative fair value of derivatives	-	43,003	43,003
Medium-term debt	42,435	440,054	482,489
Long-term debt	419,078	-	419,078
Total liabilities	486,790	865,515	1,352,305
Total equity	876,243	190,086	1,066,329
Total liabilities and equity	1,363,033	1,055,601	2,418,634

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

June 30, 2014 ***$000s***	***Designated as FVTPL***	***Items at amortized cost***	***AFS***	***Derivatives***	***Total***
Financial assets					
Cash and short-term funds	-	95,368	-	-	95,368
Placements with financial institutions and other liquid assets	-	125,944	-	-	125,944
Positive fair value of derivatives	-	-	-	66,570	66,570
Receivables	-	174,666	-	-	174,666
Advances	-	121,619	-	-	121,619
Underwritten investments	112,372	-	-	-	112,372
Co-investments					
Hedge funds	476,418	-	-	-	476,418
Corporate investment	873,810	20,870	16,127	-	910,807
Real estate investment					
Debt	-	26,729	-	-	26,729
Equity	103,288	-	-	-	103,288
Total financial assets	1,565,888	565,196	16,127	66,570	2,213,781
Non-financial assets					
Prepayments					28,681
Premises, equipment and other assets					13,255
Total assets					2,255,717
Financial liabilities					
Due to a related party	-	202,886	-	-	202,886
Payables and accrued expenses	-	144,280	-	-	144,280
Negative fair value of derivatives	-	-	-	25,157	25,157
Medium term debt*	-	474,165	-	-	474,165
Long term debt*	-	408,135	-	-	408,135
Total financial liabilities	-	1,229,466	-	25,157	1,254,623
Non-financial liabilities					
Deferred income					6,442
Total liabilities					1,261,065

* Adjusted for related fair value hedges.

June 30, 2013 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
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
Underwritten investments	33,000	-	-	-	33,000
Co-investments					
Hedge funds	315,762	-	-	-	315,762
Corporate investment	840,604	16,982	16,023	-	873,609
Real estate investment					
Debt	-	36,424	-	-	36,424
Equity	120,081	-	-	-	120,081
Total financial assets	1,309,447	984,341	16,023	62,811	2,372,622
Non-financial assets					
Prepayments					29,524
Premises, equipment and other assets					16,488
Total assets					2,418,634
Financial liabilities					
Due to a related party	-	284,943	-	-	284,943
Payables and accrued expenses	-	116,860	-	-	116,860
Negative fair value of derivatives	-	-	-	43,003	43,003
Medium term debt*	-	482,489	-	-	482,489
Long term debt*	-	419,078	-	-	419,078
Total financial liabilities	-	1,303,370	-	43,003	1,346,373
Non-financial liabilities					
Deferred income					5,932
Total liabilities					1,352,305

* Adjusted for related fair value hedges.

4. ASSETS UNDER MANAGEMENT

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

$millions	June 30, 2014 Clients	Investcorp	Affiliates and co-investors	Total	June 30, 2013 Clients	Investcorp	Affiliates and co-investors	Total
Corporate investments								
Closed-end committed funds								
CI - NA & Europe	-	-	-	-	899	279	68	1,246
Sub total	-	-	-	-	899	279	68	1,246
Closed-end invested funds								
CI - NA & Europe	687	206	54	947	159	33	7	199
CI - MENA	560	57	4	621	523	52	4	579
Sub total	1,247	263	58	1,568	682	85	11	778
Deal-by-deal	2,328	568	188	3,084	1,904	487	198	2,589
Deal-by-deal underwriting	-	86	-	86	-	33	-	33
Strategic and other	-	80	-	80	-	70	-	70
Total corporate investments	**3,575**	**997**	**246**	**4,818**	**3,485**	**954**	**277**	**4,716**
Hedge funds*								
Customized funds of hedge funds	2,317	226	1	2,544	2,007	264	1	2,272
Single managers	1,993	232	-	2,225	1,564	189	-	1,753
Special opportunities portfolios	203	18	-	221	120	5	-	125
Total hedge funds	**4,513**	**476**	**1**	**4,990**	**3,691**	**458**	**1**	**4,150**
Real estate investments								
Closed-end committed funds	75	25	-	100	75	25	-	100
Closed-end invested funds	98	27	2	127	98	26	2	126
Deal-by-deal	994	84	17	1,095	971	110	26	1,107
Deal-by-deal underwriting	-	27	-	27	-	-	-	-
Strategic and other	-	5	-	5	-	9	-	9
Total real estate investments	**1,167**	**168**	**19**	**1,354**	**1,144**	**170**	**28**	**1,342**
Client monies held in trust	258	-	-	258	288	-	-	288
Total	**9,513**	**1,641**	**266**	**11,420**	**8,608**	**1,582**	**306**	**10,496**
Summary by products:								
Closed-end committed funds	75	25	-	100	974	304	68	1,346
Closed-end invested funds	1,345	290	60	1,695	780	111	13	904
Hedge funds	4,513	476	1	4,990	3,691	458	1	4,150
Deal-by-deal	3,322	737	205	4,264	2,875	676	224	3,775
Underwriting	-	113	-	113	-	33	-	33
Client monies held in trust	258	-	-	258	288	-	-	288
Total	**9,513**	**1,641**	**266**	**11,420**	**8,608**	**1,582**	**306**	**10,496**
Summary by asset classes:								
Corporate investments	3,575	997	246	4,818	3,485	954	277	4,716
Hedge funds	4,513	476	1	4,990	3,691	458	1	4,150
Real estate investments	1,167	168	19	1,354	1,144	170	28	1,342
Client monies held in trust	258	-	-	258	288	-	-	288
Total	**9,513**	**1,641**	**266**	**11,420**	**8,608**	**1,582**	**306**	**10,496**

** Stated at gross value of the underlying exposure, including non-recourse third party leverage. Also, includes $2.5 billion (June 30, 2013: nil) of single manager funds, managed by third party managers, where Investcorp receives fees calculated on the basis of AUM.*

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

4. ASSETS UNDER MANAGEMENT (CONTINUED)

Certain of the Group's clients entered into a trust arrangement whereby their balances maintained with Investcorp 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 Bank, or placed with Investcorp Bank. 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

$000s	***2014***	*2013*
Staff compensation & benefits	115,803	102,779
Other personnel & compensation charges	10,553	17,804
Professional fees	21,554	21,406
Travel and business development	10,268	9,739
Administration and research	14,542	11,909
Technology and communication	3,381	2,970
Premises	11,156	10,846
Depreciation	4,505	4,371
Other	3,839	3,445
Total	195,601	185,269

6. RECEIVABLES AND PREPAYMENTS

$000s	***June 30, 2014***	*June 30, 2013*
Subscriptions receivable	11,807	4,074
Receivables from investee and holding companies	143,616	150,385
Investment disposal proceeds receivable	7,723	71,342
Hedge funds related receivables	15,934	19,986
Accrued interest receivable	3,735	3,710
Prepaid expenses	28,681	29,524
Other receivables	2,335	7,800
	213,831	286,821
Provisions for impairment (see Note 12)	(10,484)	(10,412)
Total	203,347	276,409

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 clients' other investment assets with Investcorp.

Receivables from investee and holding companies include consulting 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 investments and real estate investments. 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.

7. ADVANCES

$000s	June 30, 2014	June 30, 2013
Advances to CI closed-end funds	2,064	8,750
Advances to investment holding companies	66,638	61,145
Advances to employee investment programs	67,504	74,051
Other advances	562	9,887
	136,768	153,833
Provisions for impairment (see Note 12)	(15,149)	(13,850)
Total	121,619	139,983

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 benchmark interbank rates plus a margin, and are collateralized by the underlying investments, resulting in a low risk to the Group.

8. UNDERWRITTEN INVESTMENTS

$000s	***June 30, 2014***	*June 30, 2013*
Corporate investment	85,809	33,000
Real estate investment	26,563	-
	112,372	33,000

At the time the Group acquires an investment it earmarks a significant portion of each investment for placement with investors and classifies this as an underwritten investment.

Effective this year, underwritten investments have been disclosed separately on the Group's consolidated balance sheet. The comparative balance of underwritten investments as at June 30, 2013, has also been reclassified from the Group's consolidated balance sheet co-investments as of that date in order to conform to the presentation in these consolidated financial statements. This reclassification did not have any impact on the previously reported total assets, total equity or results of the Group.

These underwritten investments are classified as FVTPL investments.

9. HEDGE FUNDS CO-INVESTMENTS

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

$000s	***June 30, 2014***	*June 30, 2013*
Customized funds of hedge funds	226,302	203,927
Single managers	231,751	106,494
Special opportunities portfolios	18,365	5,341
Total balance sheet co-investments	476,418	315,762

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

Out of the total co-investment in hedge funds, $80.1 million (June 30, 2013: $87.9 million) comprise funds which are not immediately available for redemption due to the liquidity nature of the instruments held by the underlying managers.

Further, investments amounting to $146.1 million (June 30, 2013: $18.0 million) in single manager funds represent the net asset value of the seed capital provided to the managers that are subject to a lock-up. The lock-up periods for such investments range from a period of 4 to 24 months.

A portion of the Group's co-investment in hedge funds is utilized to secure amounts drawn under a bi-lateral revolving facility. At June 30, 2014, $60.1 million was the drawn balance from the bi-lateral revolving facility (June 30, 2013: $6.5 million drawn under a prior facility). (See Note 14)

10. CORPORATE CO-INVESTMENTS

$000s	June 30, 2014	June 30, 2013
CI co-investments [See Note 10 (a)]	831,110	803,441
Strategic and other investments [See Note 10 (b)]	79,697	70,168
Total corporate co-investments	910,807	873,609

10 (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 or valuations have been received from banks engaged in the sale process. In these cases, 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 a recent third-party 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 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, 2014 and June 30, 2013 are:

	June 30, 2014				June 30, 2013			
$000s	North America	Europe	MENA*	Total	North America	Europe	MENA*	Total
Consumer Products	49,294	23,958	29,103	102,355	14,065	15,509	21,903	51,477
Consumer Services	-	-	9,557	9,557	-	-	8,663	8,663
Distribution	101,998	4,119	-	106,117	62,815	5,231	-	68,046
Industrial Products	31,787	256,809	6,647	295,243	39,843	224,528	6,533	270,904
Industrial Services	77,306	74,372	6,654	158,332	95,929	66,164	7,328	169,421
Telecom	87,045	-	-	87,045	113,013	-	-	113,013
Technology								
Digital Content	2,737	26,530	-	29,267	6,373	43,634	-	50,007
Enterprise Software	15,620	7,761	-	23,381	13,440	19,086	-	32,526
IT Services	19,813	-	-	19,813	11,608	-	-	11,608
Wireless Data	-	-	-	-	27,523	-	-	27,523
Infrastructure & Others	-	-	-	-	253	-	-	253
Total	385,600	393,549	51,961	831,110	384,862	374,152	44,427	803,441

*Including Turkey

10. CORPORATE CO-INVESTMENTS (CONTINUED)

10 (B) STRATEGIC AND OTHER INVESTMENTS

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

1. Investments made for strategic reasons; and
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 $42.7 million (June 30, 2013: $37.2 million) that are classified as FVTPL, of which $31.7 million (June 30, 2013: $26.2 million) was valued based on information provided by the investment manager.

Valuation techniques for measuring the fair value of strategic and other investments are the same as those used for CI co-investments. However, there may be cases where the information required for the valuation of these investments is not available. For example, financial projections and up-to-date financial information may not be available when an investor holds a minority stake in an investee. In such cases, investments are valued at a price obtained from the majority stakeholders who have determined the value as part of their own fair value measurement exercise.

11. 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 carried at amortised cost amounting to $26.7 million (June 30, 2013: $36.4 million).

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2014 and at June 30, 2013 are:

$000s

PORTFOLIO TYPE	*June 30, 2014*	*June 30, 2013*
Core Plus	99,152	91,180
Debt	19,732	29,424
Opportunistic	5,807	26,484
Strategic and other	5,326	9,417
Total	130,017	156,505

12. PROVISIONS FOR IMPAIRMENT

Specific impairment provisions for receivables and advances are as follows:

$000s ***12 months to June 30, 2014***			
Categories	***At beginning***	***Charge***	***At end***
Receivables (Note 6)	10,412	72	10,484
Advances (Note 7)*	13,850	1,299	15,149
Total	24,262	1,371	25,633
12 months to June 30, 2013	18,838	5,424	24,262

*Includes $2 million of general provision.

13. PAYABLES AND ACCRUED EXPENSES

$000s	***June 30, 2014***	*June 30, 2013*
Accrued expenses - employee compensation	60,331	40,801
Vendor and other trade payables	3,663	8,542
Unfunded deal acquisitions	66,960	52,838
Investment related payables	3,812	3,860
Deferred income	6,442	5,932
Accrued interest payable	9,514	10,819
Total	150,722	122,792

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

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions the agreements for which are signed, but have not been funded 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.

14. MEDIUM-TERM DEBT

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

$000s	Final Maturity	June 30, 2014 Size	June 30, 2014 Current outstanding	June 30, 2013 Size	June 30, 2013 Current outstanding
2-year secured bi-lateral revolving facility	February 2014	-	-	55,000	6,522
3-year multi-currency syndicated term facility	September 2015	-	-	251,713	251,713
3-year multi-currency syndicated revolving facility	September 2015	-	-	197,937	-
3-year secured bi-lateral revolving facility	February 2017	175,000	60,115	-	-
5-year fixed rate bonds	November 2017	250,000	250,000	250,000	250,000
4-year syndicated revolving facility	July 2018	400,000	50,000	-	-
5-year fixed rate bonds	June 2019	139,249	139,249	-	-
Total			499,364		508,235
Foreign exchange translation adjustments			1,145		(684)
Fair value adjustments relating to interest rate swap hedges			(3,187)		(5,993)
Transaction costs of borrowings			(23,157)		(19,069)
Total			474,165		482,489

The 3-year secured bi-lateral revolving facility of $175 million is secured, to the extent it is drawn, by an equivalent amount of the Group's co-investments in hedge funds. Similarly, at June 30, 2013, the 2-year secured bi-lateral revolving facility of $55 million was secured, to the extent it was drawn, by an equivalent amount of the Group's co-investments in hedge funds.

All medium-term facilities, except for the 5-year fixed rate bonds, carry floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The 4-year syndicated revolving facility and the 5-year fixed rate bonds are subject to certain customary covenants, including maintaining certain minimum levels of net worth and operating below a maximum leverage ratio.

15. LONG-TERM DEBT

$000s	***Final Maturity***	***June 30, 2014***	*June 30, 2013*
PRIVATE NOTES			
$35 Million Private Placement	December 2013	-	26,250
JPY 37 Billion Private Placement	March 2030	332,328	332,328
$50 Million Private Placement	July 2032	50,000	50,000
		382,328	408,578
Foreign exchange translation adjustments		32,654	41,409
Fair value adjustments relating to interest rate swap hedges		(4,515)	(28,367)
Transaction costs of borrowings		(2,332)	(2,542)
Total		408,135	419,078

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

16. SHARE CAPITAL AND RESERVES

Ordinary Share Capital

The Company's subscribed ordinary share capital comprises 200,000 (June 30, 2013: 200,000) ordinary shares of $1,000 (June 30, 2013: $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 fixed dividend of 12% per annum up to their respective first call dates and a floating rate, equal to the benchmark 12-month interbank rate + 9.75% per annum thereafter, if not called.

These preference shares are callable in part or in whole at the Company's option at any time.

The payment of dividends on preference shares is subject to recommendation by the Board of Directors and approval by the 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.

120,243 preference shares have been purchased during the year ended June 30, 2014 for an aggregate purchase price of $126.24 million, resulting in 391,222 (June 30, 2013: 511,465) issued preference shares reported as part of equity.

Dividend per share

The proposed ordinary share dividend is $60 (June 30, 2013: $60) 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 (2013: $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%.

Treasury shares

43,114 (June 30 2013: 44,926) ordinary shares were held as treasury shares, which includes 8,713 shares (June 30, 2013: 12,733 shares) that have been granted to employees as part of deferred incentive compensation but have not yet started vesting. 4,010 shares (June 30, 2013: 4,518 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2014, are not counted as treasury shares (see Note 22).

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:

$000s	Available for sale investments	Cash flow hedges	Total
Balance at June 30, 2012	2,727	4,622	7,349
Net realized gain recycled to statement of income	-	(297)	(297)
Net unrealized losses for the year	(61)	(12,239)	(12,300)
Balance at June 30, 2013	2,666	(7,914)	(5,248)
Net realized loss recycled to statement of income	-	361	361
Net unrealized (losses) / gains for the year	(1,181)	1,570	389
Balance at June 30, 2014	1,485	(5,983)	(4,498)

See Note 18 for details on cash flow hedges.

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.

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Other derivatives

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

Valuation of derivatives

The Group values the majority of its derivative financial instruments using internal models. The models use market observable inputs including interest rate curves and both forward and spot prices for currencies. Derivative assets and liabilities included in Level 2 (see Note 21) represent interest rate swaps, cross currency swaps, currency forwards and option contracts. For derivatives that are not valued using internal models, the Group's policy is to rely on third party valuations, whilst benchmarking them against observable market data.

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2014 and June 30, 2013:

	June 30, 2014			June 30, 2013		
$000s / *Description*	*Notional value*	*Positive fair value**	*Negative fair value*	*Notional value*	*Positive fair value*	*Negative fair value**
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures	356,293	2,741	-	396,123	316	(8,387)
ii) Cash flow hedges						
Coupon on long-term debt	68,560	529	-	74,156	-	(3,412)
Total forward foreign exchange contracts	424,853	3,270	-	470,279	316	(11,799)
Interest rate risk being hedged using Interest rate swaps						
i) Fair value hedges - fixed rate debt	785,323	52,007	(7,355)	751,973	47,692	(11,595)
ii) Cash flow hedges - floating rate debt	75,000	-	(3,621)	75,000	342	(7,274)
Total interest rate hedging contracts	860,323	52,007	(10,976)	826,973	48,034	(18,869)
Total – Hedging Derivatives	1,285,176	55,277	(10,976)	1,297,252	48,350	(30,668)
B) OTHER DERIVATIVES						
Interest rate swaps	343,260	10,468	(10,547)	330,925	9,986	(10,068)
Forward foreign exchange contracts	369,593	821	(1,517)	500,350	4,474	(1,637)
Currency options	2,700	-	-	2,251	1	(1)
Cross currency swaps	290,602	4	(2,117)	52,332	-	(598)
Interest rate options	-	-	-	250,000	-	(31)
Total – Other Derivatives	1,006,155	11,293	(14,181)	1,135,858	14,461	(12,335)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,291,331**	**66,570**	**(25,157)**	**2,433,110**	**62,811**	**(43,003)**

** Collateral with the Group amounting to $13.8 million has been taken against the positive fair values above (June 30, 2013: Collateral funded by the Group of $9.5 million has been taken against the underlying derivatives negative fair values).*

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, 2014:

June 30, 2014 $000s	Notional amounts by term to maturity: Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	356,293	-	-	-	356,293
Interest rate swaps	-	5,598	320,197	459,528	785,323
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	68,560	-	-	-	68,560
Interest rate swaps	-	-	50,000	25,000	75,000
Other Derivatives:					
Interest rate swaps	-	218,260	75,000	50,000	343,260
Forward foreign exchange contracts	364,593	5,000	-	-	369,593
Currency options	2,700	-	-	-	2,700
Cross currency swaps	10,000	-	280,602	-	290,602
	802,146	228,858	725,799	534,528	2,291,331

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: Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	396,123	-	-	-	396,123
Interest rate swaps	-	27,488	255,732	468,753	751,973
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	74,156	-	-	-	74,156
Interest rate swaps	-	-	50,000	25,000	75,000
Other Derivatives:					
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
	970,629	310,664	608,064	543,753	2,433,110

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2014 were $15.7 million (2013: $22.1 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $23.1 million (2013: $24.7 million). These gains and losses are included in interest expense or treasury and other asset based income, as appropriate, in the consolidated statement of income.

Undiscounted cash flows for forecasted items hedged

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

June 30, 2014 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk*					
Coupon on long-term debt	(6,387)	(6,387)	(51,097)	(140,518)	(204,389)
Interest rate risk*					
Interest on medium and long term debt	(4,883)	(5,248)	(21,981)	(62,191)	(94,303)
	(11,270)	(11,635)	(73,078)	(202,709)	(298,692)

June 30, 2013 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk*					
Coupon on long-term debt	(6,540)	(6,540)	(52,323)	(156,970)	(222,373)
Interest rate risk*					
Interest on long-term debt	(2,020)	(2,020)	(16,160)	(58,580)	(78,780)
	(8,560)	(8,560)	(68,483)	(215,550)	(301,153)

* 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, 2014 was $0.4 million (June 30, 2013: $0.3 million).

19. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	*June 30, 2014*	*June 30, 2013*
Investment commitments to closed-end funds	36,340	42,713
Other investment commitments	2,011	34,370
Total investment commitments	38,351	77,083
Non-cancelable operating leases	35,163	45,520
Guarantees and letters of credit issued to third parties	3,616	53,766

Investment related commitments represent the Group's unfunded co-investment commitments to various corporate 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.

20. RISK MANAGEMENT

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

The Investcorp Bank Group's primary risk management objective is to support its business objectives with sufficient economic capital. Investcorp Bank 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 with limits for all counterparties that have been set by Investcorp Bank. 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 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.

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, 2014 $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	1,226	94,031	-	-	-	95,257	86,250
Placements with financial institutions and other liquid assets	105,944	20,000	-	-	-	125,944	377,450
Positive fair value of derivatives	27,917	38,653	-	-	-	66,570	67,323
Receivables	-	162,859	11,807	10,484	(10,484)	174,666	187,011
Advances	-	123,619	-	13,149	(15,149)	121,619	154,603
Co-investments - debt	-	47,599	-	-	-	47,599	50,503
Guarantees	-	3,616	-	-	-	3,616	28,691
Total	135,087	490,377	11,807	23,633	(25,633)	635,271	

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	90,860	-	-	-	-	90,860	70,463
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	212,894
Advances	-	141,983	-	11,850	(13,850)	139,983	106,853
Co-investments - debt	-	53,406	-	-	-	53,406	76,851
Guarantees	-	53,766	-	-	-	53,766	58,880
Total	539,163	559,579	4,074	22,262	(24,262)	1,100,816	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2013: nil).

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.

$000s	June 30, 2014	June 30, 2013
Up to 1 month	5,627	456
> 1 up to 3 months	4,642	632
> 3 up to 6 months	553	2,598
> 6 months up to 1 year	985	388
Total	**11,807**	**4,074**

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, 2014 amounts to $249.0 million (June 30, 2013: $68.7 million).

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

$000s	June 30, 2014	June 30, 2013
Geographical Region		
North America	23,818	22,506
Europe	1,592	1,581
Other	223	175
Total	25,633	24,262

$000s	June 30, 2014	June 30, 2013
Industry Sector		
Banking and Finance	2,097	1,985
Consumer products	210	56
Distribution	1,686	1,686
Industrial products	70	70
Industrial services	995	995
Real estate	18,320	17,238
Technology and Telecom	2,056	2,057
Others	199	175
Total	25,633	24,262

20. RISK MANAGEMENT (CONTINUED)

ii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems and scenario analyses that are incorporated into a contingency funding plan. The framework is subject to Investcorp Bank Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain comfortable and laddered debt maturities. The Group manages assets with liquidity in mind, and it monitors 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, 2014 $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*	*Total*
Assets							
Cash and short-term funds	95,368	-	95,368	-	-	-	95,368
Placement with financial institutions and other liquid assets	125,944	-	125,944	-	-	-	125,944
Positive fair value of derivatives	3,381	62	3,443	-	512	62,615	66,570
Receivables and prepayments	46,959	31,016	77,975	125,372	-	-	203,347
Advances	9,790	14,306	24,096	97,523	-	-	121,619
Underwritten investments	28,849	83,523	112,372	-	-	-	112,372
Co-investments							
Hedge funds	173,797	133,635	307,432	168,986	-	-	476,418
Corporate investment	-	134,361	134,361	776,446	-	-	910,807
Real estate investment	-	-	-	130,017	-	-	130,017
Premises, equipment and other assets	93	-	93	4,393	6,380	2,389	13,255
Total assets	484,181	396,903	881,084	1,302,737	6,892	65,004	2,255,717
Liabilities							
Due to a related party	105,476	16,674	122,150	80,736	-	-	202,886
Payables and accrued expenses	116,307	15,942	132,249	18,473	-	-	150,722
Negative fair value of derivatives	1,497	63	1,560	9,504	-	14,093	25,157
Medium-term debt	-	-	-	474,165	-	-	474,165
Long-term debt	-	-	-	-	-	408,135	408,135
Total liabilities	223,280	32,679	255,959	582,878	-	422,228	1,261,065
Net gap	260,901	364,224	625,125	719,859	6,892	(357,224)	
Cumulative liquidity gap	260,901	625,125	625,125	1,344,984	1,351,876	994,652	

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*	*Total*
Assets							
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
Underwritten investments	33,000	-	33,000				33,000
Co-investments							
Hedge funds	214,023	23,272	237,295	78,467	-	-	315,762
Corporate investment	-	105,482	105,482	768,127	-	-	873,609
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
Total assets	897,032	227,090	1,124,122	1,226,165	8,889	59,458	2,418,634
Liabilities							
Due to a related party	167,387	18,533	185,920	99,023	-	-	284,943
Payables and accrued expenses	95,027	21,849	116,876	5,916	-	-	122,792
Negative fair value of derivatives	18,810	67	18,877	11,831	-	12,295	43,003
Medium-term debt	10,000	14,408	24,408	458,081	-	-	482,489
Long-term debt	-	25,956	25,956	-	-	393,122	419,078
Total liabilities	291,224	80,813	372,037	574,851	-	405,417	1,352,305
Net gap	605,808	146,277	752,085	651,314	8,889	(345,959)	
Cumulative liquidity gap	605,808	752,085	752,085	1,403,399	1,412,288	1,066,329	

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 to calculate future floating rate cash flows for the relevant periods.

June 30, 2014 ***$000s***	***Up to 3 months***	***>3 months up to 1 year***	***>1 year up to 5 years***	***>5 years up to 10 years***	***>10 years up to 20 years***	***Total***
Financial liabilities						
Due to a related party	105,955	17,228	81,903	-	-	205,086
Payables and accrued expenses	116,307	15,942	18,473	-	-	150,722
Medium-term debt	622	30,012	590,057	-	-	620,691
Long-term debt	8,407	8,407	67,257	84,072	525,968	694,111
	231,291	71,589	757,690	84,072	525,968	1,670,610
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	799,703	19,730	199,850	-	-	1,019,283
Contractual amounts receivable	(802,029)	(18,649)	(195,409)	-	-	(1,016,087)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	2,040	(9,400)	(27,606)	(21,526)	807	(55,685)
Commitments	2,678	30,680	40,156	-	-	73,514
Guarantees	-	-	-	3,616	-	3,616
Total undiscounted financial liabilities	233,683	93,950	774,681	66,162	526,775	1,695,251

June 30, 2013 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Total*
Financial liabilities						
Due to a related party	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

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. Investcorp Bank's policies and procedures and the broad geographical and industry spread of the Group's activities limit the Group's exposure to any concentration risk. Additionally Investcorp Group-wide credit limits for geographic and counterparty exposures are regularly monitored.

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

	June 30, 2014			June 30, 2013		
$000s	***Assets exposed to credit risk***	***Off-balance sheet items exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	441,423	3,616	445,039	795,861	53,766	849,627
Europe	104,121	-	104,121	175,158	-	175,158
Middle East	86,111	-	86,111	76,031	-	76,031
Total	631,655	3,616	635,271	1,047,050	53,766	1,100,816

	June 30, 2014			June 30, 2013		
$000s	***Assets exposed to credit risk***	***Off-balance sheet exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	457,005	116	457,121	753,526	116	753,642
Consumer products	18,347	-	18,347	35,123	150	35,273
Consumer services	22,673	-	22,673	17,051	-	17,051
Distribution	5,256	-	5,256	10,152	-	10,152
Industrial products	64,988	-	64,988	69,355	-	69,355
Real estate	48,629	3,500	52,129	88,481	53,500	141,981
Technology and Telecom	11,901	-	11,901	60,474	-	60,474
Others	2,856	-	2,856	12,888	-	12,888
Total	631,655	3,616	635,271	1,047,050	53,766	1,100,816

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 utilizes procedures and limits approved by the Investcorp Bank's Board of Directors.

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

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

iv) (a) Foreign currency risk

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

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

$000s	June 30, 2014		June 30, 2013	
Long (Short)	Net hedged exposure	Net unhedged exposure	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	-	40,062	-	39,762
Euro	161,475	209	134,292	31
Pounds Sterling	23,872	(189)	17,673	2
Swiss Francs	(148,572)	355	-	-
Japanese Yen	(304,059)	(34)	(331,075)	185
	(267,284)	40,403	(179,110)	39,980

* 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 those 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, Investcorp Bank'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.

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.

$000s	2014	2013
Average FX VaR	7	7
Year end FX VaR	5	4
Maximum FX VaR	34	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 Investcorp Bank's Board of Directors. The Group does not typically take interest rate trading positions and all of 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 Investments amounting to $28.1 million (June 30, 2013: $35.4 million), which earn interest at an effective rate approximating 14.7% (June 30, 2013: 11.9%) per annum.

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.

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	*June 30, 2014*	
Euro	(6,573)	238
Pounds Sterling	(932)	231
Japanese Yen	599	(69)
US Dollar	(9,819)	1,866
Others	401	(5)
Total	(16,324)	2,261

$000s	*Sensitivity to net income for +200 basis points*	*Sensitivity to net income for -200 basis points*
Currency	*June 30, 2013*	
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

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

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 corporate investment, real estate investment and hedge funds.

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 (see Note 21) to changes in multiples / discount rates / quoted bid prices.

June 30, 2014 $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	820,811	919,428	728,874	98,617	(91,937)
	Revenue Multiples	+/- 0.5x	5,192	5,562	4,348	370	(844)
	Quoted bid price	+/- 1%	5,107	5,158	5,056	51	(51)
Real estate co-investments	Capitalization Rate	+/- 1%	103,288	126,742	85,110	23,454	(18,178)

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)

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 VaR technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

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

$000s	2014	2013
Average VaR	17,995	23,005
Year end VaR	18,154	19,326
Maximum VaR	21,872	27,467
Minimum VaR	15,427	19,326

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. Investcorp Bank's internal audit team 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 the Investcorp Bank Group.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group utilizes guidelines for the valuation of its investments which are reviewed by Investcorp Bank's Board of Directors and it abides by guidelines issued under the IFRS on valuation of investments and guidelines recommended by the International Private Equity and Venture Capital Association. The Group performs valuations of its corporate and real estate investments on a quarterly basis. The business support teams work along with deal teams to prepare valuation packages in accordance with the valuation guidelines of the Group. The valuation packages are then presented to the Valuation Committee which is comprised of senior members of Investcorp Bank's Finance team and investing lines of business. The Valuation Committee has the final responsibility of reviewing and approving the fair value of all investments.

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 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 from their carrying values except for certain liabilities carried at amortized cost. The fair value of medium and long term debt amounts to $892.9 million (June 30, 2013: $768.0 million) as compared to carrying value of $907.8 million (June 30, 2013: $923.2 million). The fair value of medium and long term debt is based on inputs from third party banks and falls under Level 3 of the fair value hierarchy disclosure under IFRS 7.

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).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

During the year, there were no transfers of instruments between Level 1, 2 and 3 of the fair value measurement hierarchy as compared to a transfer of $25.6 million from Level 3 to Level 1 under corporate investment during the financial year ended June 30, 2013 due to listing on a stock exchange of a previously unquoted investment. Further, hedge fund exposure of $80.1 million (June 30, 2013: $87.9 million) is comprised of illiquid side pocket investments which are classified as Level 3. The year to date fair value changes on this hedge fund exposure amounts to a gain of $8.2 million and the net redemptions amounts to $16 million.

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques which are explained in Notes 9, 10, 11 and 18 to the financial statements.

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

June 30, 2014 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Positive fair value of derivatives	-	66,570	-	66,570
Co-investments				
Hedge funds	-	396,347	80,071	476,418
Corporate investments	5,107	-	884,830	889,937
Real estate investments	-	-	103,288	103,288
Total financial assets	5,107	462,917	1,068,189	1,536,213
Financial liabilities				
Negative fair value of derivatives	-	25,157	-	25,157
Total financial liabilities	-	25,157	-	25,157

June 30, 2013 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Positive fair value of derivatives	-	62,811	-	62,811
Co-investments				
Hedge funds	-	227,827	87,935	315,762
Corporate investments	31,893	-	824,734	856,627
Real estate investments	-	-	120,081	120,081
Total financial assets	31,893	290,638	1,032,750	1,355,281
Financial liabilities				
Negative fair value of derivatives	-	43,003	-	43,003
Total financial liabilities	-	43,003	-	43,003

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

A reconciliation of the opening and closing amounts of Level 3 co-investment in corporate investment and real estate investment is given below:

June 30, 2014 $000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations / placements	Other movements**	At end
CI co-investments	771,548	58,686	15,944	(42,223)	22,048	826,003
CI - Strategic investments and other	53,186	-	4,356	(200)	1,485	58,827
RE co-investments	120,081	20,700	(20,762)	(15,921)	(810)	103,288
Total	**944,815**	**79,386**	**(462)**	**(58,344)**	**22,723**	**988,118**

* includes $1.2 million fair value loss in available for sale investments
**Other movements include add-on funding and foreign currency translation adjustments

June 30, 2013 (Audited) $000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations / placements	Other movements**	At end
CI co-investments	1,106,811	63,186	(27,667)	(362,572)	(8,210)	771,548
CI - Strategic investments and other	51,870	-	14,562	(13,675)	429	53,186
RE co-investments	111,016	7,448	(13,774)	(11,095)	26,486	120,081
Total	**1,269,697**	**70,634**	**(26,879)**	**(387,342)**	**18,705**	**944,815**

* includes $61 thousands fair value loss in available for sale investments
**Other movements include add-on funding and foreign currency translation adjustments

22. EMPLOYEE COMPENSATION

In designing its employee compensation plans, the 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 the Group'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.

22. EMPLOYEE COMPENSATION (CONTINUED)

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

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

Programs for Investment Participation

The Group's professional staff 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 vary 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, 2014 is $67.5 million (June 30, 2013: $74.1 million).

Employee Share Ownership Plans

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 or phantom SIPCO shares that represent a beneficial interest in the ordinary shares of Investcorp Bank. These SIPCO shares or phantom SIPCO shares have different vesting periods and are not transferable.

SIPCO shares or phantom 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 $8.9 million (2013: $2.3 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.

22. EMPLOYEE COMPENSATION (CONTINUED)

An income statement charge of $9.3 million (2013: $5.8 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 $9.6 million (2013: $12.8 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of equivalent Company shares	***2014***	*2013*
Granted during the year	3,003	782
Vested during the year	4,617	5,990
Forfeited during the year	2,915	3,525

23. RELATED PARTY TRANSACTIONS

A. DUE TO A RELATED PARTY

Amounts due to a related party represents balances owed to Investcorp Bank which has a license to operate as a wholesale bank and maintains client investment accounts and term balances. Investcorp Bank places these balances with the Group and these balances bear interest at market rates and are repayable on demand.

B. OTHER RELATED PARTY TRANSACTIONS

For the Group, related parties include , in addition to Investcorp Bank, investee companies, companies that hold clients' investments (clients' investment holding companies), client fund companies associated with hedge funds and SIPCO Limited.

It also includes major shareholders, directors and senior management of the Investcorp Bank 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:

23. RELATED PARTY TRANSACTIONS (CONTINUED)

B. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

$000s		2014	2013
AUM fees	Investee and client companies	80,177	193,336
Deal fees	Investee and client companies	145,106	129,891
Asset based income	Investee companies	18,022	20,824
Interest expense	Due to a related party	(1,298)	(5,879)
Provisions for impairment	Employee investment programs	363	(1,522)

Of the staff compensation for the year set out in Note 5, $54.5 million (2013: $50.8 million) is attributable to senior management (including an employee who is also a director). Of the above mentioned remuneration of senior management, $42.8 million (June 30, 2013: $38.4 million) is in the form of salaries and other short term benefits.

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, 2014			June 30, 2013		
$000s	**Assets**	**Liabilities**	**Off-balance sheet**	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	4,825	14,257	-	4,825	14,227	-
Investee companies	55,399	-	-	81,496	-	-
Investment holding companies	152,002	60,142	36,340	145,990	89,139	42,713
Client fund companies associated with the HFP	15,821	-	-	64,874	-	-
Senior management	1,123	750	-	1,105	448	-
	229,170	75,149	36,340	298,290	103,814	42,713

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.

24. POST BALANCE SHEET EVENTS

Subsequent to the year ended June 30, 2014, the Company will redeem 53,382 of its issued preference shares for an aggregate redemption price of $53.4 million. Since the redemption will be made after the balance sheet date, the financial effects of these transactions have not been reflected in these consolidated financial statements.