INVESTCORP BANK B.S.C.

CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2015
FISCAL YEAR 2015

CONTENTS

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 30 June 2015, 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.

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 2015, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 30 June 2015 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner's registration no: 117
29 August 2015
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2015

CONSOLIDATED STATEMENT OF INCOME

$000s	2015	2014 (restated)	Notes	Page
FEE INCOME				
AUM fees	111,504	99,990		
Deal fees	196,648	215,835		
Fee income **(a)**	308,152	315,825	3	14
ASSET BASED INCOME				
Corporate investment	49,839	23,760		
Hedge funds	9,128	28,197		
Real estate investment	11,450	(7,813)		
Treasury and other asset based income	2,557	3,434		
Asset based income **(b)**	72,974	47,578	3	14
Gross operating income (a) + (b)	381,126	363,403	3	14
Provisions for impairment	(2,814)	(1,371)	12	29
Interest expense	(58,048)	(60,555)	3	14
Operating expenses	(203,553)	(198,367)	5	23
NET INCOME	116,711	103,110		
Basic earnings per ordinary share ($)	131	77	21	35
Fully diluted earnings per ordinary share ($)	129	76	21	35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2015	2014 (restated)		
NET INCOME (AS ABOVE)	116,711	103,110		
Other comprehensive income that could be recycled to statement of income				
Fair value movements - available for sale investments	670	(1,181)	20	34
Fair value movements - cash flow hedges	(10,280)	1,931	20	34
Other comprehensive (loss) / income	(9,610)	750		
TOTAL COMPREHENSIVE INCOME	107,101	103,860		

Nemir A. Kirdar

Chairman

H.E. Mohammed Bin Mahfoodh Bin Saad Al Ardhi

Executive Chairman

The attached Notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
JUNE 30, 2015

$000s	*June 30, 2015*	*June 30, 2014 (restated)*	*July 1, 2013 (restated)*	*Notes*	*Page*
ASSETS					
Cash and short-term funds	82,665	101,262	101,906		
Placements with financial institutions and other liquid assets	256,646	125,944	453,105		
Positive fair value of derivatives	74,226	66,570	62,811	22	36
Receivables and prepayments	274,905	206,309	283,004	6	24
Advances	111,521	128,832	146,975	7	25
Underwritten investments	87,505	112,372	33,000	8	25
Co-investments					
Corporate investment	667,239	910,807	873,609	9	26
Hedge funds	421,056	476,418	315,762	10	27
Real estate investment	142,897	130,017	156,505	11	28
Total co-investments	1,231,192	1,517,242	1,345,876		
Premises, equipment and other assets	42,758	45,591	50,652		
TOTAL ASSETS	2,161,418	2,304,122	2,477,329		
LIABILITIES AND EQUITY					
LIABILITIES					
Call accounts	101,027	95,831	189,818	13	29
Term and institutional borrowings	37,679	135,683	128,326	14	30
Payables and accrued expenses	240,363	164,057	142,354	15	30
Negative fair value of derivatives	36,743	25,157	43,003	22	36
Medium-term debt	417,081	474,165	482,489	16	31
Long-term debt	346,235	408,135	419,078	17	32
Deferred fees	100,290	82,734	54,163	18	32
TOTAL LIABILITIES	1,279,418	1,385,762	1,459,231		
EQUITY					
Preference share capital	225,000	391,222	511,465	19	33
Ordinary shares at par value	200,000	200,000	200,000	19	33
Reserves	259,166	221,907	229,421		
Treasury shares	(103,566)	(158,212)	(163,551)		
Retained earnings	268,086	199,288	165,237		
Ordinary shareholders' equity excluding proposed appropriations and unrealized fair value changes and revaluation reserve recognized directly in equity	623,686	462,983	431,107		
Proposed appropriations	42,288	63,289	75,180	21	35
Unrealized fair value changes and revaluation reserve recognized directly in equity	(8,974)	866	346	20	34
TOTAL EQUITY	882,000	918,360	1,018,098		
TOTAL LIABILITIES AND EQUITY	2,161,418	2,304,122	2,477,329		

Nemir A. Kirdar

Chairman

H.E. Mohammed Bin Mahfoodh Bin Saad Al Ardhi

Executive Chairman

The attached Notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

			Reserves						Unrealized fair value changes and revaluation reserve recegonised 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**	**Revaluation reserve on premises and equipment**	**Total**	**Total equity**
Balance at July 1, 2013	**511,465**	**200,000**	**129,421**	**100,000**	**229,421**	**(163,551)**	**213,468**	**75,180**	**2,666**	**(7,914)**	**5,594**	**346**	**1,066,329**
Adjustment on adoption of IFRS 15 (note 29)	**-**	**-**	-	**-**	**-**	**-**	**(48,231)**	**-**	**-**	**-**	**-**	**-**	**(48,231)**
Balance at July 1, 2013 (restated)	**511,465**	**200,000**	**129,421**	**100,000**	**229,421**	**(163,551)**	**165,237**	**75,180**	**2,666**	**(7,914)**	**5,594**	**346**	**1,018,098**
Total comprehensive income / (loss)	-	-		-	-	-	103,110	-	(1,181)	1,931	-	750	103,860
Preference shares redeemed during the year	(120,243)	-	-	-	-	-	(6,000)	-	-	-	-	-	(126,243)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(2,175)	-	-	-	-	-	-	(2,175)
Loss on sale / vesting of treasury shares	-	-	(7,514)	-	(7,514)	7,514	-	-	-	-	-	-	-
Approved appropriations for fiscal 2013 paid:													
Ordinary share dividend	-	-	-	-	-	-	-	(9,304)	-	-	-	-	(9,304)
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Charitable contribution by shareholders	-	-	-	-	-	-	-	(4,500)	-	-	-	-	(4,500)
Proposed appropriations for fiscal 2014:													
Ordinary share dividend	-	-	-	-	-	-	(9,413)	9,413	-	-	-	-	-
Preference share dividend	-	-	-	-	-	-	(49,376)	49,376	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-	-
Balance at June 30, 2014 (restated)	**391,222**	**200,000**	**121,907**	**100,000**	**221,907**	**(158,212)**	**199,288**	**63,289**	**1,485**	**(5,983)**	**5,364**	**866**	**918,360**
Total comprehensive income / (loss)	-	-	-	-	-	-	116,711	-	670	(10,280)	-	(9,610)	107,101
Preference shares redeemed during the year	(166,222)	-	-	-	-	-	(6,087)	-	-	-	-	-	(172,309)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares sold / vested during the year - net of purchases	-	-	-	-	-	91,905	-	-	-	-	**-**	-	91,905
Gain on sale of treasury shares - net of loss on vesting	-	-	37,259	-	37,259	(37,259)	-	-	-	-	**-**	-	-
Dividends on forfeited shares	-	-	-	-	-	-	232	-	-	-	-	-	232
Approved appropriations for fiscal 2014 paid:													
Ordinary share dividend	-	-	-	-	-	-	-	(9,413)	-	-	-	-	(9,413)
Preference share dividend	-	-	-	-	-	-	-	(49,376)	-	-	-	-	(49,376)
Charitable contribution by shareholders	-	-	-	-	-	-	-	(4,500)	-	-	-	-	(4,500)
Proposed appropriations for fiscal 2015:													
Ordinary share dividend	-	-	-	-	-	-	(10,394)	10,394	-	-	-	-	-
Preference share dividend	-	-	-	-	-	-	(29,394)	29,394	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	(2,500)	2,500	-	-	-	-	-
Balance at June 30, 2015	**225,000**	**200,000**	**159,166**	**100,000**	**259,166**	**(103,566)**	**268,086**	**42,288**	**2,155**	**(16,263)**	**5,134**	**(8,974)**	**882,000**

The attached Notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

$000s	2015	2014 (restated)	Notes	Page
OPERATING ACTIVITIES				
Net income	116,711	103,110		
Adjustments for non-cash items in net income				
Depreciation	6,854	7,271		
Provisions for impairment	2,814	1,371	12	29
Amortization of transaction costs of borrowings	6,183	7,225		
Employee share awards expense	9,176	9,300	27	57
Net income adjusted for non-cash items	141,738	128,277		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non-cash equivalent)	-	46,880		
Receivables and prepayments	22,497	76,623	6	24
Advances	14,940	16,844	7	25
Underwritten investments	24,867	(79,372)	8	25
Call accounts	5,196	(93,987)	13	29
Payables and accrued expenses	(27,620)	21,703	15	30
Deferred fees	17,556	28,571	18	32
Co-investments				
Corporate investment	244,238	(38,379)	9	26
Hedge funds - net of secured financing	45,463	(107,063)	10	27
Real estate investment	(12,880)	26,488	11	28
Fair value of derivatives	(71,407)	58		
Other assets	222	150		
NET CASH FROM OPERATING ACTIVITIES	404,810	26,793		
FINANCING ACTIVITIES				
Term and institutional borrowings	(98,004)	7,357	14	30
Medium-term debt repaid	(50,211)	(73,567)	16	31
Long-term debt repaid	-	(26,250)	17	32
Treasury shares purchased - net	(8,807)	(11,475)		
Preference shares purchased	(68,151)	(126,243)	19	33
Dividends paid	(58,789)	(70,680)		
Charitable contributions paid	(4,500)	(4,500)		
NET CASH USED IN FINANCING ACTIVITIES	(288,462)	(305,358)		
INVESTING ACTIVITY				
Investment in premises and equipment	(4,243)	(2,360)		
NET CASH USED IN INVESTING ACTIVITY	(4,243)	(2,360)		
Net increase (decrease) in cash and cash equivalents	112,105	(280,925)		
Cash and cash equivalents at beginning of the year	227,206	508,131		
Cash and cash equivalents at end of the year	339,311	227,206		
Cash and cash equivalents comprise of:				
Cash and short-term funds	7,641	28,230		
Cash in transit	75,024	73,032		
Placements with financial institutions and other liquid assets	256,646	125,944		
	339,311	227,206		

In addition to the above, the Group has undrawn and available balance of $524.8 million (June 30, 2014: $464.9 million) from its revolving medium-term facilities.

Additional cash flow information

$000s	2015	2014
Interest paid	(58,259)	(61,860)
Interest received	9,435	9,681

The attached Notes 1 to 29 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

(i) Incorporation

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

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

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

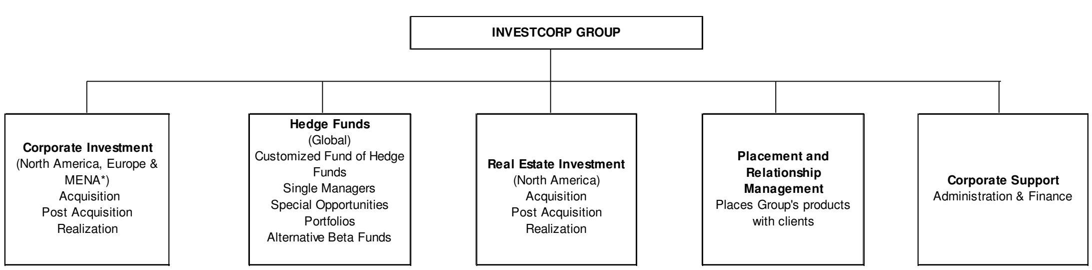
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411-1 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2015 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 28, 2015.

(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.

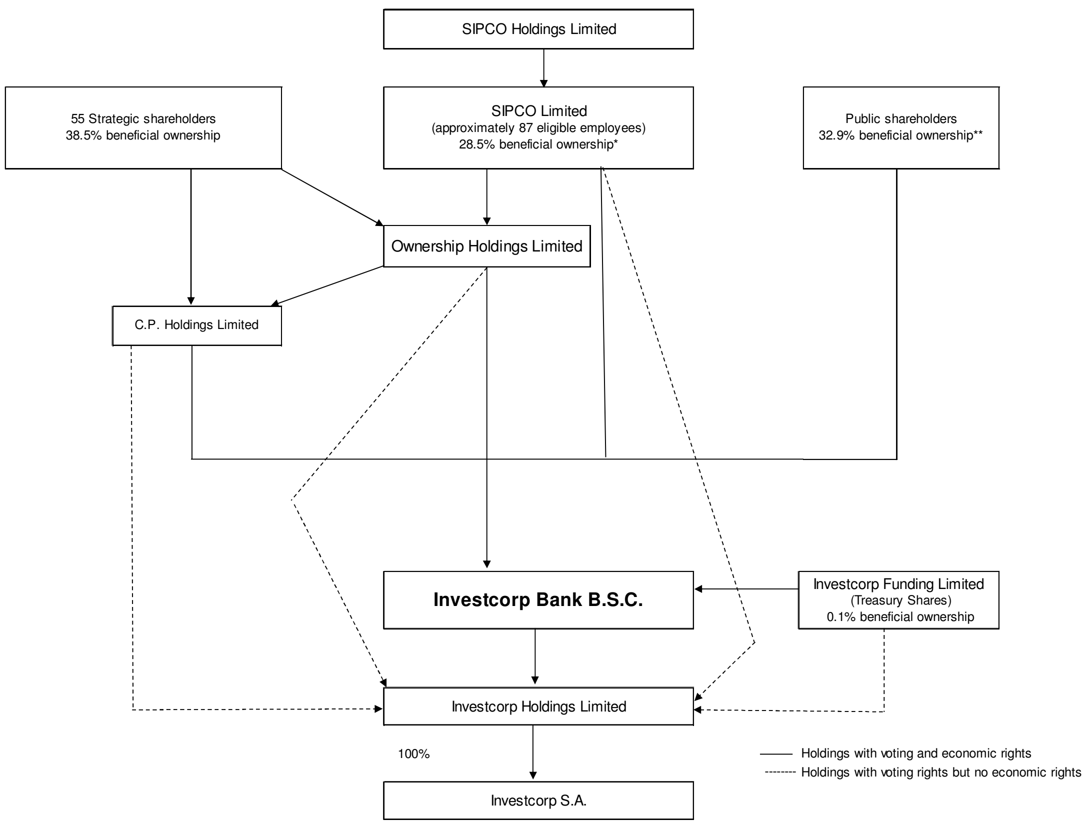
In performing its principal roles, the Group provides products in three broad alternative investment asset classes. The alternative investment asset classes in which the Group specializes are corporate investment, hedge funds and real estate investment. Each of the asset classes is comprised of its own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



*Includes Turkey

1. ORGANIZATION (CONTINUED)

(iii) Ownership



* Includes 11.5% in shares that are held for future grant to management and 1.8% 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 its shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.
** Includes 0.9% beneficial ownership held in the form of unlisted Global Depositary Receipts.

The Bank is controlled by Ownership Holdings Limited ("OHL"), through its shareholding directly, and its shareholding indirectly through C.P. Holdings Limited ("CPHL"), of the issued ordinary shares of the Bank. OHL is, in turn, controlled by SIPCO Limited ("SIPCO"), a subsidiary of SHL. SIPCO is the entity through which employees own beneficial interests in the Bank's ordinary shares. As a result of the Bank's ownership structure, the directors of SIPCO, comprised of certain of the Bank's directors and senior executive officers, have the ability to control the voting of 67.0% of the Bank's ordinary shares.

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

1. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries.

The Bank has a 100% economic interest in Investcorp Holdings Limited ("IHL"), incorporated in the Cayman Islands, through its ownership of 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 and this ownership is adjusted periodically to result in their owning ordinary shares in IHL in the same proportion as their shareholding of the Bank's ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

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

1. ORGANIZATION (COTINUED)

(iv) Subsidiary companies (continued)

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

Parent	Wholly owned significant subsidiaries	Description of principal activities
Investcorp Bank B.S.C. (Bahrain)		Bahrain-based parent company of the Group.
	Investcorp Holdings Limited (Cayman Islands)	Holding company that provides *force majeure* investment protection to shareholders and lenders.
	Investcorp S.A. (Cayman Islands)	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.
	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 Group in Saudi Arabia for placements of the products offered by the Group.

2. 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:

	June 30, 2015				June 30, 2014			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment								
Closed-end invested funds								
CI - NA & Europe	514	168	39	721	687	206	54	947
CI - MENA	584	61	7	652	560	57	4	621
Sub total	1,098	229	46	1,373	1,247	263	58	1,568
Deal-by-deal	2,576	389	350	3,315	2,328	568	188	3,084
Deal-by-deal underwriting	-	35	-	35	-	86	-	86
Strategic and other	-	49	-	49	-	80	-	80
Total corporate investment	**3,674**	**702**	**396**	**4,772**	**3,575**	**997**	**246**	**4,818**
Hedge funds*								
Customized funds of hedge funds	1,389	271	1	1,661	2,317	226	1	2,544
Single managers	2,094	97	-	2,191	1,993	232	-	2,225
Special opportunities portfolios	109	13	2	124	203	18	-	221
Alternative beta funds	-	40	-	40	-	-	-	-
Total hedge funds	**3,592**	**421**	**3**	**4,016**	**4,513**	**476**	**1**	**4,990**
Real estate investment								
Closed-end committed funds	75	25	-	100	75	25	-	100
Closed-end invested funds	22	18	-	40	98	27	2	127
Deal-by-deal	1,190	107	16	1,313	994	84	17	1,095
Deal-by-deal underwriting	-	53	-	53	-	27	-	27
Strategic and other	-	7	-	7	-	5	-	5
Total real estate investment	**1,287**	**210**	**16**	**1,513**	**1,167**	**168**	**19**	**1,354**
Client call accounts held in trust	324	-	-	324	258	-	-	258
Total	**8,877**	**1,333**	**415**	**10,625**	**9,513**	**1,641**	**266**	**11,420**
Summary by products:								
Closed-end committed funds	75	25	-	100	75	25	-	100
Closed-end invested funds	1,120	247	46	1,413	1,345	290	60	1,695
Hedge funds	3,592	421	3	4,016	4,513	476	1	4,990
Deal-by-deal	3,766	552	366	4,684	3,322	737	205	4,264
Underwriting	-	88	-	88	-	113	-	113
Client monies held in trust	324	-	-	324	258	-	-	258
Total	**8,877**	**1,333**	**415**	**10,625**	**9,513**	**1,641**	**266**	**11,420**
Summary by asset classes:								
Corporate investment	3,674	702	396	4,772	3,575	997	246	4,818
Hedge funds	3,592	421	3	4,016	4,513	476	1	4,990
Real estate investment	1,287	210	16	1,513	1,167	168	19	1,354
Client call accounts held in trust	324	-	-	324	258	-	-	258
Total	**8,877**	**1,333**	**415**	**10,625**	**9,513**	**1,641**	**266**	**11,420**

** Stated at gross value of the underlying exposure. Also, includes $2.4 billion (June 30, 2014: $2.5 billion) of single manager funds (including exposure through customized funds of hedge 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.

2. ASSETS UNDER MANAGEMENT (CONTINUED)

Certain of the Group's clients entered into a trust arrangement whereby their balances maintained with the Bank were transferred into individual trust fund accounts held by a common trustee. These trust funds are invested in highly liquid assets, which have a credit rating no lower than that of Investcorp, or placed with Investcorp. Client assets 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.

3. SEGMENT REPORTING

As at June 30, 2015, 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, the US and Europe. Fee income is earned throughout the life cycle of investments by providing these intermediary services to clients. The Group's clients are primarily based in the Arabian Gulf states. International clients primarily include institutional investors in the United States and Europe.

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

The Group co-invests along with its clients in all of 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 funds of hedge funds - Single managers - Special opportunities portfolios - Alternative Beta Funds
3) Real estate investment	- Deal by deal offerings - Closed-end fund(s)

3. SEGMENT REPORTING (CONTINUED)

B. ASSET CLASSES AND PRODUCTS (CONTINUED)

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, in North America and Western Europe, with a strong track record and potential for growth. The CI team based in the Kingdom of Bahrain primarily looks at growth capital investments in the wider MENA region, including Turkey. These CI investments are placed primarily on a deal-by-deal basis with the Group's investor base in the Arabian Gulf states, and also offered through conventional fund structures participation in which is extended to institutional investors. The Group retains a small portion as a co-investment on its consolidated balance sheet. These investments are held until realization.

ii) ***Hedge Funds ("HF")***

The HF team, primarily operating from New York, manages Investcorp's Hedge Funds business which includes proprietary co-investments as well as client assets. The HF business comprises customized funds of hedge funds, special opportunities portfolios, alternative beta funds and a single manager platform. The 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.

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 Group's investor base in the Arabian Gulf states, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. Further, the Group also provides its investor base with mezzanine investment opportunities through fund structures, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. The property investments are held until realization.

3. SEGMENT REPORTING (CONTINUED)

C. REVENUE GENERATION

i) ***Fee income***

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

AUM fees

AUM fees consist of

- management and consulting fees earned on CI and RE investments from client's investment holding companies, investee companies and closed-end funds;
- management and performance fees earned on hedge fund assets under management; and
- other fees earned on single manager funds managed by third party managers, where Investcorp receives fees calculated on the basis of AUM.

Deal fees

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

Activity fees comprise fees earned by the Group from investee companies in connection with new CI or RE acquisitions, part of the 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.

ii) ***Asset based income***

This includes realized as well as unrealized gains and losses on FVTPL co-investments in CI, RE and HF, cash or pay-in-kind interest from various CI and RE debt investments and rental income distributions from real estate co-investments.

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.

3. SEGMENT REPORTING (CONTINUED)

D. SEGREGATION OF ASSETS

Assets directly attributable to the Co-investment Business segment are primarily in the form of co-investments by the Group in each asset class, and any associated working capital items. All other assets, including cash and receivables relating to realization or redemption from a co-investment, 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 proportion of drawn medium term debt, including loans secured by co-investment assets, are allocated to the Co-investment Business. Call accounts, term and institutional borrowings, 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.

3. SEGMENT REPORTING (CONTINUED)

G. STATEMENT OF INCOME AND BALANCE SHEET BY REPORTING SEGMENTS

The consolidated statements of income by reporting segments are as follows:

$000s	*2015*	*2014 (restated)*
FEE BUSINESS		
AUM fees		
Corporate investment	77,611	65,194
Hedge funds	21,436	28,754
Real estate investment	12,457	6,042
Total AUM fees	111,504	99,990
Deal fees		
Corporate investment	164,554	174,624
Hedge funds	-	11,579
Real estate investment	32,094	29,632
Total deal fees	196,648	215,835
Treasury and other asset based income	2,557	3,434
Gross income attributable to fee business (a)	310,709	319,259
Provisions for impairment	(2,814)	(1,371)
Interest expense	(29,958)	(30,553)
Operating expenses attributable to fee business (b)	(191,814)	(187,933)
NET FEE BUSINESS INCOME (c)	86,123	99,402
CO-INVESTMENT BUSINESS		
Asset based income		
Corporate investment	49,839	23,760
Hedge funds	9,128	28,197
Real estate investment	11,450	(7,813)
Gross income attributable to co-investment business (d)	70,417	44,144
Interest expense	(28,090)	(30,002)
Operating expenses attributable to co-investment business (e)	(11,739)	(10,434)
NET CO-INVESTMENT BUSINESS INCOME (f)	30,588	3,708
NET INCOME (c) + (f)	116,711	103,110
Gross operating income (a) + (d)	381,126	363,403
Gross operating expenses (b) + (e)	(203,553)	(198,367)

3. 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 (2014: nil).

$158.9 million (2014: $151.6 million) of deal fees relates to activity fees and $37.7 million (2014: $64.2 million) represents performance fees.

Treasury and other income includes $4.6 million (2014: $3.8 million) of interest income. CI and RE asset based income includes $3.5 million (2014: $3.1 million) and $2.3 million (2014: $2.7 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.

All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Notes 9 and 25 (iii) present the geographical split of assets and off-balance sheet items.

3. SEGMENT REPORTING (CONTINUED)

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

Consolidated balance sheets by reporting segment are as follows:

June 30, 2015 ***$000s***	***Co-investment Business***	***Fee Business***	***Total***
Assets			
Cash and short-term funds	-	82,665	82,665
Placements with financial institutions and other liquid assets	-	256,646	256,646
Positive fair value of derivatives	-	74,226	74,226
Receivables and prepayments	8,655	266,250	274,905
Advances	-	111,521	111,521
Underwritten investments	-	87,505	87,505
Co-investments			
Corporate investment	667,239	-	667,239
Hedge funds	421,056	-	421,056
Real estate investment	142,897	-	142,897
Premises, equipment and other assets	-	42,758	42,758
Total assets	1,239,847	921,571	2,161,418
Liabilities and Equity			
Liabilities			
Call accounts	-	101,027	101,027
Term and institutional borrowings	-	37,679	37,679
Payables and accrued expenses	5,786	234,577	240,363
Negative fair value of derivatives	-	36,743	36,743
Medium-term debt	84,734	332,347	417,081
Long-term debt	346,235	-	346,235
Deferred fees	-	100,290	100,290
Total liabilities	436,755	842,663	1,279,418
Total equity	803,092	78,908	882,000
Total liabilities and equity	1,239,847	921,571	2,161,418

3. SEGMENT REPORTING (CONTINUED)

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

June 30, 2014 *$000s* *(restated)*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	101,262	101,262
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	200,253	206,309
Advances	-	128,832	128,832
Underwritten investments	-	112,372	112,372
Co-investments - retention			
Corporate investment	910,807	-	910,807
Hedge funds	476,418	-	476,418
Real estate investment	130,017	-	130,017
Premises, equipment and other assets	-	45,591	45,591
Total assets	1,523,298	780,824	2,304,122
Liabilities and Equity			
Liabilities			
Call accounts	-	95,831	95,831
Term and institutional borrowings	-	135,683	135,683
Payables and accrued expenses	16,978	147,079	164,057
Negative fair value of derivatives	-	25,157	25,157
Medium-term debt	271,098	203,067	474,165
Long-term debt	408,135	-	408,135
Deferred fees	-	82,734	82,734
Total liabilities	696,211	689,551	1,385,762
Total equity	827,087	91,273	918,360
Total liabilities and equity	1,523,298	780,824	2,304,122

4. 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, 2015 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	82,665	-	-	82,665
Placements with financial institutions and other liquid assets	-	256,646	-	-	256,646
Positive fair value of derivatives	-	-	-	74,226	74,226
Receivables	-	231,591	-	-	231,591
Advances	-	111,521	-	-	111,521
Underwritten investments	87,505	-	-	-	87,505
Co-investments					
Corporate investment	629,292	22,424	15,523	-	667,239
Hedge funds	421,056	-	-	-	421,056
Real estate investment					
Debt	-	23,374	-	-	23,374
Equity	119,523	-	-	-	119,523
Total financial assets	1,257,376	728,221	15,523	74,226	2,075,346
Non-financial assets					
Prepayments					43,314
Premises, equipment and other assets					42,758
Total assets					2,161,418
Financial liabilities					
Call accounts	-	101,027	-	-	101,027
Term and institutional borrowings	-	37,679	-	-	37,679
Payables and accrued expenses	-	240,363	-	-	240,363
Negative fair value of derivatives	-	-	-	36,743	36,743
Medium-term debt*	-	417,081	-	-	417,081
Long-term debt*	-	346,235	-	-	346,235
Total financial liabilities	-	1,142,385	-	36,743	1,179,128
Non-financial liabilities					
Deferred fees					100,290
Total liabilities					1,279,418

* Adjusted for related fair value hedges.

June 30, 2014 *$000s* *(restated)*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	101,262	-	-	101,262
Placements with financial institutions and other liquid assets	-	125,944	-	-	125,944
Positive fair value of derivatives	-	-	-	66,570	66,570
Receivables	-	175,111	-	-	175,111
Advances	-	128,832	-	-	128,832
Underwritten investments	112,372	-	-	-	112,372
Co-investments					
Corporate investment	873,810	20,870	16,127	-	910,807
Hedge funds	476,418	-	-	-	476,418
Real estate investment					
Debt	-	26,729	-	-	26,729
Equity	103,288	-	-	-	103,288
Total financial assets	1,565,888	578,748	16,127	66,570	2,227,333
Non-financial assets					
Prepayments					31,198
Premises, equipment and other assets					45,591
Total assets					2,304,122
Financial liabilities					
Call accounts	-	95,831	-	-	95,831
Term and institutional borrowings	-	135,683	-	-	135,683
Payables and accrued expenses	-	164,057	-	-	164,057
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	-	1,277,871	-	25,157	1,303,028
Non-financial liabilities					
Deferred fees					82,734
Total liabilities					1,385,762

* Adjusted for related fair value hedges.

5. OPERATING EXPENSES

$000s	2015	2014
Staff compensation & benefits	129,138	115,803
Other personnel & compensation charges	8,074	10,553
Professional fees	20,953	21,554
Travel and business development	9,012	10,268
Administration and research	13,060	14,542
Technology and communication	4,211	3,381
Premises	11,175	11,156
Depreciation	6,854	7,271
Other	1,076	3,839
Total	203,553	198,367

6. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2015	June 30, 2014
Subscriptions receivable	34,932	11,807
Receivables from investee and holding companies	92,154	143,616
Investment disposal proceeds receivable	3,390	7,723
Hedge funds related receivables	13,391	15,934
Accrued interest receivable	4,654	3,735
Prepaid expenses	43,314	31,198
Other receivables	93,997	2,780
	285,832	216,793
Provisions for impairment (see Note 12)	(10,927)	(10,484)
Total	274,905	206,309

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 fees and other receivables, which are due from investee companies and performance fee receivables from holding companies 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.

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.

Other receivables include $91.9 million relating to a sale of treasury shares that was contracted in June 2015. The conditions precedent relating to the sale agreement have been satisfied and the proceeds of this sale will be received subsequent to the year-end following the completion of certain administrative procedures.

7. ADVANCES

$000s	***June 30, 2015***	*June 30, 2014*
Advances to investment holding companies	78,426	73,851
Advances to employee investment programs	42,190	67,504
Advances to CI closed-end funds	8,106	2,064
Other advances	319	562
	129,041	143,981
Provisions for impairment (see Note 12)	(17,520)	(15,149)
Total	111,521	128,832

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 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.

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.

8. UNDERWRITTEN INVESTMENTS

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. These investments are placed with the investors over the underwriting period which is typically 3 to 6 months.

8. UNDERWRITTEN INVESTMENTS (CONTINUED)

The Group's current underwritten investment balances, classified as FVTPL, comprise the following:

	June 30, 2015				June 30, 2014			
$000s	North America	Europe	MENA*	Total	North America	Europe	MENA*	Total
Corporate investment:								
Consumer Products	-	-	-	-	27,409	-	1,440	28,849
Consumer Services	1,304	-	-	1,304	-	-	-	-
Industrial Products	-	-	-	-	-	56,960	-	56,960
Industrial Services	-	-	33,642	33,642	-	-	-	-
Total corporate investment	1,304	-	33,642	34,946	27,409	56,960	1,440	85,809
Real estate investment:								
Core Plus	52,559	-	-	52,559	26,563	-	-	26,563
Total real estate investment	52,559	-	-	52,559	26,563	-	-	26,563
Total underwritten investments	53,863	-	33,642	87,505	53,972	56,960	1,440	112,372

*Including Turkey

9. CORPORATE CO-INVESTMENTS

$000s	***June 30, 2015***	*June 30, 2014*
CI co-investments [See Note 9 (A)]	618,292	831,110
Strategic and other investments [See Note 9 (B)]	48,947	79,697
Total corporate co-investments	667,239	910,807

9 (A) CI CO-INVESTMENTS

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

The fair value of unquoted co-investments is determined wherever possible using valuations implied by material financing events for the specific investment in question that involve third party capital providers operating at arms' length. An example of a material event would be where a sale is imminent and credible bids have been received from third parties 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.

9. CORPORATE CO-INVESTMENTS (CONTINUED)

9 (A) CI CO-INVESTMENTS (CONTINUED)

The carrying values of the Group's CI co-investments at June 30, 2015 and June 30, 2014 are:

	June 30, 2015				June 30, 2014			
$000s	North America	Europe	MENA*	Total	North America	Europe	MENA*	Total
Consumer Products	56,345	37,816	33,154	127,315	49,294	23,958	29,103	102,355
Consumer Services	346	-	13,840	14,186	-	-	9,557	9,557
Distribution	-	4,742	-	4,742	101,998	4,119	-	106,117
Industrial Products	30,175	172,660	6,689	209,524	31,787	256,809	6,647	295,243
Industrial Services	52,506	24,004	11,140	87,650	77,306	74,372	6,654	158,332
Telecom	95,981	-	-	95,981	87,045	-	-	87,045
Technology								
Digital Content	719	32,104	-	32,823	2,737	26,530	-	29,267
Enterprise Software	18,548	11,676	-	30,224	15,620	7,761	-	23,381
IT Services	12,835	-	-	12,835	19,813	-	-	19,813
Infrastructure & Others	-	-	3,012	3,012	-	-	-	-
Total	267,455	283,002	67,835	618,292	385,600	393,549	51,961	831,110

*Including Turkey

9 (B) STRATEGIC AND OTHER INVESTMENTS

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

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

Equity instruments are held as AFS investments and debt instruments at amortized cost, except for investments amounting to $11.0 million (June 30, 2014: $42.7 million) that are classified as FVTPL, of which nil (June 30, 2014: $31.7 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.

10. HEDGE FUNDS CO-INVESTMENTS

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

$000s	*June 30, 2015*	*June 30, 2014*
Customized funds of hedge funds	271,173	226,302
Single managers	96,697	231,751
Special opportunities portfolios	13,335	18,365
Alternative beta funds	39,851	-
Total balance sheet co-investments	421,056	476,418

10. HEDGE FUNDS CO-INVESTMENTS (CONTINUED)

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.

The Group's investments in hedge funds which are classified under Level 3 of the fair value hierarchy (see Note 26) are carried at net asset value as reported by the fund managers. Such investments are closely monitored by the Group and valuation is assessed on a monthly basis. The Management holds discussions with the fund managers and uses a pricing which is reflective of the investment's fair value.

Out of the total co-investment in hedge funds, $51.6 million (June 30, 2014: $80.1 million) comprise funds which are not immediately available for redemption due to the liquidity nature of the instruments held by the underlying managers.

As at June 30, 2015, there are no investments which are subject to a lock up-period (June 30, 2014: investments amounting to $146.1 million in single manager funds).

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, 2015, $50.2 million was the drawn balance from the bi-lateral revolving facility (June 30, 2014: $60.1 million) (See Note 16).

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 strategic and debt investments in real estate properties are carried at amortised cost amounting to $23.4 million (June 30, 2014: $26.7 million).

The carrying values of the Group's co-investments in real estate portfolios in the United States at June 30, 2015 and at June 30, 2014 are:

$000s **PORTFOLIO TYPE**	***June 30, 2015***	***June 30, 2014***
Core Plus	116,787	99,152
Debt	17,400	19,732
Opportunistic	2,113	5,807
Strategic and other	6,597	5,326
Total	142,897	130,017

12. PROVISIONS FOR IMPAIRMENT

Specific impairment provisions for receivables and advances are as follows:

$000s			
Categories	***At beginning***	***Charge***	***At end***
12 months to June 30, 2015			
Receivables (Note 6)	10,484	443	10,927
Advances (Note 7)*	15,149	2,371	17,520
Total	25,633	2,814	28,447

*Includes $2 million of portfolio provision.

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

*Includes $2 million of portfolio provision.

13. CALL ACCOUNTS

$000s	***June 30, 2015***	*June 30, 2014*
Client call accounts	13,744	26,883
Investment holding companies accounts	71,186	58,928
Discretionary and other accounts	16,097	10,020
Total	101,027	95,831

Client call accounts comprise clients' cash with the Bank for future participation in the Group's investment products.

Investment holding companies' accounts represent excess cash of the investment holding companies with the Bank, prior to utilization or onward distribution.

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

All these balances bear interest at market rates.

14. TERM AND INSTITUTIONAL BORROWINGS

$000s	June 30, 2015	June 30, 2014
Borrowings from institutions on call	616	80,907
Term borrowings	37,063	54,776
Total	37,679	135,683

All these balances bear interest at market rates.

15. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2015	June 30, 2014
Accrued expenses - employee compensation	65,787	60,331
Vendor and other payables	26,829	23,440
Preference shares redemption payable	104,158	-
Unfunded deal acquisitions	32,000	66,960
Investment related payables	2,286	3,812
Accrued interest payable	9,303	9,514
Total	240,363	164,057

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

Preference shares redemption payable relates to the Bank's redemption of 99,259 preference shares at the end of the year. This was settled subsequent to the year end.

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.

16. MEDIUM-TERM DEBT

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

		June 30, 2015		June 30, 2014	
$000s	**Final Maturity**	**Size**	**Current outstanding**	*Size*	*Current outstanding*
3-year secured bi-lateral revolving facility	February 2017	175,000	50,216	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	-	400,000	50,000
5-year fixed rate bonds	June 2019	139,249	139,249	139,249	139,249
Total			439,465		499,364
Foreign exchange translation adjustments			(4,877)		1,145
Fair value adjustments relating to interest rate hedges			(49)		(3,187)
Transaction costs of borrowings			(17,458)		(23,157)
Total			417,081		474,165

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.

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 maximum leverage ratios.

17. LONG-TERM DEBT

$000s	*Final Maturity*	*June 30, 2015*	*June 30, 2014*
PRIVATE NOTES			
JPY 37 Billion Private Placement	March 2030	332,328	332,328
$50 Million Private Placement	July 2032	50,000	50,000
		382,328	382,328
Foreign exchange translation adjustments		(30,102)	32,654
Fair value adjustments relating to interest rate hedges		(3,932)	(4,515)
Transaction costs of borrowings		(2,059)	(2,332)
Total		346,235	408,135

Long-term notes issued by the Group 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.

18. DEFERRED FEES

$000s	*June 30, 2015*	*June 30, 2014 (restated)*
Deferred fees relating to placements	97,890	76,292
Deferred fees from investee companies	2,400	6,442
Total	100,290	82,734

Deferred fees relating to placements represents a portion of the placement fee received from investors at the time of placement, the recognition of which is deferred to future periods concurrent with the services to be rendered.

Deferred fees from investee companies represents amounts received by the Group, the recognition of which is deferred to future periods concurrent with the services to be rendered.

19. SHARE CAPITAL AND RESERVES

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

	June 30, 2015			June 30, 2014		
	No. of shares	Par value $	$000	No. of shares	Par value $	$000
Authorized share capital						
- Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
- Preference and other shares	1,000,000	1,000	1,000,000	1,000,000	1,000	1,000,000
			2,000,000			2,000,000
Issued share capital						
- Ordinary shares	800,000	250	200,000	800,000	250	200,000
- Preference shares*	225,000	1,000	225,000	394,889	1,000	394,889
			425,000			594,889

* Includes nil (June 30, 2014: 3,667) preference shares which represent forfeited shares allocated to employees.

Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules / ratios) as adopted by the Central Bank of Bahrain (see Note 24).

Statutory reserve

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

Treasury shares

107,041 (June 30 2014: 172,455) ordinary shares were held as treasury shares, which includes 14,398 shares (June 30, 2014: 34,851 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 25,331 shares (June 30, 2014: 16,038 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2015, are not counted as treasury shares (see Note 27). During the year, a gain of $37 million was realized on the sale of treasury shares.

Preference share capital

The preference shares are non-cumulative, non-convertible, non-voting, non-participating and perpetual in nature and carried a fixed dividend of 12% per annum up to their respective first call dates and now carry a floating rate, equal to the benchmark 12-month interbank rate + 9.75% per annum, if not called.

These preference shares are now callable, at the Bank's option, in part or in whole at par plus dividends due up to the call date.

19. SHARE CAPITAL AND RESERVES (CONTINUED)

Preference share capital (continued)

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

166,222 preference shares have been retired during the year ended June 30, 2015 for an aggregate purchase price of $171.9 million, resulting in 225,000 (June 30, 2014: 391,222) issued preference shares outstanding as at June 30, 2015.

20. 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 the revaluation reserve of premises and equipment recognized directly in equity.

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

$000s	Available for sale invesments	Cash flow hedges	Revaluation reserve on premises and equipment	Total
Balance at June 30, 2013	2,666	(7,914)	5,594	346
Net realized loss recycled to statement of income	-	361	-	361
Net unrealized (losses) / gains for the year	(1,181)	1,570	-	389
Transfer of depreciation to retained earnings	-	-	(230)	(230)
Balance at June 30, 2014	1,485	(5,983)	5,364	866
Net realized loss recycled to statement of income	-	2,266	-	2,266
Net unrealized gains / (losses)for the year	670	(12,546)	-	(11,876)
Transfer of depreciation to retained earnings	-	-	(230)	(230)
Balance at June 30, 2015	2,155	(16,263)	5,134	(8,974)

21. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

$000s	*2015*	*2014 (restated)*
Net income	116,711	103,110
Less : Preference shares dividend - proposed	(29,394)	(49,376)
Less : Preference shares dividend and premium - paid on redemptions	(6,087)	(6,000)
Net income attributable to ordinary shareholders	81,230	47,734
Weighted average ordinary shares for basic earnings per ordinary share	619,393	618,251
Basic earnings per ordinary share - on weighted average shares *($)*	131	77
Weighted average ordinary shares for fully diluted earnings per ordinary shares	630,359	631,765
Fully diluted earnings per ordinary share - on weighted average diluted shares *($)*	129	76
Proposed appropriations:		
Ordinary shares dividend	10,394	9,413
Preference shares dividend	29,394	49,376
Charitable contributions by shareholders	2,500	4,500
	42,288	63,289

The proposed ordinary share dividend is $15 (June 30, 2014: $15) per share payable only on issued shares, excluding treasury shares that are held on the record date.

The proposed preference share dividend of $29.4 million (2014: $49.4 million) represents an annual dividend on issued preference shares.

The book value per ordinary share at the balance sheet date is calculated by dividing the ordinary shareholders' equity, excluding unrealized changes relating to AFS co-investments, cash flow hedges, the revaluation reserve and proposed appropriations, by the number of ordinary shares outstanding at year end, taking into account the beneficial interest of management in all acquired unvested shares issued at year end. The fully diluted book value per ordinary share is $900.03 per share (June 30, 2014 (*restated*): $737.77 per share).

22. 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.

22. 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 26) 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.

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group's outstanding derivative financial instruments comprise the following:

Description $000s	June 30, 2015 Notional value	June 30, 2015 Positive fair value*	June 30, 2015 Negative fair value	June 30, 2014 Notional value	June 30, 2014 Positive fair value*	June 30, 2014 Negative fair value
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures	310,087	-	(7,511)	356,293	2,741	-
ii) Cash flow hedges						
Coupon on long-term debt	50,327	-	(1,260)	68,560	529	-
Total forward foreign exchange contracts	360,414	-	(8,771)	424,853	3,270	-
Interest rate risk being hedged using interest rate swaps						
i) Fair value hedges - fixed rate debt	710,598	36,935	(3,078)	785,323	52,007	(7,355)
ii) Cash flow hedges - floating rate debt	500,000	-	(3,430)	75,000	-	(3,621)
Total interest rate hedging contracts	1,210,598	36,935	(6,508)	860,323	52,007	(10,976)
Total hedging derivatives	1,571,012	36,935	(15,279)	1,285,176	55,277	(10,976)
B) OTHER DERIVATIVES						
Interest rate swaps	331,003	11,553	(11,801)	343,260	10,468	(10,547)
Forward foreign exchange contracts	430,185	1,807	(2,231)	369,593	821	(1,517)
Currency options	1,500	-	(1)	2,700	-	-
Cross currency swaps	320,361	23,931	(7,431)	290,602	4	(2,117)
Total other derivatives	1,083,049	37,291	(21,464)	1,006,155	11,293	(14,181)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,654,061**	**74,226**	**(36,743)**	**2,291,331**	**66,570**	**(25,157)**

** Net collateral received by the Group amounting to $24.2 million has been taken against the fair values above (June 30, 2014: $13.8 million)*

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2015 *$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	310,087	-	-	-	310,087
Interest rate swaps	-	-	322,406	388,192	710,598
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	50,327	-	-	-	50,327
Interest rate swaps	50,000	125,000	300,000	25,000	500,000
Other Derivatives:					
Interest rate swaps	-	256,003	25,000	50,000	331,003
Forward foreign exchange contracts	425,185	5,000	-	-	430,185
Currency options	1,500	-	-	-	1,500
Cross currency swaps	-	-	320,361	-	320,361
	837,099	386,003	967,767	463,192	2,654,061

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

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2015 were $21.9 million (2014: $ 15.7 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $ 24.4 million (2014: $23.1 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, 2015 *$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	(5,289)	(5,289)	(42,312)	(105,779)	(158,669)
Interest rate risk*					
Interest on liabilities	(2,795)	(4,449)	(20,135)	(57,704)	(85,083)
	(8,084)	(9,738)	(62,447)	(163,483)	(243,752)

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 liabilities	(4,883)	(5,248)	(21,981)	(62,191)	(94,303)
	(11,270)	(11,635)	(73,078)	(202,709)	(298,692)

* 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, 2015 was $2.3 million (June 30, 2014: $0.4 million).

23. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2015***	*June 30, 2014*
Investment commitments	36,744	38,351
Non-cancelable operating leases	20,435	35,163
Guarantees and letters of credit issued to third parties	3,616	3,616

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.

24. REGULATORY CAPITAL ADEQUACY

The Group started applying the Basel III framework regulations, as adopted by the CBB during the current fiscal year, on a consolidated basis for Investcorp Bank B.S.C. which is the entity licensed and regulated by the CBB. Below are the disclosures required under CBB guidelines:

$000s	June 30, 2015*	Reference
Assets		
Cash and short-term funds	82,665	
Placements with financial institutions and other liquid assets	256,646	
Positive fair value of derivatives	74,226	
Receivables	231,591	
Advances	111,521	
Underwritten investments	87,505	
Co-investments - retention		
Corporate investment	667,239	
Hedge funds	421,056	
Real estate investment	142,897	
Prepayments	43,314	(a)
Premises, equipment and other assets		
Tangibles	33,143	
*Intangibles***	9,615	(b)
Total assets	2,161,418	
Liabilities and Equity		
Liabilities		
Call accounts	101,027	
Term and institutional borrowings	37,679	
Payables and accrued expenses	240,363	
Negative fair value of derivatives	36,743	
Medium-term debt	417,081	
Long-term debt	346,235	
Deferred fees	100,290	
Total liabilities	1,279,418	
Equity		
Preference share capital	225,000	(c)
Ordinary share capital - net of treasury shares	96,434	(d)
Retained earnings and other reserves	569,540	
Available for sale revaluation reserve	2,155	
Cash flow hedge reserve	(16,263)	
Fixed asset revaluation reserve	5,134	(e)
Total equity	882,000	
Total liabilities and equity	2,161,418	

**Balance sheet as in audited financial statements and prudential return*
***Regulatory adjustments on intangibles have been applied per CBB's transitional arrangements of phasing over the prescribed time period.*

$000s	June 30, 2015 Component of regulatory capital	Reference
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital - net of treasury shares	96,434	(d)
Statutory reserves	100,000	
Share premium	159,166	
Retained earnings	310,374	
Available for sale revaluation reserve	2,155	
Cash flow hedge reserve	(16,263)	
CET1 capital before regulatory adjustments	651,866	
Less regulatory adjustments to CET 1		
Intagibles and other assets	(3,923)	(a) & (b)
Total CET1 capital	647,943	
Additional Tier 1 capital (AT1):		
Preference share capital	225,000	(c)
Total AT1 capital	225,000	
Tier 1 capital (T1 = CET1 + AT1)	872,943	
Tier 2 capital (T2)		
Fixed asset revaluation reserve	5,134	(e)
Total T2 capital	5,134	
Total capital (TC = T1 + T2)	878,077	

24. REGULATORY CAPITAL ADEQUACY (CONTINUED)

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

- standardized approach for credit risk and market risk
- basic indicator approach for operational risk

The following table outlines the corresponding Basel III Risk Weights by asset class

Asset class segment	Basel III Methodology June 30, 2015	Basel III risk weight June 30, 2015
Corporate investments	Standardized approach ('STA')	150%
Real estate investments	Standardized approach ('STA')	200%
Hedge funds	Standardized approach ('STA')	150%
CI and RE underwriting	Standardized approach ('STA')	100%
Operational risk	Basic indicator approach ('BIA')	15%

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

$000s		*June 30, 2015**		*June 30, 2014 (restated)***
Tier 1 capital (refer previous table)		872,943		908,976
Tier 2 capital (refer previous table)		5,134		4,223
Total capital base under Basel III (TC = T1 + T2)		878,077		913,199
	Principal / Notional amounts	***Risk weighted equivalents***	*Principal / Notional amounts*	*Risk weighted equivalents*
Risk weighted exposure *$000s*	*June 30, 2015**	*June 30, 2015**	*June 30, 2014 (restated)***	*June 30, 2014 (restated)***
Credit risk				
Claims on sovereigns	25,000	-	67	-
Claims on banks	233,466	114,058	154,539	74,492
Claims on corporates	330,097	264,250	374,264	314,918
Co-investments (including underwriting)	1,318,697	1,962,829	1,629,614	2,412,750
Other assets	157,696	182,500	45,258	45,258
Off-balance sheet items				
Commitments and contingent liabilities	60,895	22,345	77,130	30,365
Derivative financial instruments	92,027	53,244		42,838
Credit risk weighted exposure		2,599,226		2,920,621
Market risk				
Market risk weighted exposure		862		599
Operational risk				
Operational risk weighted exposure		463,705		335,737
Total risk weighted exposure		3,063,793		3,256,957
Common equity tier 1 capital ratio		**21.1%**		**N/A**
Tier 1 capital ratio		**28.5%**		**27.9%**
Total capital adequacy ratio		**28.7%**		**28.0%**
Minimum required as per CBB regulatory guidelines under Basel III		**12.0%**		**12.0%**
Capital cushion over minimum required as per CBB guidelines		510,422		522,364

** The Bank has followed the CBB's Basel III rules for Capital Adequacy Ratio (CAR) with effect from March 31, 2015.*
*** CAR disclosures relating to June 2014 are based on CBB's Basel II requirements (restated for adoption of IFRS 15 during the year)*

Fair value unrealized losses on FVTPL investments amounting to $92.9 million (June 30, 2014: $17.3 million) are reflected in retained earnings, which is part of Tier 1 Capital.

25. RISK MANAGEMENT

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

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 24). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently aggregated to determine the total economic capital. This total economic capital is then stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

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

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

i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 22). 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, where possible, through documented netting and margin arrangements with counterparties, under ISDA and CSA agreements.

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

25. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

The table below shows the relationship between the 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 (refer note 7) 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, 2015 $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	582	81,959	-	-	-	82,541	97,956
Placements with financial institutions and other liquid assets	222,083	34,563	-	-	-	256,646	247,076
Positive fair value of derivatives	74,226	-	-	-	-	74,226	15,127
Receivables	-	196,659	34,932	10,927	(10,927)	231,591	182,759
Advances	-	113,521	-	15,520	(17,520)	111,521	53,109
Co-investments - debt	-	45,798	-	-	-	45,798	46,699
Guarantees	-	3,616	-	-	-	3,616	3,616
Total	296,891	476,116	34,932	26,447	(28,447)	805,939	

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	99,925	-	-	-	101,151	91,587
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	-	163,304	11,807	10,484	(10,484)	175,111	187,487
Advances	-	130,832	-	13,149	(15,149)	128,832	163,772
Co-investments - debt	-	47,599	-	-	-	47,599	50,503
Guarantees	-	3,616	-	-	-	3,616	28,691
Total	135,087	503,929	11,807	23,633	(25,633)	648,823	

* Fair value of collaterals relating to impaired exposures is nil (June 30, 2014: nil).

25. 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, 2015	June 30, 2014
Up to 1 month	27,472	5,627
> 1 up to 3 months	5,139	4,642
> 3 up to 6 months	2,146	553
> 6 months up to 1 year	175	985
Total	**34,932**	**11,807**

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, 2015 amounts to $229.0 million (June 30, 2014: $249.0 million).

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

$000s	June 30, 2015	June 30, 2014
Geographical Region		
North America	26,548	23,818
Europe	1,613	1,592
Other	286	223
Total	28,447	25,633

$000s	June 30, 2015	June 30, 2014
Industry Sector		
Banking and Finance	2,097	2,097
Consumer products	210	210
Distribution	1,686	1,686
Industrial products	92	70
Industrial services	2,383	995
Real estate	19,663	18,320
Technology and Telecom	2,056	2,056
Others	260	199
Total	28,447	25,633

25. 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 consistent with regulatory requirements and is subject to 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, 2015 $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*	*Non-cash items*	*Total*
Assets								
Financial assets								
Cash and short-term funds	82,665	-	82,665	-	-	-	-	82,665
Placement with financial institutions and other liquid assets	256,646	-	256,646	-	-	-	-	256,646
Positive fair value of derivatives	1,362	6	1,368	19,512	675	52,671	-	74,226
Receivables	145,953	12,227	158,180	73,411	-	-	-	231,591
Advances	2,683	8,366	11,049	100,472	-	-	-	111,521
Underwritten investments	87,505	-	87,505	-	-	-	-	87,505
Co-investments								
Corporate investment	32,104	28,714	60,818	606,421	-	-	-	667,239
Hedge funds	239,090	119,866	358,956	62,100	-	-	-	421,056
Real estate investment	-	-	-	142,897	-	-	-	142,897
Total financial assets	848,008	169,179	1,017,187	1,004,813	675	52,671	-	2,075,346
Non-financial assets								
Prepayments	-	-	-	-	-	-	43,314	43,314
Premises, equipment and other assets	-	-	-	-	-	-	42,758	42,758
Total assets	848,008	169,179	1,017,187	1,004,813	675	52,671	86,072	2,161,418
Liabilities								
Financial liabilities								
Call accounts	13,744	-	13,744	87,283	-	-	-	101,027
Term and institutional borrowings	4,867	25,004	29,871	7,808	-	-	-	37,679
Payables and accrued expenses	221,825	5,037	226,862	13,501	-	-	-	240,363
Negative fair value of derivatives	11,694	6	11,700	10,564	-	14,479	-	36,743
Medium-term debt	-	-	-	417,081	-	-	-	417,081
Long-term debt	-	-	-	-	-	346,235	-	346,235
Total financial liabilities	252,130	30,047	282,177	536,237	-	360,714	-	1,179,128
Non-financial liability								
Deferred fees	-	-	-	-	-	-	100,290	100,290
Total liabilities	252,130	30,047	282,177	536,237	-	360,714	100,290	1,279,418
Net gap	595,878	139,132	735,010	468,576	675	(308,043)	(14,218)	882,000
Cumulative liquidity gap	595,878	735,010	735,010	1,203,586	1,204,261	896,218	882,000	

June 30, 2014 $000s (restated)	*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*	*Non-cash items*	*Total*
Assets								
Financial assets								
Cash and short-term funds	101,262	-	101,262	-	-	-	-	101,262
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	49,921	23,362	73,283	101,828	-	-	-	175,111
Advances	9,790	14,306	24,096	104,736	-	-	-	128,832
Underwritten investments	28,849	83,523	112,372	-	-	-	-	112,372
Co-investments								
Corporate investment	-	134,361	134,361	776,446	-	-	-	910,807
Hedge funds	173,797	133,635	307,432	168,986	-	-	-	476,418
Real estate investment	-	-	-	130,017	-	-	-	130,017
Total financial assets	492,944	389,249	882,193	1,282,013	512	62,615	-	2,227,333
Non-financial assets								
Prepayments	-	-	-	-	-	-	31,198	31,198
Premises, equipment and other assets	-	-	-	-	-	-	45,591	45,591
Total assets	492,944	389,249	882,193	1,282,013	512	62,615	76,789	2,304,122
Liabilities								
Financial liabilities								
Call accounts	26,883	-	26,883	68,948	-	-	-	95,831
Term and institutional borrowings	107,221	16,674	123,895	11,788	-	-	-	135,683
Payables and accrued expenses	136,084	9,500	145,584	18,473	-	-	-	164,057
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 financial liabilities	271,685	26,237	297,922	582,878	-	422,228	-	1,303,028
Non-financial liability								
Deferred fees	-	-	-	-	-	-	82,734	82,734
Total liabilities	271,685	26,237	297,922	582,878	-	422,228	82,734	1,385,762
Net gap	221,259	363,012	584,271	699,135	512	(359,613)	(5,945)	918,360
Cumulative liquidity gap	221,259	584,271	584,271	1,283,406	1,283,918	924,305	918,360	

25. 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, 2015 $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						
Call accounts	13,816	293	87,956	-	-	102,065
Term and institutional borrowings	4,934	25,612	8,283	-	-	38,829
Payables and accrued expenses	221,825	5,037	13,501	-	-	240,363
Medium-term debt	2,438	28,228	485,982	-	-	516,648
Long-term debt	7,309	7,309	58,472	73,090	435,415	581,595
	250,322	66,479	654,194	73,090	435,415	1,479,500
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	786,063	18,069	223,356	-	-	1,027,488
Contractual amounts receivable	(776,576)	(16,934)	(238,098)	-	-	(1,031,608)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	3,187	(8,194)	(26,201)	(19,179)	(6,751)	(57,138)
Commitments	2,219	30,675	24,386	-	-	57,280
Guarantees	-	-	-	3,616	-	3,616
Total undiscounted financial liabilities	265,215	90,095	637,637	57,527	428,664	1,479,138

June 30, 2014 $000s (restated)	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						
Call accounts	26,938	169	69,324	-	-	96,431
Term and institutional borrowings	107,645	17,059	12,579	-	-	137,283
Payables and accrued expenses	136,084	9,500	18,473	-	-	164,057
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
	279,696	65,147	757,690	84,072	525,968	1,712,573
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	282,088	87,508	774,681	66,162	526,775	1,737,214

25. RISK MANAGEMENT (CONTINUED)

iii) Concentration risk

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

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

	June 30, 2015			June 30, 2014		
$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	592,132	3,616	595,748	454,975	3,616	458,591
Europe	131,560	-	131,560	104,121	-	104,121
MENA*	78,631	-	78,631	86,111	-	86,111
Total	802,323	3,616	805,939	645,207	3,616	648,823

* including Turkey

	June 30, 2015			June 30, 2014		
$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	530,921	116	531,037	470,557	116	470,673
Consumer products	18,587	-	18,587	18,347	-	18,347
Consumer services	44,023	-	44,023	22,673	-	22,673
Distribution	3,565	-	3,565	5,256	-	5,256
Industrial products	99,262	-	99,262	64,988	-	64,988
Real estate	70,006	3,500	73,506	48,629	3,500	52,129
Technology and Telecom	34,138	-	34,138	11,901	-	11,901
Others	1,821	-	1,821	2,856	-	2,856
Total	802,323	3,616	805,939	645,207	3,616	648,823

25. RISK MANAGEMENT (CONTINUED)

iv) Market price risk

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

In addition, for internal risk assessments, the Group uses a variety of internal and external 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 other 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, 2015*		*June 30, 2014*	
Long (Short)	***Net hedged exposure***	***Net unhedged exposure***	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	-	64,755	-	40,062
Saudi Riyal*	-	353	-	13,838
Euro	237,093	(132)	161,475	209
Pounds Sterling	31,703	206	23,872	(189)
Swiss Francs	(141,768)	123	(148,572)	355
Japanese Yen	(303,751)	533	(304,059)	(34)
	(176,723)	65,838	(267,284)	54,241

* 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, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

25. 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	2015	2014
Average FX VaR	7	7
Year end FX VaR	9	5
Maximum FX VaR	29	34
Minimum FX VaR	1	1

iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by the Board of Directors. The Group does not 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 the following:

- Investments amounting to $29.6 million (June 30, 2014: $28.1 million), which earn interest at an effective rate approximating 14.8% (June 30, 2014: 14.7%) per annum.
- Term and institutional borrowings amounting to $37.1 million (June 30, 2014: $54.8 million) on which interest is paid at an effective rate of 2.49% (June 30, 2014: 2.69%) per annum.

25. 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, 2015	
Euro	(3,268)	36
Pounds Sterling	(655)	168
Japanese Yen	602	(50)
US Dollar	(901)	1,488
Others	185	(204)
Total	(4,037)	1,438

$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

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

25. 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.

The table below summarizes the sensitivity of the Group's co-investments in CI and RE (see Note 26) to changes in multiples / capitalization rates / quoted bid prices.

June 30, 2015 $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	600,044	678,269	521,947	78,225	(78,097)
	Revenue Multiples	+/- 0.5x	288	416	160	128	(128)
	Quoted bid price	+/- 1%	17,960	18,140	17,780	180	(180)
RE co-investments	Capitalization Rate	-/+ 1%	119,523	151,681	94,604	32,158	(24,919)

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)
RE co-investments	Capitalization Rate	-/+ 1%	103,228	126,742	85,110	23,454	(18,178)

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	**2015**	2014
Average VaR	15,888	17,995
Year end VaR	15,155	18,154
Maximum VaR	17,595	21,872
Minimum VaR	13,046	15,427

25. RISK MANAGEMENT (CONTINUED)

v) Operational risk

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

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

As a part of Basel III compliance, Investcorp applies the Basic Indicator Approach ('BIA') to measure operational risk and also is implementing a Board of Directors approved operational risk management framework. Under the BIA approach, the operational risk charge is calculated by taking Investcorp's average gross income over the preceding three financial years and multiplying it by a fixed alpha coefficient which has been set at 15 per cent in the CBB's Basel III capital adequacy framework. The operational risk management framework consists of the following: 1) "Risk Control and Self-Assessment": Self-assess operational risks by going through key business processes end-to-end, 2) Evaluate the adequacy of existing process controls, 3) Implement control modifications to reduce operational risks and determine residual risks and 4) Monitor and report operational risk events to senior management and the Board.

26. 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 has established guidelines for the valuation of its investments which are reviewed by the Board of Directors of the Group and abides by guidelines issued under 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 the 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 liabilities which are hedged, investments and derivatives. 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 $763.0 million (June 30, 2014: $892.9 million) as compared to carrying value of $782.8 million (June 30, 2014: $907.8 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 described below.

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 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).

26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

During the current financial year, there was a transfer of $13.2 million from level 3 to level 1 under co-investments in corporate investments. This represents the listing on a stock exchange of previously unquoted investments. Further, hedge fund exposure of $51.6 million (June 30, 2014: $80.1 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 loss of $6.8 million and the net redemptions amounts to $21.7 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 22 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, 2015 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Positive fair value of derivatives	-	74,226	-	74,226
Co-investments				
Corporate investment	17,960	-	626,855	644,815
Hedge funds	-	369,450	51,606	421,056
Real estate investment	-	-	119,523	119,523
Total financial assets	17,960	443,676	797,984	1,259,620
Financial liabilities				
Negative fair value of derivatives	-	36,743	-	36,743
Total financial liabilities	-	36,743	-	36,743

June 30, 2014 *$000s*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Positive fair value of derivatives	-	66,570	-	66,570
Co-investments				
Corporate investment	5,107	-	884,830	889,937
Hedge funds	-	396,347	80,071	476,418
Real estate investment	-	-	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

26. 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, 2015 $000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations	Other movements**	At end
CI co-investments	884,830	29,528	44,241	(244,274)	(87,470)	626,855
RE co-investments	103,288	33,785	(3,030)	(13,702)	(818)	119,523
Total	**988,118**	**63,313**	**41,211**	**(257,976)**	**(88,288)**	**746,378**

* includes $0.7 million fair value gain in available for sale investments

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

June 30, 2014 $000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations	Other movements**	At end
CI co-investments	824,734	58,686	20,300	(42,423)	23,533	884,830
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

27. EMPLOYEE COMPENSATION

Investcorp has a clear and well-defined “pay for risk-adjusted long-term performance” philosophy that pervades its culture and motivates its employees to target delivery of consistent top-quartile performance. This philosophy is exhibited in Investcorp’s remuneration programs and it is reflected in its annual remuneration decision.

The remuneration that is paid to Investcorp’s employees is divided into two fundamental components: (i) fixed remuneration, i.e., salary and benefits, and (ii) variable remuneration.

Variable remuneration, comprised of cash and awards under deferred remuneration programs, is remuneration that varies from year to year and the amount of which is dependent upon (i) the financial performance of Investcorp as a whole, (ii) the risk-adjusted performance of each employee’s respective line of business and (iii) the performance of the individual employee.

Investcorp extensively utilizes deferred remuneration programs as part of employees’ remuneration. These programs are comprised of investment carried interest and co-investment programs and share-linked programs as described briefly below.

27. EMPLOYEE COMPENSATION (CONTINUED)

Programs for Investment Profit Participation

The Group's investment professionals in its corporate investment, real estate investment and placement and relationship management lines of business participate in investment carried interest 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 client return hurdles are satisfied. Netting mechanisms are used so that returns from investments that perform well are netted against other investments in which losses are sustained. 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

Investment professionals and relationship managers also participate in a co-investment program pursuant to which they acquire an interest in the Investcorp Group's investments that they manage at the Investcorp Group's balance sheet carrying value, thereby resulting in no gain or loss to Investcorp.

Under certain legacy co-investment programs, the Group provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2015 is $42.2 million (June 30, 2014: $67.5 million).

Employee Share-Linked Plans

SHL sponsors various employee share-linked plans under which a portion of the deferred remuneration awarded to eligible employees is in the form of SIPCO shares or phantom SIPCO shares that represent a beneficial interest in the ordinary shares of the Bank. These SIPCO shares have different vesting periods and are not transferable.

SIPCO shares 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 $3.6 million (2014: $8.9 million). The start and end date of the vesting period for each grant varies from plan to plan and is based on continued employment (unless employment is terminated due to death, disability or retirement) 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.

27. EMPLOYEE COMPENSATION (CONTINUED)

An income statement charge of $9.1 million (2014: $9.3 million) was taken by the Group based on management's best estimate of the number of shares that are likely to vest. The grant date value of shares vested during the year amounted to $15.7 million (2014: $9.6 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of shares	***2015***	*2014*
Granted during the year	4,825	12,010
Vested during the year	15,598	18,466
Forfeited during the year	387	11,658

28. RELATED PARTY TRANSACTIONS

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

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

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

In addition to the compensation and benefits to employees disclosed in Note 27, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$000s		***June 2015***	*June 2014*
AUM fees	Investee and investment holding companies	76,514	80,177
Deal fees	Investee and investment holding companies	122,328	145,106
Asset based income	Investee companies	19,143	18,022
Provisions for impairment	Employee investment programs	(1,180)	363
Interest expense	Client companies	(89)	(294)
Operating expense	Directors' remuneration	(1,420)	(1,540)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Of the staff compensation for the year set out in Note 5, $59.0 million (2014: $54.5 million) is attributable to senior management (including a director who was an employee during the year). Of the above mentioned remuneration of senior management, $48.9 million (June 30, 2014: $42.8 million) is in the form of salaries and other short term benefits.

In addition to the compensation and benefits to employees disclosed in Note 27, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2015			*June 30, 2014*		
$000s	***Assets***	***Liabilities***	***Off-balance sheet***	*Assets*	*Liabilities*	*Off-balance sheet*
Outstanding balances						
Strategic shareholders	4,825	16,540	-	4,825	14,257	-
Investee companies	41,186	-	-	55,399	-	-
Investment holding companies	126,283	71,620	35,082	152,002	60,142	36,340
Client fund companies associated with the HFP	13,279	-	-	15,821	-	-
Directors and senior management	1,148	572	-	1,123	750	-
	186,721	88,732	35,082	229,170	75,149	36,340

29. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB rule book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and the rules and procedures of the Bahrain Bourse.

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. Certain prior year balances have been reclassified to conform to the current period presentation.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments to standards as noted below which became effective for accounting periods beginning on or after July 1, 2014.

- IAS 16 Property Plant and Equipment
- IAS 24 Related Party Disclosures
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement – Amendments relating to Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement

The adoption of the above amendments did not have any material impact on the Group's consolidated financial statements.

Early Adoption of IFRS 15 'Revenue from Contracts with Customers'

In addition to the above, the Group has early adopted 'IFRS 15 Revenue from Contracts with Customers' ("IFRS 15"). Following the early adoption of IFRS 15 (as described in detail below), the Group has identified the performance obligations arising from its contracts with investors with whom the investments are placed. The fee relating to such performance obligations are deferred and recognized over the investment period.

IFRS 15 establishes a new five-step model to recognize revenue and provides a more structured approach to measure and recognize revenue. Following the guidelines of IFRS 15, the Group has reviewed and revised its policy for recognizing revenue to comply with the new requirements of IFRS 15.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Early Adoption of IFRS 15 'Revenue from Contracts with Customers' (continued)

Placement fees (historically included in deal fees) are charged by Investcorp when it places an underwritten investment with investors. IFRS 15 requires an entity to assess the services promised in a contract with a customer and identify each promise made to the customer as a separate performance obligation. Applying this requirement, Investcorp has reviewed and analyzed the terms of the contracts that it has entered into with its investors arising from the placement of its investments. Based on this review, the Group has determined the following two types of performance obligations that Investcorp is expected to satisfy:

i. services provided by Investcorp during the period from purchase to the placement of the investment with investors, including deal identification, funding, underwriting, maintaining a placement infrastructure, preparing the marketing materials for each deal etc; and
ii. services provided over the period of the investment as agreed with the investor at the time of placement.

In order to apply IFRS 15, Investcorp has allocated the placement fee to each of the above performance obligations. The Group completes all of its performance obligations described in (i) above before placing an investment with its investors. Accordingly, the fee relating to this performance obligation is recognized upfront upon placement of the investment with investors. This portion of the placement fee is included as part of deal fees.

A portion of the placement fee represents the amount received upfront for the performance obligation described in (ii) above. Accordingly, this component of the placement fee is deferred and recognized over time, as AUM fees, over the period of managing the investment.

The Group has applied the full retrospective approach for adoption of IFRS 15 and as required by the accounting standards has restated its comparatives as set out below.

Consolidated Statement of Financial Position

	June 30, 2014 ($000s)			
	(Previously reported)	*Adjustment for premium on redemption of preference shares**	*Adjustment on adoption of IFRS 15**	*(Restated)*
Deferred fee relating to placements (note 18)	-	-	76,292	76,292
Retained earnings	281,580	(6,000)	(76,292)	199,288

	July 1, 2013 ($000s)			
	(Previously reported)	*Adjustment for premium on redemption of preference shares**	*Adjustment on adoption of IFRS 15**	*(Restated)*
Deferred fee relating to placements	-	-	48,231	48,231
Retained earnings	213,468	-	(48,231)	165,237

Consolidated Statement of Income

	2014 ($000s)			
	(Previously reported)	*Adjustment for premium on redemption of preference shares**	*Adjustment on adoption of IFRS 15**	*(Restated)*
AUM fees	77,658	-	22,332	99,990
Deal fees	266,228	-	(50,393)	215,835
Net income	131,171	-	(28,061)	103,110
Basic earnings per ordinary share ($)	132	(10)	(45)	77
Fully diluted earnings per ordinary share ($)	120	(9)	(35)	76

* The restatement is due to the early adoption of IFRS 15 and adjustment of premium on redemption of preference shares against retained earnings which was not considered in the previous year. This has resulted in a reduction of reported retained earnings and earnings per share as mentioned above.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective

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

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Amendments relating to Acceptable Methods of Depreciation and Amortisation (January 1, 2017)
- IFRS 9 Financial Instruments: Classification and Measurement (January 1, 2018)
- IFRS 11 Joint Arrangements – Amendments relating to Accounting for Interests in Joint Operations (January 1, 2016)
- IAS 27 Separate Financial Statements – Amendments relating to Equity Method in Separate Financial Statements (January 1, 2016)

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.

i) Accounting convention

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

ii) Going concern

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

iii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of the fair values of Fair Value Through Profit or Loss ("FVTPL") co-investments in corporate investments and real estate investments (see Notes 9 and 11), the determination of performance fees on assets under management, impairment provisions for financial assets other than FVTPL investments (see Note 12) and allocation of placement fee to the performance obligation as described above.

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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv) Classification of financial assets

a) Investments

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

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

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

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

All other investments are classified as AFS.

b) Other liquid assets

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

v) Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries. A subsidiary is an entity which the Group is exposed to, 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 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 Bank’s subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

29. 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. Consequently, there are no impairment provisions for such investments.

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. These investments are then re-measured to fair value at each balance sheet date and any 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.

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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 any. 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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xiv) Premises and equipment

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

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the 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:

Buildings on freehold land	25 years
Leasehold and building improvements	10 - 15 years
Operating assets	3 - 23 years

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

xv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 27).

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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xvii) Borrowings

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

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

xviii) Treasury shares

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

xix) 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.

xx) 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.

xxi) 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.

xxii) Derivative financial instruments

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

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 22.

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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxiii) 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.

There is no tax on corporate income in the Kingdom of Bahrain. 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 and are included under operating expenses.