INVESTCORP BANK B.S.C.

CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2018
FISCAL YEAR 2018

Building a better
working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 30 June 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Valuation of unquoted investments, related fair value changes and performance fees	
Key audit matter	**How the key audit matter was addressed in the audit**
The Group's investment portfolio comprises of a number of unquoted corporate, credit management and real estate investments. The Group has used a combination of discounted cash flow analysis approach, PE multiples based approach and bids or indicative prices obtained from potential buyers or banks engaged in the sale process to determine the fair value of these investments. Owing to the unquoted and illiquid nature of these investments, the assessment of fair valuation is subjective and requires a number of significant and complex judgments to be made by management. This was a key area of focus of our audit given the significance of the judgments and estimates made by management to support the valuations. Also during the year, the Group has recorded performance fees of US$ 19.6 million in respect of its unquoted investments representing fees accrued for performance in excess of hurdle / performance rates as agreed with investors.	We obtained an understanding of management's processes and controls for determining the fair valuation of unquoted investments. This included discussing with management the valuation governance structure and protocols around their oversight of the valuation process. We obtained and reviewed the relevant documents supporting the valuations and the assumptions used. We checked the mathematical accuracy of the valuation models on a sample basis. With the assistance of our valuations specialists, we formed an independent range for the key assumptions used in the valuation of a sample of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values using our assumptions and other qualitative risk factors. We compared these ranges with management's assumptions, and discussed our results with management. On a sample basis, we re-performed the performance fee calculations In addition, we compared the basis of computation with the terms of the performance fee agreements. Refer to the critical accounting estimates and judgments and disclosures of investments in notes 10, 11, 13, 29 and 32 to the consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2018 annual report
Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we have obtained the following sections of the 2018 Annual Report, and the remaining sections are expected to be made available to us after that date.

- Message to shareholders
- Business highlights
- Business environment
- Discussion of results
- AuM and fundraising
- CI portfolio listing

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

c) 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, 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 2018 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Gordon Bennie.

Ernst + Young

Partner's Registration No. 145
7 August 2018
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

$millions	*2018*	*2017*	Notes
FEE INCOME			
AUM fees	173	136	
Deal fees	148	184	
Fee income (a)	321	320	3
ASSET BASED INCOME			
Corporate investment	61	19	
Credit management investment	28	34	
Alternative investment solutions	10	16	
Real estate investment	24	22	
Treasury and other asset based income	10	11	
Asset based income (b)	133	102	3
Gross operating income (a) + (b)	454	422	3
Provisions for impairment	(4)	(4)	14
Interest expense	(56)	(57)	3
Operating expenses	(256)	(234)	5
PROFIT BEFORE TAX	138	127	
Income tax expense	(13)	(7)	6
PROFIT FOR THE YEAR	125	120	
Basic earnings per ordinary share ($)	1.34	1.28	24
Fully diluted earnings per ordinary share ($)	1.30	1.25	24

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

$millions	*2018*	*2017*
PROFIT FOR THE YEAR	125	120
Other comprehensive income that will be recycled to statement of profit or loss		
Fair value movements - cash flow hedges	2	(3)
Other comprehensive income that will not be recycled to statement of profit or loss		
Movements - Fair value through other comprehensive income investments	(6)	(27)
Other comprehensive loss	(4)	(30)
TOTAL COMPREHENSIVE INCOME	121	90

Dr. Yousef Hamad Al-Ebraheem

Chairman

Mohammed Bin Mahfoodh Bin Saad Alardhi

Executive Chairman

The attached Notes 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

$millions	*June 30, 2018*	*June 30, 2017*	*Notes*
ASSETS			
Cash and short-term funds	105	45	
Placements with financial institutions and other liquid assets	266	517	
Positive fair value of derivatives	55	62	25
Receivables and prepayments	276	277	7
Advances	92	86	8
Underwritten and warehoused investments	446	460	9
Co-investments			
Corporate investment	625	539	10
Credit management investment	272	259	11
Alternative investment solutions	189	236	12
Real estate investment	76	79	13
Total co-investments	1,162	1,113	
Premises, equipment and other assets	36	38	
Intangible assets	55	58	15
TOTAL ASSETS	2,493	2,656	
LIABILITIES AND EQUITY			
LIABILITIES			
Call accounts	149	249	16
Term and institutional accounts	300	185	17
Payables and accrued expenses	193	154	18
Negative fair value of derivatives	39	44	25
Medium-term debt	167	382	19
Long-term debt	450	410	20
Deferred fees	72	87	21
TOTAL LIABILITIES	1,370	1,511	
EQUITY			
Preference share capital	123	223	22
Ordinary shares at par value	200	200	22
Reserves	322	321	
Treasury shares	(5)	(3)	
Retained earnings	447	366	
Ordinary shareholders' equity excluding proposed appropriations and other reserves	964	884	
Proposed appropriations	41	44	24
Other reserves	(5)	(6)	23
TOTAL EQUITY	1,123	1,145	
TOTAL LIABILITIES AND EQUITY	2,493	2,656	

Dr. Yousef Hamad Al-Ebraheem

Chairman

Mohammed Bin Mahfoodh Bin Saad Alardhi

Executive Chairman

The attached Notes 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

$millions	Preference share capital	Ordinary share capital	Reserves: Share premium	Reserves: Statutory reserve	Reserves: Fair Value reserve	Reserves: Total	Treasury shares	Retained earnings	Proposed appropriations	Other Reserves: Cash flow hedges	Other Reserves: Revaluation reserve on premises and equipment	Other Reserves: Total	Total equity
Balance at July 1, 2016	223	200	182	100	2	284	(45)	309	45	(8)	6	(2)	**1,014**
Total comprehensive income	-	-	-	-	(27)	(27)	-	120	-	(3)	-	(3)	90
Transferred to retained earnings upon derecognition	-	-	-	-	20	20	-	(20)	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	1	-	-	(1)	(1)	-
Treasury shares sold / vested during the year - net of purchases	-	-	(1)	-	-	(1)	87	-	-	-	-	-	86
Gain on sale of treasury shares - net of loss on vesting	-	-	45	-	-	45	(45)	-	-	-	-	-	-
Approved appropriations for fiscal 2016 paid	-	-	-	-	-	-	-	-	(45)	-	-	-	(45)
Proposed appropriations for fiscal 2017	-	-	-	-	-	-	-	(44)	44	-	-	-	-
Balance at June 30, 2017	**223**	**200**	**226**	**100**	**(5)**	**321**	**(3)**	**366**	**44**	**(11)**	**5**	**(6)**	**1,145**
Total comprehensive income	-	-	-	-	(6)	(6)	-	125	-	2	-	2	121
Transferred to retained earnings upon derecognition	-	-	-	-	4	4	-	(4)	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	1	-	-	(1)	(1)	-
Treasury shares sold / vested during the year - net of purchases	-	-	-	-	-	-	1	-	-	-	-	-	1
Gain on sale of treasury shares - net of loss on vesting	-	-	3	-	-	3	(3)	-	-	-	-	-	-
Preference shares redeemed during the year	(100)	-	-	-	-	-	-	-	-	-	-	-	(100)
Approved appropriations for fiscal 2017 paid	-	-	-	-	-	-	-	-	(44)	-	-	-	(44)
Proposed appropriations for fiscal 2018	-	-	-	-	-	-	-	(41)	41	-	-	-	-
Balance at June 30, 2018	**123**	**200**	**229**	**100**	**(7)**	**322**	**(5)**	**447**	**41**	**(9)**	**4**	**(5)**	**1,123**

The attached Notes 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

$millions	*2018*	*2017*	*Notes*
OPERATING ACTIVITIES			
Profit before tax	138	127	
Adjustments for non-cash items in profit before tax			
Depreciation	5	5	5
Provisions for impairment	4	4	14
Amortization of transaction costs of borrowing and management contracts	8	7	
Employee deferred awards	25	26	
Operating profit adjusted for non-cash items	180	169	
Changes in:			
Operating capital			
Placements with financial institutions and other liquid assets (non-cash equivalent)	126	(103)	
Receivables and prepayments	(20)	43	7
Advances	(8)	18	8
Underwritten and warehoused investments	14	74	9
Call accounts	(100)	119	16
Payables and accrued expenses	44	(82)	18
Deferred fees	(15)	(6)	21
Co-investments			
Corporate investment	(91)	64	10
Credit management investment	(13)	(30)	11
Alternative investment solutions	48	79	12
Real estate investment	3	(2)	13
Fair value of derivatives	1	(48)	
Other assets	1	1	
Income taxes paid	(11)	(2)	
NET CASH FROM OPERATING ACTIVITIES	159	294	
FINANCING ACTIVITIES			
Term and institutional accounts	115	61	17
Medium-term debt repaid - net of transaction costs	(217)	(29)	19
Long-term debt issued - net of transaction costs	37	-	20
Treasury shares purchased/ sold - net	(12)	73	
Dividends paid	(44)	(42)	
Preference shares redeemed during the year	(100)	-	
Charitable contributions paid	-	(3)	
NET CASH (USED IN) / FROM FINANCING ACTIVITIES	(221)	60	
INVESTING ACTIVITIES			
Acquisition of subsidiaries	-	(316)	
Investment in premises and equipment	(4)	(4)	
NET CASH USED IN INVESTING ACTIVITIES	(4)	(320)	
Net (decrease) / increase in cash and cash equivalents	(66)	34	
Cash and cash equivalents at beginning of the year	435	401	
Cash and cash equivalents at end of the year	369	435	
Cash and cash equivalents comprise of:			
Cash and short-term funds	105	45	
Placements with financial institutions and other liquid assets with an original maturity of three months or less	264	390	
	369	435	

In addition to the above, the Group has an undrawn and available balance of $625 million (June 30, 2017: $422.1 million) from its revolving medium-term facilities.

Additional cash flow information

$millions	*2018*	*2017*
Interest paid	(59)	(57)
Interest received	46	10

The attached Notes 1 to 32 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.

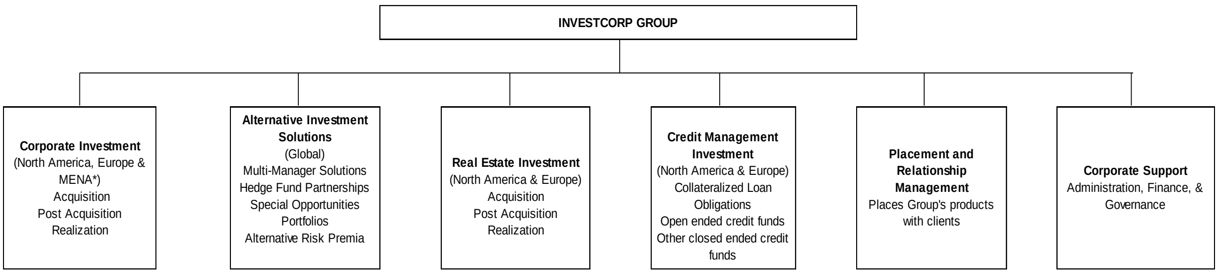
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411-1 issued by the Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2018 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 7, 2018.

(ii) Activities

The Group performs two principal roles (a) to act as an intermediary by bringing global 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.

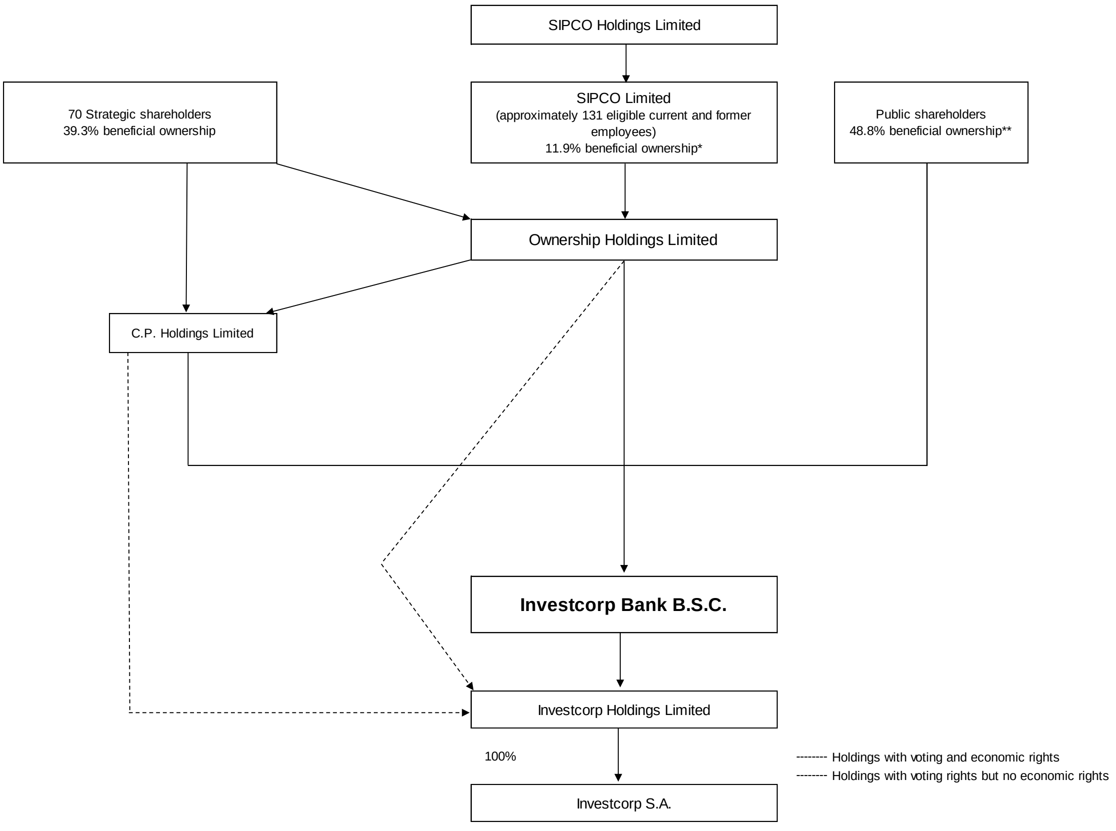
In performing its principal roles, the Group provides products in four broad investment asset classes. The investment asset classes in which the Group specializes are corporate investment, alternative investment solutions, real estate investment and credit management investment. Each of the asset classes 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 0.7% shares granted but not acquired and ungranted shares 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 0.03% beneficial ownership held in the form of unlisted Global Depositary Receipts.

As at June 30, 2018, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 51.2% of Investcorp Bank's Ordinary Shares directly and through CP Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is controlled by OHL which, in turn, has SIPCO Limited ("SIPCO") as its largest shareholder. Strategic shareholders own the balance of CPHL and OHL. SIPCO, a subsidiary of SHL, 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 who are also the directors of OHL's sole director, which is a Cayman Islands corporation, have the ability to control the voting of 51.2% 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 and SIPCO Limited own ordinary shares of IHL to facilitate the investment protection mechanism described in the 2018 Annual Report. Please see Ownership Structure, Corporate Governance and Regulation. 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 (CONTINUED)

(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 administrative services to non-United States client investment holding companies for corporate and real estate investments
	Investcorp Single Manager Enterprises Limited (Cayman Islands)	Company that provides corporate management and administrative services
	Investcorp Investment Advisers Limited (Cayman Islands)	Company that provides investment management and advisory services to investment funds including alternative investment solutions (AIS) 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 hedge funds partners and manages the Group's excess liquidity.
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in AIS products.
	Investcorp International Limited (UK)	The Group's principal operating subsidiary in the UK which employs the group's UK-based employees.
	Investcorp Securities Ltd. (UK)	Company that provides M & A consulting services for deal execution in Europe and acts as a Small AIFM and RIA, regulated by the UK FCA and the SEC.
	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 AIS 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 AIS, and is an SEC registered investment advisor.
	Investcorp Credit Management US LLC (USA)	Company that provides investment management and advisory services to various debt funds in the US and is an SEC registered investment adviser.
	Investcorp Credit Management EU Limited. (UK)	Company that provides investment management and advisory services to various debt funds in the UK and is regulated by the UK FCA.
	Investcorp Asia Services Pte. Ltd. (Singapore)	Company that acts as principal agent of the Group in Asia for placements of alternative asset investment products.
	Investcorp Investments LLC (Qatar)	Company that acts as principal agent of the Group in Qatar for placements of the products offered by the Group.
	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 four alternative investment asset classes. Total assets under management ("AUM") in each product category at the year end are as follows:

	June 30, 2018				June 30, 2017			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment								
Closed-end committed funds	380	20	10	410	191	20	4	215
Closed-end invested funds	718	81	18	817	753	101	26	880
Deal-by-deal	2,749	524 *	139	3,412	2,728	413	163	3,304
Deal-by-deal underwriting	-	123	-	123	-	190	20	210
Strategic and other investments	-	20	-	20	-	24	-	24
Total corporate investment	**3,847**	**768**	**167**	**4,782**	**3,672**	**748**	**213**	**4,633**
Credit management investment								
Closed-end invested funds	10,772	272	-	11,044	10,186	259	-	10,445
Open-end invested funds	355	25	-	380	398	-	-	398
Warehousing	-	42	-	42	-	-	-	-
Total Credit management investment	**11,127**	**339**	**-**	**11,466**	**10,584**	**259**	**-**	**10,843**
Alternative investment solutions**								
Multi-manager solutions	2,004	45	-	2,049	1,927	70	-	1,997
Hedge funds partnerships	1,371	65	-	1,436	962	70	-	1,032
Special opportunities portfolios	121	55	-	176	107	57	-	164
Alternative risk premia	38	24	-	62	263	39	-	302
Special opportunities portfolios underwriting	-	11	-	11	-	-	-	-
Total Alternative investment solutions	**3,534**	**200**	**-**	**3,734**	**3,259**	**236**	**-**	**3,495**
Real estate investment								
Closed-end invested funds	25	5	-	30	33	7	-	40
Deal-by-deal	1,789	65	19	1,873	1,716	70	18	1,804
Deal-by-deal underwriting	-	270	-	270	-	270	16	286
Strategic and other investments	-	6	-	6	-	2	-	2
Total real estate investment	**1,814**	**346**	**19**	**2,179**	**1,749**	**349**	**34**	**2,132**
Client call accounts held in trust	393	-	-	393	235	-	-	235
Total	**20,715**	**1,653**	**186**	**22,554**	**19,499**	**1,592**	**247**	**21,338**
Summary by products:								
Closed-end committed funds	380	20	10	410	191	20	4	215
Closed-end invested funds	743	86	18	847	786	108	26	920
Credit management funds	11,127	297	-	11,424	10,584	259	-	10,843
Alternative investment solutions	3,534	189	-	3,723	3,259	236	-	3,495
Deal-by-deal	4,538	589	158	5,285	4,444	483	181	5,108
Underwriting and warehousing	-	446	-	446	-	460	36	496
Client monies held in trust	393	-	-	393	235	-	-	235
Strategic and other investments	-	26	-	26	-	26	-	26
Total	**20,715**	**1,653**	**186**	**22,554**	**19,499**	**1,592**	**247**	**21,338**
Summary by asset classes:								
Corporate investment	3,847	748	167	4,762	3,672	724	213	4,609
Credit management investment	11,127	339	-	11,466	10,584	259	-	10,843
Alternative investment solutions	3,534	200	-	3,734	3,259	236	-	3,495
Real estate investment	1,814	340	19	2,173	1,749	347	34	2,130
Client call accounts held in trust	393	-	-	393	235	-	-	235
Strategic and other investments	-	26	-	26	-	26	-	26
Total	**20,715**	**1,653**	**186**	**22,554**	**19,499**	**1,592**	**247**	**21,338**

** Includes Group's commitment of $4 million to a Corporate Investment deal.*

*** Stated at gross value of the underlying exposure. Also, includes $2.4 billion (June 30, 2017: $2.0 billion) of hedge fund partnerships (including exposure through multi-manager solutions) managed by third party managers and assets subject to a non-discretionary advisory mandate where Investcorp receives fees calculated on the basis of AUM.*

In the above table, all alternative investment solutions exposures and Investcorp's co-investment amounts for corporate investment, real estate investment and credit management exposures 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 are 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 statement of financial position.

3. SEGMENT REPORTING

A. REPORTING SEGMENTS

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

i) ***Fee Business***

The Group acts as an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The Group operates through centers in the Arabian Gulf, the US, Europe and Singapore. The Group's clients primarily include institutional and high net worth clients in Arabian Gulf states and institutional investors in the United States, Europe and Asia. Fee income is earned throughout the life cycle of investments by providing these intermediary services to clients.

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

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

3. SEGMENT REPORTING (CONTINUED)

B. ASSET CLASSES AND PRODUCTS

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

Asset Classes	Products
1) Corporate investment	- Deal by deal offerings - Closed-end fund(s)
2) Credit management investment	- Open-end fund(s) - Closed-end fund(s)
3) Alternative investment solutions	- Multi-manager solutions - Hedge fund partnerships - Alternative risk premia - Special opportunities portfolios
4) Real estate investment	- Deal by deal offerings - Closed-end fund(s)

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

i) Corporate Investment (CI)

The CI teams are based in London, New York and the Kingdom of Bahrain. The CI teams based in London and New York arrange corporate investments in mid-size companies, 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 are also offered through conventional fund structures participation which is extended to institutional investors. The Group retains a small portion as a co-investment on its consolidated statement of financial position. These investments are held until realization.

ii) Credit Management Investment (CM)

The CM teams are based in London and New York. The teams primarily manage Investcorp's CM business which includes proprietary co-investments as well as client assets under management. The CM teams' business activity comprises of launching and managing of CLO funds in North America and Europe with an approximate size of each fund of US$500 million / €400 million and development and management of other senior debt funds that invest in debt of companies in North America and Europe. The business aims to achieve consistent outperformance against market returns for debt investors through active and diversified portfolio management.

3. SEGMENT REPORTING (CONTINUED)

B. ASSET CLASSES AND PRODUCTS (CONTINUED)

iii) ***Alternative Investment Solutions (AIS)***

The AIS team, primarily operating from New York, manages Investcorp's AIS business which includes proprietary co-investments as well as client assets under management. The AIS business comprises multi-manager solutions, special opportunities portfolios, alternative risk premia funds and hedge fund partnership products. The business aims to achieve attractive returns on a risk-adjusted basis over a medium-term period with low correlation to traditional and other asset classes, through a diversified portfolio of investments.

iv) ***Real Estate Investment (RE)***

The RE teams, based in New York and London, arrange investments in North American and European 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 statement of financial position. 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 statement of financial position. The real estate investments are held until realization.

C. REVENUE GENERATION

i) ***Fee income***

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

AUM fees

AUM fees consist of

- management, administrative and recurring consulting fees earned on CI and RE investments from client's investment holding companies, investee companies and closed-end funds; and
- management, performance and other fees earned on AIS and CM assets under management.

3. SEGMENT REPORTING (CONTINUED)

C. REVENUE GENERATION (CONTINUED)

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. This also includes part of the placement fees earned by the Group from clients at the time of placing a new 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 co-investments in CI, RE and AIS which are measured at Fair Value Through Profit or Loss ("FVTPL"), cash or pay-in-kind interest net of impairment from various CI, RE and CM debt investments carried at amortized cost 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.

D. SEGREGATION OF ASSETS

Assets directly attributable to the Co-investment Business 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.

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. Long term debt including loans secured by co-investments in CM are allocated to the Co-investment Business to the extent possible with the residual being allocated to Fee Business. Call accounts, term and institutional accounts, medium term debt, other associated working capital and the 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.

3. SEGMENT REPORTING (CONTINUED)

F. ALLOCATION OF OPERATING EXPENSES

A portion of the operating expenses for the Co-investment Business are allocated using a fixed rate charge on the aggregate 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 net asset based income from the Co-investment Business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business.

3. SEGMENT REPORTING (CONTINUED)

G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS

The consolidated statements of profit or loss by reporting segments are as follows:

$millions	*2018*	*2017*
FEE BUSINESS		
AUM fees		
Corporate investment	95	93
Credit management investment	46	15
Alternative investment solutions	13	13
Real estate investment	19	15
Total AUM fees	173	136
Deal fees		
Corporate investment	90	135
Credit management investment	2	-
Alternative investment solutions	2	1
Real estate investment	54	48
Total deal fees	148	184
Treasury and other asset based income	10	11
Gross income attributable to fee business (a)	331	331
Provisions for impairment	(4)	(4)
Interest expense (b)	(16)	(35)
Operating expenses attributable to fee business (c) *	(233)	(213)
FEE BUSINESS PROFIT (d)	78	79
CO-INVESTMENT BUSINESS		
Asset based income		
Corporate investment	61	19
Credit management investment	28	34
Alternative investment solutions	10	16
Real estate investment	24	22
Asset based income	123	91
Gross income attributable to co-investment business (e)	123	91
Interest expense (f)	(40)	(22)
Operating expenses attributable to co-investment business (g) *	(36)	(28)
CO-INVESTMENT BUSINESS PROFIT (h)	47	41
PROFIT FOR THE YEAR (d) + (h)	125	120
Gross operating income (a) + (e)	454	422
Gross operating expenses (c) + (g) *	(269)	(241)
Interest expense (b) + (f)	(56)	(57)

* including income tax expense

3. SEGMENT REPORTING (CONTINUED)

G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS (CONTINUED)

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2017: nil).

$128.6 million (2017: $165.0 million) of deal fees relates to activity fees and $19.8 million (2017: $19.7 million) represents performance fees.

Treasury and other asset based income includes $11.6 million (2017: $9.3 million) of interest income. CI, RE and CM asset based income includes $30.0 million (2017: $12.1 million) of interest income.

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 and cashflows by region has not been presented. Notes 9, 10, 11, 13 and 28 (iv) present the geographical split of assets and off-balance sheet items.

The cashflows generated from the business segments and asset classes have been presented under the operating activities in the cashflow statement, as these arose in the normal course of the business.

3. SEGMENT REPORTING (CONTINUED)

G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS (CONTINUED)

Consolidated statements of financial position by reporting segments are as follows:

June 30, 2018 *$millions*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	105	105
Placements with financial institutions and other liquid assets	-	266	266
Positive fair value of derivatives	-	55	55
Receivables and prepayments	92	184	276
Advances	-	92	92
Underwritten and warehoused investments	-	446	446
Co-investments			
Corporate investment	625	-	625
Credit management investment	272	-	272
Alternative investment solutions	189	-	189
Real estate investment	76	-	76
Premises, equipment and other assets	-	36	36
Intangible assets	-	55	55
Total assets	1,254	1,239	2,493
Liabilities and Equity			
Liabilities			
Call accounts	-	149	149
Term and institutional accounts	-	300	300
Payables and accrued expenses	9	184	193
Negative fair value of derivatives	-	39	39
Medium-term debt	-	167	167
Long-term debt	448	2	450
Deferred fees	-	72	72
Total liabilities	457	913	1,370
Total equity	797	326	1,123
Total liabilities and equity	1,254	1,239	2,493

3. SEGMENT REPORTING (CONTINUED)

G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS (CONTINUED)

June 30, 2017 *$millions*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	45	45
Placements with financial institutions and other liquid assets	-	517	517
Positive fair value of derivatives	-	62	62
Receivables and prepayments	29	248	277
Advances	-	86	86
Underwritten investments	-	460	460
Co-investments			
Corporate investment	539	-	539
Credit management investment	259	-	259
Alternative investment solutions	236	-	236
Real estate investment	79	-	79
Premises, equipment and other assets	-	38	38
Intangible assets	-	58	58
Total assets	1,142	1,514	2,656
Liabilities and Equity			
Liabilities			
Call accounts	-	249	249
Term and institutional accounts	-	185	185
Payables and accrued expenses	6	148	154
Negative fair value of derivatives	-	44	44
Medium-term debt	14	368	382
Long-term debt	305	105	410
Deferred fees	-	87	87
Total liabilities	325	1,186	1,511
Total equity	817	328	1,145
Total liabilities and equity	1,142	1,514	2,656

4. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Categories of financial assets and financial liabilities

The table below shows categories of the Group's financial assets and financial liabilities at the year end.

June 30, 2018 *$millions*	*FVTPL Investments*	*Items at amortized cost*	*FVOCI Investments*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	105	-	-	105
Placements with financial institutions and other liquid assets	-	266	-	-	266
Positive fair value of derivatives	-	-	-	55	55
Receivables	-	237	-	-	237
Advances	-	92	-	-	92
Underwritten and warehoused investments	389	42	15	-	446
Co-investments					
Corporate investment	550	-	75	-	625
Credit management Investment	-	207	65	-	272
Alternative investment solutions	180	-	9	-	189
Real estate investment					
Debt	-	2	-	-	2
Equity	64	-	10	-	74
Total financial assets	1,183	951	174	55	2,363
Non-financial assets					
Prepayments					39
Premises, equipment and other assets					36
Intangible assets					55
Total assets					2,493
Financial liabilities					
Call accounts	-	149	-	-	149
Term and institutional accounts	-	300	-	-	300
Payables and accrued expenses	-	193	-	-	193
Negative fair value of derivatives	-	-	-	39	39
Medium-term debt*	-	167	-	-	167
Long-term debt*	-	450	-	-	450
Total financial liabilities	-	1,259	-	39	1,298
Non-financial liabilities					
Deferred fees					72
Total liabilities					1,370

* Adjusted for related fair value hedges.

June 30, 2017 *$millions*	*FVTPL Investments*	*Items at amortized cost*	*FVOCI Investments*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	45	-	-	45
Placements with financial institutions and other liquid assets	-	517	-	-	517
Positive fair value of derivatives	-	-	-	62	62
Receivables	-	227	-	-	227
Advances	-	86	-	-	86
Underwritten and warehoused investments	460	-	-	-	460
Co-investments					
Corporate investment	494	21	24	-	539
Credit management Investment	-	259	-	-	259
Alternative investment solutions	217	-	19	-	236
Real estate investment					
Debt	-	4	-	-	4
Equity	60	-	15	-	75
Total financial assets	1,231	1,159	58	62	2,510
Non-financial assets					
Prepayments					50
Premises, equipment and other assets					38
Intangible assets					58
Total assets					2,656
Financial liabilities					
Call accounts	-	249	-	-	249
Term and institutional accounts	-	185	-	-	185
Payables and accrued expenses	-	154	-	-	154
Negative fair value of derivatives	-	-	-	44	44
Medium-term debt*	-	382	-	-	382
Long-term debt*	-	410	-	-	410
Total financial liabilities	-	1,380	-	44	1,424
Non-financial liabilities					
Deferred fees					87
Total liabilities					1,511

* Adjusted for related fair value hedges.

5. OPERATING EXPENSES

$millions	***2018***	*2017*
Staff compensation and benefits	164	150
Other personnel and compensation charges	11	11
Professional fees	29	24
Travel and business development	12	13
Administration and research	16	13
Technology and communication	7	7
Premises	12	11
Depreciation	5	5
Total	256	234

6. INCOME TAX

The Group's current tax expense and deferred tax expense amounts to $3.2 million (2017: $7.9 million) and $10.0 million (2017: $1.1million deferred tax income) respectively. The current tax liability includes $4.1 million (June 30, 2017: $11.9 million) as shown in Note 18. The deferred tax asset amounts to $12.5 million (June 30, 2017: $22.5 million) as shown in Note 7. The deferred tax asset relates to an excess of depreciation over capital allowances amounting to $3.1 million (June 30, 2017: $4.7 million), losses available for offsett against future taxable income and other intangibles amounting to $0.4 million (June 30, 2017: $0.5 million) and deferred compensation amounting to $9.0 million (June 30, 2017: $17.3 million).

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities in their respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits.

The effective tax rates for the Group's significant subsidiaries operating in the following tax based jurisdictions are as follows:

	2018	*2017*
United Kingdom	20%	20%
Kingdom of Saudi Arabia	20%	24%
Qatar	10%	10%

Apart from the above, the Group also incurs tax charge on US operations. During the current year, the applicable statutory federal corporation tax rate in the United States has changed to 21% effective from January 1, 2018 and has resulted in the blended tax rate of 27.5% for the current fiscal year (2017: 34%) resulting in effective tax rate of 30% on a steady state basis. However, due to the change in tax regulations in the US, the Group had to take a one-off charge relating to deferred tax asset, which resulted in effective tax rate of 89% for US operations of the Group.

7. RECEIVABLES AND PREPAYMENTS

$millions	*June 30, 2018*	*June 30, 2017*
Subscriptions receivable	72	115
Receivables from investee and holding companies	78	98
Investment disposal proceeds receivable	78	11
AIS related receivables	8	5
Accrued interest receivable	6	6
Prepaid expenses	26	27
Deferred tax asset (see Note 6)	13	23
Other receivables	7	2
	288	287
Provisions for impairment (see Note 14)	(12)	(10)
Total	276	277

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 and funds 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 investment managers relating to the Group's AIS co-investments.

AIS related receivables represent amounts due from clients for management and administrative services and performance fees.

Accrued interest receivable represents interest receivable on placements with financial institutions.

8. ADVANCES

$millions	*June 30, 2018*	*June 30, 2017*
Advances to investment holding companies	73	70
Advances to employee investment programs	16	17
Advances to CI closed-end funds	17	11
Other advances	1	1
	107	99
Provisions for impairment (see Note 14)	(15)	(13)
Total	92	86

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.

9. UNDERWRITTEN AND WAREHOUSED 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 and warehoused investment. These investments are placed with the investors over the underwriting period which typically can take up to 6 months.

The Group's current underwritten investment balances in Corporate Investments, Alternative Investment Solutions, Real Estate Investments classified as FVTPL, except for certain Corporate Investment exposures classified as FVOCI and warehoused investments in Credit Management Investments classified as amortized cost investments, comprise the following:

	June 30, 2018				June 30, 2017			
$millions	North America	Europe	MENA	Total	North America	Europe	MENA	Total
Underwritten investments								
Corporate investment:								
Industrial Products	11	50	-	61	4	-	-	4
Healthcare	-	-	38	38	-	-	-	-
Industrial/ Business Services	24	-	-	24	28	-	-	28
Consumer Products	-	-	-	-	8	21	-	29
Technology	-	-	-	-	-	129	-	129
Total corporate investment	35	50	38	123	40	150	-	190
Alternative investment solutions:								
Special opportunities portfolio	11	-	-	11	-	-	-	-
Total alternative investment solutions	11	-	-	11	-	-	-	-
Real estate investment:								
Core / Core Plus	187	83	-	270	224	46	-	270
Total real estate investment	187	83	-	270	224	46	-	270
Warehoused investments								
Credit management Investments								
CLO Investmemts	30	12	-	42	-	-	-	-
Total credit management investment	30	12	-	42	-	-	-	-
Total	263	145	38	446	264	196	-	460

10. CORPORATE CO-INVESTMENTS

$millions	*June 30, 2018*	*June 30, 2017*
CI co-investments [See Note 10 (A)]	609	515
Strategic and other investments [See Note 10 (B)]	16	24
Total	625	539

10 (A) CI CO-INVESTMENTS

The Group's CI co-investments are primarily classified as FVTPL investments. Certain debt investments amounting to $20.4 million were carried at amortised cost at the end of the prior year which were fully settled during the year.

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

The carrying values of the Group's CI co-investments at June 30, 2018 and June 30, 2017 are:

	June 30, 2018				June 30, 2017			
$millions	**North America**	**Europe**	**MENA***	**Total**	**North America**	**Europe**	**MENA***	**Total**
Consumer Products	63	72	32	167	55	43	33	131
Consumer Services	22	-	9	31	40	-	11	51
Healthcare	-	8	45	53	-	-	6	6
Industrial Products	7	18	4	29	-	75	4	79
Industrial/ Business Services	28	8	59	95	9	1	53	63
Telecom	107	-	-	107	111	-	-	111
Technology								
Big Data	1	89	-	90	1	17	-	18
Internet / Mobility	-	8	2	10	1	6	2	9
Security	14	13	-	27	14	33	-	47
Total	242	216	151	609	231	175	109	515

*Including Turkey

10. CORPORATE CO-INVESTMENTS (CONTINUED)

10 (B) STRATEGIC AND OTHER INVESTMENTS

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

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

Strategic investments in equity instruments are held as FVOCI investments. For FVOCI investments, during the year, $0.3 million (2017: $0.4 million) of dividend income was recognized in the consolidated statement of profit or loss and $5.1 million (2017: $1.0 million) of losses were recognized in other comprehensive income. A loss of $2.5 million (2017: nil) was recycled to retained earnings on de-recognition.

Valuation techniques for measuring the fair value of strategic and other investments are the same as those used for CI co-investments.

11. CREDIT MANAGEMENT INVESTMENTS (CM)

$millions	***June 30, 2018***	*June 30, 2017*
European CLO Investments	254	219
US CLO Investments	18	40
Total	272	259

The Group's co-investments in CM investment represents co-investments in collateralized loan obligations (CLOs) managed by the CM team and are classified as FVOCI debt investments, except for certain European positions that are carried at amortised cost.

During the current year, there was a change in the business model, primarily driven by regulatory changes in the US, for the Group's credit management business which resulted in the Group's co-investment in some CLOs being re-classified as FVOCI investments from amortized cost. The difference between the fair value and the carrying value at the reclassification date was recognized in fair value reserve. Similarly, any subsequent fair value changes on such investments will be recognized directly in equity and any impairment in the carrying value will be recognized in the consolidated statement of profit or loss.

In relation to investments carried at amortised cost, interest income on these debt instruments is recognized using the effective interest rate ("EIR"). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instruments or, when appropriate a shorter period, to the net carrying amount of the debt instruments at the reporting date. The amortised cost of the CLO debt instrument will be adjusted if there is a revision in estimates of projected cashflows from the underlying CLO investments. The adjusted amortised cost is calculated based on the latest re-estimated EIR. The accrual based on EIR and any losses arising from impairment of such investments are included in asset based income in the statement of profit or loss.

The fair value of CLO co-investments categorized as FVOCI co-investments is determined on the basis of inputs from independent third parties including broker quotes and Markit data.

The Group's CLO co-investments amounting to $42 million (June 30, 2017: nil) are utilized to secure amounts drawn under repurchase agreements. At June 30, 2018, $42 million (June 30, 2017: nil) was the outstanding balance from financing under repurchase agreements (See Note 20).

12. ALTERNATIVE INVESTMENT SOLUTIONS CO-INVESTMENTS

The Group's AIS co-investments, primarily classified as FVTPL investments, comprise the following:

$millions	***June 30, 2018***	*June 30, 2017*
Multi-manager solutions	45	69
Hedge funds partnerships	65	71
Alternative risk premia	24	39
Special opportunities portfolios	55	57
Total	189	236

The net asset value of the Group's AIS co-investments is determined based on the fair value of the underlying investments of each fund as reported by the managers. Significant controls are built into the determination of the net asset values of the various investments, 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 valuations of the Group's AIS co-investments which are classified under Level 3 of the fair value hierarchy (see Note 29) are closely monitored by the Group. Management holds regular discussions with the investment managers and uses pricing which is reflective of the investment's fair value.

Of the above, co-investments amounting to $9.0 million (June 30, 2017: $18.7 million) are classified as FVOCI investments. For FVOCI investments, during the year, $1.0 million of gains (2017: losses of $4.3 million) were recognized in other comprehensive income. These investments comprise funds which are not immediately available for redemption due to the liquidity profile of the instruments held by the underlying managers and are classified as Level 3 investments in the fair value hierarchy.

Of the above, co-investments amounting to $18.8 million (June 30, 2017: Nil) are subject to a lock up-period. Such investments are classified as Level 2 investments in the fair value hierarchy.

A portion of the Group's AIS co-investments was utilized to secure amounts drawn under a bi-lateral revolving facility until the end of the prior year, when the drawn balance from the facility was $13.8 million. (See Note 19).

13. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate are classified as follows:

- Co-investments in equity of real estate acquired after the global financial crisis in 2008-2009 are classified as FVTPL investments.
- Co-investments in equity of real estate acquired prior to global financial crisis in 2008-2009 and strategic investments are classified as FVOCI investments.
- Debt investments in real estate properties are carried at amortised cost.

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.

Debt investments in real estate properties carried at amortised cost amount to $2.2 million (June 30, 2017: $3.7 million). Strategic and other equity investments which are classified as FVOCI investments amount to $9.7 million (June 30, 2017: $14.8 million). For FVOCI investments, during the year, $0.2 million (2017: $21.5 million) of losses were recognized in other comprehensive income and a loss of nil (2017: $19.3 million) was recycled to retained earnings on derecognition. All other investments are classified as FVTPL.

The carrying values of the Group's co-investments in real estate portfolios, which as at June 30, 2018 and June 30, 2017 were located in United States and Europe are:

$millions **PORTFOLIO TYPE**	***June 30, 2018***			*June 30, 2017*		
	North America	**Europe**	**Total**	North America	Europe	Total
Core / Core Plus	61	7	68	70	2	72
Debt	2	-	2	4	-	4
Opportunistic	1	-	1	1	-	1
Strategic	5	-	5	2	-	2
Total	69	7	76	77	2	79

14. PROVISIONS FOR IMPAIRMENT

Impairment provisions are as follows:

$millions			
Categories	***Balance At beginning***	***Charge***	***At end****
12 months to June 30, 2018			
Receivables (Note 7)	10	2	12
Advances (Note 8)	13	2	15
Cash and short-term funds	0	-	0
Placement with financial institutions and other liquid assets	0	-	0
Co-investments - debt	1	-	1
Total	24	4	28

* Of the total provision, $1.5 million relates to stage 1, $2.6 million relates to stage 2 and $24.3 million relates to stage 3 assets. Of the stage 1 and 2 provision, $2.7 million relates to advances. During the year, there was a movement in loss allowance of $0.2m from stage 1 to stage 2 assets.

$millions			
Categories	***Balance At beginning***	***Charge***	***At end****
12 months to June 30, 2017			
Receivables (Note 7)	8	2	10
Advances (Note 8)	12	1	13
Cash and short-term funds	0	-	0
Placement with financial institutions and other liquid assets	0	-	0
Co-investments - debt	-	1	1
Total	20	4	24

* Of the total provision, $1.8 million relates to stage 1, $1.1 million relates to stage 2 and $21.5 million relates to stage 3 assets.

15. INTANGIBLE ASSETS

$millions	*June 30, 2018*	*June 30, 2017*
Goodwill	49	49
Management Contracts	6	9
Total	55	58

Intangible assets were recognized on the acquisition of the credit management business acquired through business combination during the prior financial year.

Management contracts represent the right to manage European and US CLOs. The contracts have a useful life of 5 years from the date of acquisition and are amortized accordingly.

The Group performed its annual impairment test on Goodwill in June 2018. No impairment indicators were identified which would cause the management to believe the existence of impairment on Goodwill.

The movement in intangible assets is set out in the below table:

$millions	**Goodwill**	**Management contracts**	**Total**
Balance at July 1, 2016	-	-	**-**
Recognized at acquisition of a subsidiary	49	10	**59**
Amortization during the year	-	(1)	**(1)**
Balance at June 30, 2017	49	9	**58**
Amortization during the year	**-**	(3)	**(3)**
Balance at June 30, 2018	**49**	**6**	**55**

16. CALL ACCOUNTS

$millions	***June 30, 2018***	*June 30, 2017*
Investment holding companies accounts	107	167
Other call accounts	9	30
Discretionary and other accounts	33	52
Total	149	249

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

Other call accounts comprise of cash placed with the Bank, on call, for future participation in the Group's investment products.

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.

17. TERM AND INSTITUTIONAL ACCOUNTS

$millions	***June 30, 2018***	*June 30, 2017*
Institutional accounts on call	251	167
Term deposits	49	18
Total	300	185

All these balances bear interest at market rates.

18. PAYABLES AND ACCRUED EXPENSES

$millions	*June 30, 2018*	*June 30, 2017*
Accrued expenses - employee compensation	77	76
Vendor and other payables	33	38
Unfunded deal acquisitions	71	19
Tax liability (see Note 6)	6	12
Accrued interest payable	6	9
Total	193	154

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, the Kingdom of Saudi Arabia, Qatar, and the United Arab Emirates.

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 year end.

19. MEDIUM-TERM DEBT

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

$millions	*Final Maturity*	*June 30, 2018* Size	*June 30, 2018* Current outstanding	*June 30, 2017* Size	*June 30, 2017* Current outstanding
4-year syndicated revolving facility					
	March 2020	25	-	25	-
	March 2021	400	50	397	-
3-year syndicated revolving facility	December 2020	250	-	-	-
5-year fixed rate bonds	June 2019	139	139	139	139
5-year fixed rate bonds	November 2017	-	-	250	250
2-year secured bi-lateral revolving facility	June 2019	-	-	50	14
Total			189		403
Foreign exchange translation adjustments			(13)		(9)
Fair value adjustments relating to interest rate hedges			0		0
Transaction costs of borrowings			(9)		(12)
Total			167		382

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 syndicated revolving facilities and the fixed rate bonds are subject to certain customary covenants, including maintaining certain minimum levels of net worth and operating below maximum leverage ratios.

During the current year the Group has pre-paid the secured bi-lateral revolving facility that was due to mature in June 2019. The facility was secured, to the extent drawn, by an equivalent amount of the Group's AIS co-investments. As of June 30, 2017, the effective available facility was $13.8 million, which was fully drawn.

20. LONG-TERM DEBT

$millions	Final Maturity	June 30, 2018	June 30, 2017
PRIVATE NOTES			
JPY 37 Billion Private Placement	March 2030	332	332
$50 Million Private Placement	July 2032	50	50
		382	382
SECURED FINANCING			
Repurchase agreement	October 2030	20	-
Repurchase agreement	April 2031	22	-
		42	-
Foreign exchange translation adjustments		2	(2)
Fair value adjustments relating to interest rate hedges		27	31
Transaction costs of borrowings		(3)	(1)
Total		450	410

Private Notes

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.

Secured Financing

Secured financing relates to financing obtained under repurchase transaction arrangements entered into by the Group, with underlying assets being CLO co-investment exposures in Europe. The financings carry variable rates of interest. Each financing arrangement has a specified repurchase date at which, the Group will repurchase the underlying CLO asset at a pre-determined repurchase price.

21. DEFERRED FEES

$millions	June 30, 2018	June 30, 2017
Deferred fees relating to placements	72	86
Deferred fees from investee companies	-	1
Total	72	87

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.

During the current financial year, income recognized through amortization of deferred fees amounted to $42.3 million (2017: $49.1 million).

22. SHARE CAPITAL AND RESERVES

The Bank's share capital at year end is as follows:

	June 30, 2018			*June 30, 2017*		
	No. of shares	**Par value $**	**$millions**	No. of shares	Par value $	$millions
Authorized share capital						
- Ordinary shares	400,000,000	2.50	1,000	400,000,000	2.50	1,000
- Preference and other shares	1,000,000	1,000	1,000	1,000,000	1,000	1,000
			2,000			2,000
Issued share capital						
- Ordinary shares	80,000,000	2.50	200	80,000,000	2.50	200
- Preference shares	123,239	1,000	123	223,239	1,000	223
			323			423

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 27).

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.

Fair value reserve

Certain of the Group's CI, RE, AIS co-investments in equity instruments and certain CM debt instruments have been classified as FVOCI. The gains and losses arising on fair valuation of such investments is recorded in the fair value reserve account. Any gain or loss on realization of such CI, RE, AIS co-investments is recycled directly to retained earnings and any gain or loss on realization of such CM co-investments is recycled to retained earnings through profit or loss.

Treasury shares

586,343 (June 30 2017: 352,418) ordinary shares were held as treasury shares, which includes 337,408 shares (June 30, 2017: 352,418 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 1,184,852 shares (June 30, 2017: 1,560,821 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2018, are not counted as treasury shares (see Note 30).

22. SHARE CAPITAL AND RESERVES (CONTINUED)

Preference share capital

The preference shares are non-cumulative, non-convertible, non-voting, non-participating and perpetual in nature and carry a floating rate dividend, equal to the benchmark 12-month interbank rate + 9.75% per annum.

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

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.

During the year, 100,000 preference shares were re-purchased for an aggregate purchase price of $100 million, resulting in 123,239 (June 30, 2017: 223,239) issued preference shares as at year end. Out of the total shares re-purchased, 680 shares were purchased from the Group's employees.

23. OTHER RESERVES

During the prior year, the Group early adopted IFRS 9. Following the adoption, the AFS investments and related revaluation reserve was reclassified as FVOCI investments and fair value reserve respectively.

Other reserves now consist of cash flow hedges and the revaluation reserve of premises and equipment recognized directly in equity.

Movements relating to other reserves are set out below:

$millions	**Cash flow hedges**	**Revaluation reserve on premises and equipment**	**Total**
Balance at July 1, 2016	(8)	6	(2)
Net realized loss recycled to statement of profit or loss	5	-	5
Net unrealized losses for the year	(8)	-	(8)
Transfer of depreciation to retained earnings	-	(1)	(1)
Balance at June 30, 2017	(11)	5	(6)
Net realized gain recycled to statement of profit or loss	(1)	-	(1)
Net unrealized gain for the year	3	-	3
Transfer of depreciation to retained earnings	-	(1)	(1)
Balance at June 30, 2018	**(9)**	**4**	**(5)**

24. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

	2018	2017
Profit for the year ($millions)	125	120
Less : Preference shares dividend - proposed ($millions)	(22)	(25)
Profit attributable to ordinary shareholders ($millions)	103	95
Weighted average ordinary shares for basic earnings per ordinary share (millions)	77	74
Basic earnings per ordinary share - on weighted average shares ($)	1.34	1.28
Weighted average ordinary shares for fully diluted earnings per ordinary shares (millions)	79	76
Fully diluted earnings per ordinary share - on weighted average diluted shares ($)	1.30	1.25
Proposed appropriations:		
Ordinary shares dividend ($millions)	19	19
Preference shares dividend ($millions)	22	25
	41	44

The proposed ordinary share dividend is 24 cents (2017: 24 cents) per share payable only on issued shares (excluding treasury shares), that are held on the date of approval.

The proposed preference share dividend of $22.3 million (2017: $25.0 million) represents an annual dividend on issued preference shares.

The book value per ordinary share at the year-end date is calculated by dividing the ordinary shareholders' equity (excluding unrealized changes relating to 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 $12.13 per share (June 30, 2017: $11.10 per share).

The potential dilution effect of future vesting of the unvested awards is reflected as a difference between the weighted average shares outstanding for diluted and basic earnings per share.

25. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group currently applies IAS 39 for hedge accounting. 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.

25. 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 Profit or Loss, and as a corresponding adjustment to the carrying value of the hedged item on the consolidated statement of financial position.	Recorded in the consolidated statement of profit or loss, with a corresponding effect on the consolidated statement of financial position under positive or negative fair value of derivatives.
Cash flow hedges	Not applicable	Recorded in equity with a corresponding effect on the consolidated statement of financial position under positive or negative fair value of derivatives. Any unrealized gains or losses previously recognized in equity are transferred to the consolidated statement of profit or loss at the time when the forecasted transaction impacts the consolidated statement of profit or loss.

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 fair valued investments). Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of profit or loss.

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 29) 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.

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

$millions / *Description*	*June 30, 2018*			*June 30, 2017*		
	Notional value	*Positive fair value**	*Negative fair value*	*Notional value*	*Positive fair value**	*Negative fair value*
A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures	302	-	(17)	280	-	(5)
ii) Cash flow hedges						
Forecasted transactions	51	0	(0)	57	1	(3)
Coupon on long-term debt	48	-	(3)	58	-	(1)
Total forward foreign exchange contracts	401	0	(20)	395	1	(9)
Interest rate risk being hedged using interest rate swaps						
i) Fair value hedges - fixed rate debt	490	28	(2)	738	21	(1)
ii) Cash flow hedges - floating rate debt	25	-	-	25	-	(2)
Total interest rate hedging contracts	515	28	(2)	763	21	(3)
Total hedging derivatives	916	28	(22)	1,158	22	(12)
B) OTHER DERIVATIVES						
Interest rate swaps	623	10	(9)	464	12	(12)
Total return swaps	-	-	-	108	-	(0)
Forward foreign exchange contracts	668	9	(3)	1,709	13	(10)
Currency options	36	0	-	-	-	-
Cross currency swaps	363	8	(5)	437	15	(10)
Total other derivatives	1,690	27	(17)	2,718	40	(32)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,606**	**55**	**(39)**	**3,876**	**62**	**(44)**

** Net collateral received by the Group amounting to $50.7 million has been taken against the fair values above (June 30, 2017: $64.9 million)*

Interest rate swaps, classified as hedging derivatives include notional value of $38.9 million (June 30, 2017: $38.3 million) of credit contingent swaps, which are cancellable if the Group defaults on its CHF 125 million 4.75% notes due in 2019.

Cross currency swaps, classified as other derivatives, include notional value of $118.3 million (June 30, 2017: $119.9 million) of credit contingent swaps, which are cancellable if the Group defaults on its CHF 125 million 4.75% notes due in 2019.

Total return swaps classified as other derivatives matured during the year (June 30, 2017: $108.1 million).

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2018 $millions	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	302	-	-	-	302
Interest rate swaps	-	63	6	421	490
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	87	12	-	-	99
Interest rate swaps	-	-	-	25	25
Other Derivatives:					
Interest rate swaps	-	573	-	50	623
Total return swaps	-	-	-	-	-
Forward foreign exchange contracts	620	48	-	-	668
Cross currency swaps	-	322	-	41	363
Currency options	36	-	-	-	36
	1,045	1,018	6	537	2,606

June 30, 2017 $millions	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	280	-	-	-	280
Interest rate swaps	-	250	71	417	738
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	55	60	-	-	115
Interest rate swaps	-	-	-	25	25
Other Derivatives:					
Interest rate swaps	414	-	-	50	464
Total return swaps	-	108	-	-	108
Forward foreign exchange contracts	1,591	118	-	-	1,709
Cross currency swaps	-	-	437	-	437
	2,340	536	508	492	3,876

Fair value hedges

Losses arising from fair value hedges during the year ended June 30, 2018 were $28.2 million (2017: losses of $ 86.9 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $27.3 million (2017: gains of $88.9 million). These gains and losses are included in treasury and other asset based income or interest expense, as appropriate, in the consolidated statement of profit or loss. Additionally, during the current financial year, there was a loss of $0.9 million (2017: $1.9 million) on derivative instruments classified as other derivatives.

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 profit or loss in the following periods, assuming no adjustments are made to hedged amounts:

June 30, 2018 *$millions*	*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	-	(12)	(47)	(82)	(141)
Operating expenses	(43)	(3)	-	-	(46)
Fee income	15	10	-	-	25
Interest rate risk*					
Interest on liabilities	(2)	(3)	(19)	(43)	(67)
	(30)	(8)	(66)	(125)	(229)

June 30, 2017 *$millions*	*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)	(6)	(46)	(92)	(150)
Operating expenses	-	(18)	-	-	(18)
Fee income	-	31	-	-	31
Interest rate risk*					
Interest on liabilities	(2)	(2)	(18)	(47)	(69)
	(8)	5	(64)	(139)	(206)

* 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 profit or loss for the year ended June 30, 2018 was a loss of $0.8 million (2017: $5.3 million).

26. COMMITMENTS AND CONTINGENT LIABILITIES

$millions	*June 30, 2018*	*June 30, 2017*
Investment commitments	66	61
Non-cancelable operating leases:		
Up to 1 year	6	6
1 year to 5 years	40	12
Over 5 years	63	11
Total non-cancelable operating leases	109	29
Guarantees and letters of credit issued to third parties	10	10

Investment related commitments represent the Group's unfunded co-investment commitments to various CI and RE investment funds.

Non-cancelable operating leases relate to the Group's commitments in respect of its New York, London, Riyadh and Singapore 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 and accordingly no provision has been made in the consolidated financial statements.

27. REGULATORY CAPITAL ADEQUACY

The Group applies the Basel III framework regulations, as adopted by the CBB, 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:

$millions	June 30, 2018		June 30,2017		
	Balance as per published financial statements	Consolidated PIR data	Balance as per published financial statements	Consolidated PIR data	Reference
Assets					
Cash and short-term funds	105	105	45	45	
Placements with financial institutions and other liquid assets	266	266	517	517	
Positive fair value of derivatives	55	55	62	62	
Receivables	250	250	227	227	
Advances	92	92	86	86	
Underwritten investments	446	446	460	460	
Co-investments - retention					
Corporate investment	625	625	539	539	
Credit management investment	272	272	259	259	
Alternative investment solutions	189	189	236	236	
Real estate investment	76	76	79	79	
Prepayments	26	26	50	50	
Premises, equipment and other assets	36	21	38	29	
Intangible assets	55	-	58	-	
Goodwill	-	49	-	49	
*Other Intangibles***	-	21	-	18	F
Total assets	2,493	2,493	2,656	2,656	
Liabilities and Equity					
Liabilities					
Call accounts	149	149	249	249	
Term and institutional accounts	300	300	185	185	
Payables and accrued expenses	193	193	154	154	
Negative fair value of derivatives	39	39	44	44	
Medium-term debt	167	167	382	382	
Long-term debt	450	450	410	410	
Deferred fees	72	72	87	87	
Total liabilities	1,370	1,370	1,511	1,511	
Equity					
Paid-in-share capital					
Of which form part of Common Equity Tier 1 (CET1)					
Ordinary share capital	200	200	200	200	A1
Treasury shares	(5)	(5)	(3)	(3)	A2
Reserves and accumulated other comprehensive income					
Of which form part of Common Equity Tier 1 (CET1)					
Statutory reserve	100	100	100	100	C1
Share premium	229	229	226	226	C2
Fair value reserve	(7)	(7)	(5)	(5)	C3
Retained earnings	322	322	246	246	B1
Current cumulative net income	125	125	120	120	B2
Proposed appropriations	41	41	44	44	B3
Cash flow hedge reserve	(9)	(9)	(11)	(11)	C4
Of which form part of Additional Tier 1 (AT1)					
Preference share capital	123	123	223	223	D
Fixed asset revaluation reserve	4	4	5	5	E
Total equity	1,123	1,123	1,145	1,145	
Total liabilities and equity	2,493	2,493	2,656	2,656	

***Regulatory adjustments on intangibles have been applied per CBB's transitional arrangements of phasing over the prescribed time period.*

27. REGULATORY CAPITAL ADEQUACY (CONTINUED)

$millions	June 30,2018 PIR	June 30,2018 Amounts subject To Pre-2015 Treatment	June 30,2017 PIR	June 30,2017 Amounts subject To Pre-2015 Treatment	Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves					
Directly issued qualifying common share capital plus related stock surplus	195		197		A1+A2
Retained earnings	488		411		B1+B2+B3
Accumulated other comprehensive income (and other reserves)	313		309		C1+C2+C3+C4
CET1 capital before regulatory adjustments	996		917		
Less regulatory adjustments to CET 1					
Intangibles	(12)	15	(11)	10	F
Goodwill	(49)		(49)		
Cash-flow hedge reserve	9		11		C4
Total regulatory adjustments to Common equity Tier 1	(52)		(49)		
Common Equity Tier 1 capital (CET1)	944		868		
Additional Tier 1 capital (AT1): instruments					
Directly issued qualifying Additional Tier 1 instruments	123		223		D
Additional Tier 1 capital before regulatory adjustments	123		223		
Total regulatory adjustments to Additional Tier 1 capital	-		-		
Additional Tier 1 capital (AT1)	123		223		
Tier 1 capital (T1 = CET1 + AT1)	1,067		1,091		
Tier 2 capital (T2)					
Fixed asset revaluation reserve	4		5		E
Expected credit losses on advances (see Note 14)	3		2		
Tier 2 capital before regulatory adjustments	7		7		
Total regulatory adjustments to Tier 2 capital	-		-		
Tier 2 capital (T2)	7		7		
Total capital (TC = T1 + T2)	1,074		1,098		

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 methodology by asset class

Asset class segment	**Basel III Methodology June 30, 2018**	**Basel III risk weight**
Corporate investments	Standardized approach ('STA')	150%
Real estate investments	Standardized approach ('STA')	200%
Alternative Investment Solutions	Standardized approach ('STA')	150%
Credit management investments and warehousing	Standardized approach ('STA')	100% to 1250%
CI and RE underwriting	Standardized approach ('STA')	100%
Operational risk	Basic indicator approach ('BIA')	15%

27. REGULATORY CAPITAL ADEQUACY (CONTINUED)

The table below summarizes the regulatory capital and the capital adequacy 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.

$millions	***June 30, 2018***	*June 30, 2017*
Tier 1 capital	1,067	1,093
Tier 2 capital	7	5
Regulatory capital base under Basel III (TC=T1+T2)	1,074	1,098

Risk weighted exposure *$millions*	***Principal / Notional amounts*** ***June 30, 2018***	***Risk weighted equivalents*** ***June 30, 2018***	*Principal / Notional amounts* *June 30, 2017*	*Risk weighted equivalents* *June 30, 2017*
Credit risk				
Claims on sovereigns	1	-	16	-
Claims on banks	348	160	385	195
Claims on corporates	345	344	471	427
Co-investments (including underwriting)	1,608	2,159	1,574	2,084
Other assets	50	69	101	157
Off-balance sheet items				
Commitments and contingent liabilities	185	82	100	40
Derivative financial instruments	65	36	78	42
Credit risk weighted exposure		2,850		2,945
Market risk				
Market risk weighted exposure		1		1
Operational risk				
Operational risk weighted exposure		562		522
Total risk weighted exposure (RWE)		3,413		3,468
Tier 1 capital ratio (T1) / (RWE)		**31.3%**		**31.5%**
Capital adequacy ratio (TC) / (RWE)		**31.5%**		**31.7%**
Minimum required as per CBB regulatory guidelines under Basel III		**12.5%**		**12.5%**
Capital cushion over minimum required as per CBB guidelines		647		665

Fair value unrealized gain on fair valued investments amounting to $69.3 million (June 30, 2017: losses of $10.1 million) are reflected in retained earnings, which is part of Tier 1 Capital.

28. 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 27). 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 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 25). 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.

28. 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 8) were restructured.

The table below analyses the Group's maximum counterparty credit risk exposures at year end without taking into account any credit mitigants.

June 30, 2018 $millions	***Neither past due nor impaired (a)***		***Past due but not impaired (b)***	***Impaired (c)***	***Provisions (d)***	***Maximum credit risk (a+b+c+d)***
	Stage 1		**Stage 2**	**Stage 3**		
	Credit risk rating					
	High	**Standard**				
Short-term funds	1	104	-	-	(0)	105
Placements with financial institutions and other liquid assets	123	143	-	-	(0)	266
Positive fair value of derivatives	5	50	-	-	-	55
Receivables	-	169	68	12	(12)	237
Advances	-	95	-	12	(15)	92
Co-investments - debt	-	275	-	-	(1)	274
Guarantees	-	10	-	-	-	10
Total	129	846	68	24	(28)	1,039

June 30, 2017 $millions	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*
	Stage 1		Stage 2	Stage 3		
	Credit risk rating					
	High	Standard				
Short-term funds	0	44	-	-	(0)	44
Placements with financial institutions and other liquid assets	206	311	-	-	(0)	517
Positive fair value of derivatives	62	-	-	-	-	62
Receivables	-	144	84	9	(10)	227
Advances	-	87	-	12	(13)	86
Co-investments - debt	-	284	-	-	(1)	283
Guarantees	-	10	-	-	-	10
Total	268	880	84	21	(24)	1,229

28. 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.

$millions	**June 30, 2018**	*June 30, 2017*
Up to 1 month	32	43
> 1 up to 3 months	27	5
> 3 up to 6 months	5	26
> 6 months	4	10
Total	**68**	**84**

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, 2018 amounts to $915.8 million (June 30, 2017: $156.0 million).

The breakdown of provisions by geographical region and industry sector is as follows:

$millions	***June 30, 2018***	***June 30, 2017***
Geographical Region		
North America	24	23
Europe	1	1
Other	3	0
Total	28	24

$millions	***June 30, 2018***	***June 30, 2017***
Industry Sector		
Banking and Finance	7	6
Real estate	18	18
Healthcare	3	-
Total	28	24

28. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

Securitization

The Group provides fund management services to funds which invest in CLOs and funds which provide syndicated lending to a variety of institutions. The Group also acts as an originator and sponsor for certain CLO investments and co-invests through specific SPVs in the CLO investments. The CLO investments are held within a business model whose objective is to hold and sell assets in order to collect contractual cash flows on specified dates. The contractual terms give rise to variable distributions (solely payments of principal and interest) based on CLO's respective waterfall and priorities of payment. The Group manages it's risk relevant to the securitization activity in line with it's risk management policies and procedures.

The Group's exposure to CLOs is carried in the banking book. The Group's securitisation exposures through the CLOs are in the rated and unrated tranches of the notes and varies from fund to fund. The Group does not hold securitisation positions with trading intent or to hedge positions with trading intent. The Group has not established and does not manage any synthetic securitisation structures nor does it securitise revolving exposures.

Capital requirements are measured using the standardised approach in line with CBB regulatory requirements. Refer to Note 27 for risk weighting.

28. RISK MANAGEMENT (CONTINUED)

ii) Credit Risk Measurement

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, expert credit assessment and forward-looking information.

As a practical expedient, IFRS 9 provides a low credit risk ('LCR') operational simplification that if a financial instrument has low credit risk i.e. an investment grade credit rating, an entity is allowed to assume at the reporting date that no significant increase in credit risk has occurred.

The Group considers the following as LCR for the short-term liquid asset portfolio:

- Financial instruments with an external rating grade of 'investment grade'.; and/or
- Financial instruments with a tenor of one year or less.

The receivables and advances of the Group are collateralized by the underlying investments. Hence, the Group considers fair-value movements of such investments and management judgement to assess whether there has been a significant increase in credit risk for its receivables and advances portfolio.

Measurement of ECL

The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). PD represents the likelihood of a borrower defaulting on its financial obligation. EAD is based on the amounts the Group expects to be owed at the time of default. LGD represents the group's expectation of the extent of loss on the exposure.

For the short-term liquid asset portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realized default rates over the period of 12 months, as published by the rating agencies, after adjusting for forward-looking macro-economic information.

For receivables and advances that arise in connection with the CI asset class, PDs are derived using an internal model and adjusted for forward-looking macro-economic information. PDs for receivables and advances of the RE asset class are derived based on internal categorization of the related investment and default rates published by a reputable rating agency adjusted for forward-looking macro-economic information.

For secured assets, LGDs are determined based on factors which impact the recoveries made post default. For unsecured assets, LGDs are based on regulatory guidelines.

The Group writes-off exposures if there is no reasonable expectation of recovery, subject to the appropriate regulatory approvals.

28. RISK MANAGEMENT (CONTINUED)

iii) 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 the 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, 2018 *$millions*	*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	105	-	105	-	-	-	-	105
Placement with financial institutions and other liquid assets	262	4	266	-	-	-	-	266
Positive fair value of derivatives	5	4	9	1	-	45	-	55
Receivables	167	2	169	68	-	-	-	237
Advances	1	17	18	74	-	-	-	92
Underwritten and warehoused investments	446	-	446	-	-	-	-	446
Co-investments								
Corporate investment	-	36	36	589	-	-	-	625
Credit management Investment	5	17	22	168	82	-	-	272
Alternative investment solutions	67	37	104	85	-	-	-	189
Real estate investment	-	-	-	76	-	-	-	76
Total financial assets	1,058	117	1,175	1,061	82	45	-	2,363
Non-financial assets								
Prepayments	-	-	-	-	-	-	39	39
Premises, equipment and other assets	-	-	-	-	-	-	36	36
Intangibles	-	-	-	-	-	-	55	55
Total assets	1,058	117	1,175	1,061	82	45	130	2,493
Liabilities								
Financial liabilities								
Call accounts	9	-	9	140	-	-	-	149
Term and institutional accounts	95	76	171	129	-	-	-	300
Payables and accrued expenses	159	15	174	19	-	-	-	193
Negative fair value of derivatives	23	5	28	-	-	11	-	39
Medium-term debt	41	126	167	-	-	-	-	167
Long-term debt	-	-	-	-	42	408	-	450
Total financial liabilities	327	222	549	288	42	419	-	1,298
Non-financial liability								
Deferred fees	-	-	-	-	-	-	72	72
Total liabilities	327	222	549	288	42	419	72	1,370
Net gap	731	(105)	626	773	40	(374)	58	1,123
Cumulative liquidity gap	731	626	626	1,399	1,439	1,065	1,123	

28. RISK MANAGEMENT (CONTINUED)

iii) Funding liquidity risk (continued)

June 30, 2017 *$millions*	*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	45	-	45	-	-	-	-	45
Placement with financial institutions and other liquid assets	397	116	513	4	-	-	-	517
Positive fair value of derivatives	5	2	7	8	1	46	-	62
Receivables	141	4	145	82	-	-	-	227
Advances	4	6	10	76	-	-	-	86
Underwritten investments	393	67	460	-	-	-	-	460
Co-investments								
Corporate investment	24	49	73	466	-	-	-	539
Credit management Investment	10	29	39	155	65	-	-	259
Alternative investment solutions	90	78	168	68	-	-	-	236
Real estate investment	-	-	-	79	-	-	-	79
Total financial assets	1,109	351	1,460	938	66	46	-	2,510
Non-financial assets								
Prepayments	-	-	-	-	-	-	50	50
Premises, equipment and other assets	-	-	-	-	-	-	38	38
Intangibles	-	-	-	-	-	-	58	58
Total assets	1,109	351	1,460	938	66	46	146	2,656
Liabilities								
Financial liabilities								
Call accounts	30	-	30	219	-	-	-	249
Term and institutional accounts	45	49	94	91	-	-	-	185
Payables and accrued expenses	123	15	138	16	-	-	-	154
Negative fair value of derivatives	15	6	21	10	-	13	-	44
Medium-term debt	3	250	253	129	-	-	-	382
Long-term debt	-	-	-	-	-	410	-	410
Total financial liabilities	216	320	536	465	-	423	-	1,424
Non-financial liability								
Deferred fees	-	-	-	-	-	-	87	87
Total liabilities	216	320	536	465	-	423	87	1,511
Net gap	893	31	924	473	66	(377)	59	1,145
Cumulative liquidity gap	893	924	924	1,397	1,463	1,086	1,145	

28. RISK MANAGEMENT (CONTINUED)

iii) 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 Statement of Financial Position 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, 2018 ***$millions***	***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	9	2	148	-	-	159
Term and institutional accounts	97	79	135	-	-	311
Payables and accrued expenses	159	15	19	-	-	193
Medium-term debt	50	132	-	-	-	182
Long-term debt	2	14	66	122	426	630
	317	242	368	122	426	1,475
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	932	244	40	-	-	1,216
Contractual amounts receivable	(917)	(248)	(43)	-	-	(1,208)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	(1)	(8)	(30)	(31)	(11)	(81)
Commitments	7	46	59	48	15	175
Guarantees	-	-	-	10	-	10
Total undiscounted financial liabilities	338	276	394	149	430	1,587

June 30, 2017 *$millions*	*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	34	6	225	-	-	265
Term and institutional accounts	47	52	94	-	-	193
Payables and accrued expenses	123	15	17	-	-	155
Medium-term debt	14	267	137	-	-	418
Long-term debt	8	8	62	78	437	593
	226	348	535	78	437	1,624
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	1,536	125	301	-	-	1,962
Contractual amounts receivable	(1,531)	(123)	(313)	-	-	(1,967)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	2	(9)	(32)	(32)	(16)	(87)
Commitments	15	35	29	11	-	90
Guarantees	-	-	-	10	-	10
Total undiscounted financial liabilities	248	376	520	67	421	1,632

28. RISK MANAGEMENT (CONTINUED)

iv) 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, 2018			June 30, 2017		
$millions	***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	664	10	674	792	10	802
Europe	330	-	330	357	-	357
MENA*	35	-	35	70	-	70
Total	1,029	10	1,039	1,219	10	1,229

* including Turkey

	June 30, 2018			June 30, 2017		
$millions	***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	776	-	776	931	-	931
Consumer products	32	-	32	25	-	25
Consumer services	67	-	67	98	-	98
Industrial /business services	33	10	43	13	10	23
Industrial products	42	-	42	45	-	45
Real estate	32	-	32	59	-	59
Technology and Telecom	36	-	36	43	-	43
Others	11	-	11	5	-	5
Total	1,029	10	1,039	1,219	10	1,229

28. RISK MANAGEMENT (CONTINUED)

v) 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 alternative investment solutions, 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.

v) (a)Foreign currency risk

The Group's overall policy is generally to hedge all non-US dollar denominated assets, liabilities and commitments, and a proportion of its assets denominated in US-pegged currencies, 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.

$millions	***June 30, 2018***		*June 30, 2017*	
Long (Short)	***Net hedged exposure***	***Net unhedged exposure***	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	-	29	0	54
Saudi Riyal*	0	(0)	0	(0)
Euro	210	(0)	242	(0)
Pounds Sterling	74	0	(7)	0
Swiss Francs	(132)	0	(138)	0
Japanese Yen	(335)	0	(331)	(0)
	(183)	29	(234)	54

* 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.

28. RISK MANAGEMENT (CONTINUED)

v) Market price risk (continued)

v) (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.

$000	*2018*	*2017*
Average FX VaR	44	7
Year end FX VaR	4	9
Maximum FX VaR	533	31
Minimum FX VaR	1	1

The foreign exchange loss recognized in the statement of profit or loss as a result of incidental unhedged positions and costs of hedging against foreign exchange risk amounts to $0.9 million (2017: $1.9 million).

v) (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 groups 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 nil (June 30, 2017: $20.8 million), which earn interest at an effective rate approximating nil (June 30, 2017: 13.0%) per annum.
- Credit management Investments amounting to $272.3 million (June 30, 2017: 258.7 million), which earn interest at an effective rate ranging between 5.0% to 15.7% (June 30, 2017: 6% to 15%) per annum.
- Term and institutional accounts amounting to $48.8 million (June 30, 2017: $18.4 million) on which interest is paid at an effective rate of 3.1% (June 30, 2017: 2.1%) per annum.

28. RISK MANAGEMENT (CONTINUED)

v) (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 year end.

$millions Currency	Sensitivity to profit/ (loss) for +200 basis points	Sensitivity to profit/ (loss) for -200 basis points
	June 30, 2018	
Euro	(7)	2
Pounds Sterling	(1)	0
Japanese Yen	0	(0)
US Dollar	(3)	3
Others	(0)	1
Total	(11)	6

a) Figures in parenthesis above represent loss.

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

$millions Currency	Sensitivity to profit/ (loss) for +200 basis points	Sensitivity to profit/ (loss) for -200 basis points
	June 30, 2017	
Euro	(8)	2
Pounds Sterling	1	(0)
Japanese Yen	1	(0)
US Dollar	(3)	4
Others	(2)	1
Total	(11)	7

a) Figures in parenthesis above represent loss.

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

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

28. RISK MANAGEMENT (CONTINUED)

v) Market price risk (continued)

v) (c)Equity price risk

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

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, RE and CM to changes in multiples / capitalization rates / discount rates/ quoted bid prices.

June 30, 2018 *$millions*	*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	592	640	558	48	(34)
	Revenue Multiples	+/- 0.5x	11	12	10	1	(1)
	Quoted bid price	+/- 1%	6	6	6	0	(0)
				For decrease	For increase	For decrease	For increase
RE co-investments	Capitalization Rate	-/+ 1%	74	83	68	9	(6)

June 30, 2017 *$millions*	*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	480	527	436	47	(44)
	Revenue Multiples	+/- 0.5x	6	7	6	1	(1)
	Quoted bid price	+/- 1%	7	7	7	0	(0)
				For decrease	For increase	For decrease	For increase
RE co-investments	Capitalization Rate	-/+ 1%	75	90	64	15	(11)

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

Co-investments in alternative investment solutions

The Group manages the market price risk in its AIS 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 Alternative Investment Solutions exposure.

$millions	**2018**	2017
Average VaR	5	7
Year end VaR	3	5
Maximum VaR	6	9
Minimum VaR	3	5

28. RISK MANAGEMENT (CONTINUED)

vi) 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. The internal audit department 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 two years and current financial year 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.

29. 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, on the basis that market participants act in their economic best interest.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group has established guidelines for the valuation of its investments which are reviewed by the Board of Directors 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 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 are not materially different from their carrying values except for certain assets and liabilities carried at amortized cost. The fair value of CLO co-investments carried at amortized cost amounts to $212.0 million (June 30, 2017: 258.5 million) as compared to the carrying value of $207.0 million (June 30, 2017: $258.7 million). The fair value of CLO co-investments is based on inputs from independent third parties including broker quotes and Markit and falls under Level 3 of the fair value hierarchy disclosure. The fair value of medium and long term debt amounts to $567.9 million (June 30, 2017: $783.9 million) as compared to the carrying value of $629.3 million (June 30, 2017: $805.8 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:

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

Level 2: inputs 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 (i.e. unobservable inputs).

During the current financial year, there was no transfer from level 3 to level 1 (2017: $1.8 million) under co-investments in corporate investments. The prior year transfer represented the listing on a stock exchange of previously unquoted investments. Additionally, under alternative investment solutions, an exposure of $9.0 million (June 30, 2017: $18.7 million) is comprised of illiquid side pocket investments which are classified as Level 3. The year to date fair value changes on this AIS exposure amounts to a gain of $1.0 million (June 30, 2017: loss of $4.3 million) and the net redemptions amount to $10.7 million (June 30, 2017: $6.8 million).

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 10, 11, 12 and 25 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, 2018 ***$millions***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Positive fair value of derivatives	-	55	-	55
Co-investments				
Corporate investment	6	-	619	625
Credit management investment	-	-	65	65
Alternative investment solutions	-	180	9	189
Real estate investment	-	-	74	74
Underwritten investments*	-	-	404	404
Total financial assets	6	235	1,171	1,412
Financial liabilities				
Negative fair value of derivatives	-	39	-	39
Total financial liabilities	-	39	-	39

* Underwritten investments amounting to $460.4m were placed with the clients and transferred to co-investments during the year. No fair value gain/ loss was recognized on underwritten investments during the year.

June 30, 2017 ***$millions***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Positive fair value of derivatives	-	62	-	62
Co-investments				
Corporate investment	7	-	512	519
Alternative investment solutions	-	217	19	236
Real estate investment	-	-	75	75
Underwritten investments*	-	-	460	460
Total financial assets	7	279	1,066	1,352
Financial liabilities				
Negative fair value of derivatives	-	44	-	44
Total financial liabilities	-	44	-	44

* Underwritten investments amounting to $493.5m were placed with the clients and transferred to co-investments during the year. No fair value gain/ loss was recognized on underwritten investments during the year.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2018 $millions	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations*	*Other movements***	*At end*
CI co-investments	512	39	56	(135)	147	619
ICM co-investments	-	48	-	(1)	18	65
RE co-investments	75	25	(2)	(22)	(2)	74
Total	**587**	**112**	**54**	**(158)**	**163**	**758**

***Includes $5.3 million fair value loss on FVOCI investments and unrealized fair value gain of $25.3 million on FVTPL investments.**
****Other movements include add-on funding and foreign currency translation adjustments. For ICM Co-investments, it also includes investments amounting to $120.2 million which were transferred from amortized cost to FVOCI investments during the year.**

June 30, 2017 $millions	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations*	*Other movements***	*At end*
CI co-investments	565	54	27	(129)	(5)	512
RE co-investments	94	15	(28)	(13)	7	75
Total	**659**	**69**	**(1)**	**(142)**	**2**	**587**

***Includes $26.8 million fair value loss on FVOCI investments and unrealized fair value losses of $21.4 million on FVTPL investments.**
****Other movements include add-on funding and foreign currency translation adjustments.**

30. 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 decisions.

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.

30. 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 up front 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 Consolidated Statement of Financial Position carrying value, thereby resulting in no gain or loss to Investcorp except for any potential impairment losses on the financing provided.

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, 2018 is $17.0 million (June 30, 2017: $17.0 million).

A portion of the deferred remuneration awarded to eligible employees is also in the form of co-investment exposures. These awards have different vesting conditions and are not transferable. An expense charge of $11.1 million (2017: $11.4 million) was taken by the Group based on management's best estimate of the likely vesting of the awards.

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 or performance-linked SIPCO share based awards that represent a beneficial interest in the ordinary shares of the Bank. These SIPCO awards have different vesting periods and are not transferable.

SIPCO shares or phantom SIPCO shares or performance-linked SIPCO share based awards are granted to the employees at their fair value on the grant date. The fair value of SIPCO shares for purposes of the plans 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 $22.9 million (2017: $19.0 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.

30. EMPLOYEE COMPENSATION (CONTINUED)

An expense charge of $12.5 million (2017: $13.3 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 $16.0 million (2017: $13.9 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of shares	***2018***	*2017*
Granted during the year	2,171,182	1,970,781
Vested during the year	1,806,674	1,962,632
Forfeited during the year	272,746	33,309

31. 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 AIS, 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 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 30, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$millions		June 30, 2018	June 30, 2017
AUM fees	Investee and investment holding companies	128	86
Deal fees	Investee and investment holding companies	100	117
Asset based income	Investee companies	33	33
Provisions for impairment	Employee investment programs	(0)	(1)
Interest expense	Investment holding companies	(3)	(1)
Operating expenses	Directors' remuneration	(2)	(2)
Operating expenses	Professional fees	(1)	(2)

Of the staff compensation for the year set out in Note 30 and assets noted above, $71.8 million (2017: $70.1 million) is attributable to senior management. Of the above mentioned remuneration of senior management, $49.7 million (2017: $48.4 million) is in the form of salaries and other short term benefits.

In addition to the compensation and benefits to employees disclosed in Note 30, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2018			June 30, 2017		
$millions	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Co-investments	1,156	-	-	1,106	-	-
Underwritten and warehoused investments	446	-	-	460	-	-
Strategic shareholders	8	12	-	1	6	-
Investee companies	51	-	10	50	1	10
Investment holding companies	107	138	29	112	167	41
Institutional accounts on call	-	251	-	-	167	-
Fund companies associated with the AIS	34	-	-	9	-	12
Directors and senior management	-	10	-	-	24	-
	1,802	411	39	1,738	365	63

32. 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 millions ($millions) unless otherwise stated. Certain prior year balances have been reclassified to conform to the current year presentation.

The significant accounting policies adopted in the preparation of these consolidated financial statements are the same as those followed in the preparation of the audited consolidated financial statements for the year ended June 30, 2017, except for the following:

- Adoption of the amendments to standards which became effective for accounting periods beginning on or after January 1, 2017:

  - Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses.
  - Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative.

  Annual Improvements 2014-2016 cycle (Effective for periods beginning on or after January 1, 2017)

  - Amendments to IFRS 12 – Disclosure of Interests in Other Entities.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IFRS 9 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) 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 is controlled by the Group. Control is achieved when the Group is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect these returns through its power over the entity. The Group consolidates its subsidiaries 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) Where the exception to consolidate subsidiaries of an Investment entity is applied, as defined in IFRS 10.

The Group qualifies as an investment entity as defined under IFRS 10, and as such, measures its investments in accordance with the requirements set out in the standard.

The results of all subsidiaries are included in the consolidated statement of profit or loss 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.

iv) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) 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:

a) The determination of the fair values of FVTPL co-investments in corporate investments and real estate investments (see Notes 10 and 13), the determination of performance fees on assets under management, impairment provisions for financial assets other than FVTPL investments and FVOCI equity investments (see Note 14) and allocation of placement fee to the performance obligations as described later.

b) The determination of cash flows which is the basis for performing the assessment of solely payments of principal and interest test on CLO co-investments which are being carried as debt instruments at amortized cost (see Note 11).

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

vi) 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).

vii) Offsetting

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

viii) 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 Statement of Financial Position 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 profit or loss 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 profit or loss.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

viii) Foreign currencies (Continued)

Foreign currency differences arising from the translation of investments in respect of which an election has been made to present subsequent changes in FVOCI are recognized in the consolidated statement of other comprehensive income.

ix) Income

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Asset based income from all FVTPL investments is recognized on the basis of realized and unrealized 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. Performance fees are calculated based on the underlying agreements and assuming all investments will be sold at their fair values at the reporting date. The actual amount of performance fees received will depend on cash realizations of these investments and the valuations may change in the next financial year.

Realized capital gains or losses on FVOCI equity investments are taken to retained earnings at the time of derecognition of the investment.

Revenue from contracts with customers

Placement fees are charged when an underwritten investment is placed with investors. Following the early adoption of IFRS 15, the Group has identified the performance obligations arising from its contracts with investors with whom the investments are placed. The portion of the fee relating to such performance obligations is deferred and recognized over the investment period.

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.

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.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Expenses

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.

xi) Taxation of foreign operations

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.

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognized if recovery is probable.

xii) Cash and cash equivalents

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

xiii) 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.

xiv) Advances

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

xv) Classification of financial assets

(a) Investments

The group classifies the financial assets into various categories as set out in Note 4(i).

On initial investment, a debt investment is measured at amortized cost if the financial asset is held to collect contractual cash flows over the life of the asset and if those cash flows comprise solely of principal repayments and interest on the principal amount outstanding.

The Group also classifies strategic investments, certain real estate legacy investment portfolios, certain credit management investments and AIS investments as FVOCI investments.

All other investments including those over which the Group has significant influence are classified as FVTPL.

(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.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xvi) 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 reporting date, with resulting unrealized gains or losses being recorded as fair value changes in the consolidated statement of profit or loss. Consequently, there are no impairment provisions for such investments.

The Group's strategic and certain other equity investments are classified as FVOCI investments and are initially recorded at fair value. These investments are then re-measured to fair value at each reporting date and any resulting change in value of these investments is taken to the consolidated statement of other comprehensive income and recorded as a separate component of equity until they are derecognized at which time the cumulative gain or loss previously reported in equity is transferred to retained earnings.

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

xvii) Co- investments in credit management investment

The Group's co-investments in credit management in US and any new exposure acquired during the year are classified as FVOCI debt investments. All other credit management co-investment exposures are carried at amortised cost less any impairment provision. Interest income on amortized cost instruments is recognized using the effective interest rate ("EIR").

FVOCI debt investments are initially recorded at fair value. Any subsequent fair value changes on such investments will be recognized directly in equity and any impairment in the carrying value will be recognized in the consolidated statement of profit or loss. At the time of derecognition, any cumulative gain or loss previously reported in equity is transferred to retained earnings through profit or loss.

xviii) Co-investments in alternative investment solutions

The Group's co-investments in alternative investment solutions are classified as FVTPL and FVOCI investments and are stated at fair value at the reporting date. The fair value changes in FVTPL investments are recorded in the consolidated statement of profit or loss.

The fair value changes in the FVOCI investments are taken to the consolidated statement of other comprehensive income and recorded as a separate component of equity until they are derecognized at which time the cumulative gain or loss previously reported is transferred to retained earnings.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xix) Impairment and un-collectability of financial assets

The Group recognizes loss allowances in the consolidated statement of profit or loss for expected credit losses (ECL) on financial assets excluding investments classified as FVTPL and equity investments classified as FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

1. debt investment securities that are determined to have low credit risk at the reporting date; and
2. other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

xx) De-recognition of financial instruments

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, any cumulative gain/ loss recognized in the consolidated statement of other comprehensive income in respect of equity investments designated at FVOCI is transferred directly to retained earnings.

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

xxi) Derivative financial instruments

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

Derivatives that qualify for hedge accounting 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 25.

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 profit or loss.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxii) 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.

xxiii) Intangible assets

Intangible assets comprise management contracts and goodwill recognized on the acquisition of the credit management business. Management contracts have a useful life of 5 years from the date of the acquisition and are amortized accordingly.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The Group tests goodwill for impairment annually. For other intangible assets, the Group reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and if any, impairment loss is charged to the consolidated statement of profit or loss for the period.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxiv) 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 30).

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.

xxv) 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 reporting date.

xxvi) 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.

xxvii) 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 share premium 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.

xxviii) 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.

xxix) 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.