

Rating Action: Moody's changes outlook on Investcorp Bank's Ba2 rating to negative

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London, 23 March 2016 -- Moody's Investors Service has assigned a Ba2 corporate family rating and a Ba2-PD probability of default rating with a negative outlook to Investcorp Bank B.S.C. (Investcorp) and has withdrawn the Baseline Credit Assessment (BCA), adjusted BCA - previously ba2 - and deposit ratings - previously Ba2 stable/Non-Prime - of the company. The change in outlook follows a similar move taken recently on Investcorp S.A. and Investcorp Capital Limited. The primary methodology to analyze the Investcorp group (Investcorp) is now the asset manager methodology. We will continue to utilize the Banks methodology but as a secondary analytical input.

RATINGS RATIONALE

The rationale for the change of primary methodology lies in Investcorp's operations as an alternative asset manager, deriving more than 80% of its revenues from fee income associated with its role as a third-party asset manager.

The negative outlook reflects Moody's concern that Investcorp might face increasing difficulties in raising new capital or reinvesting clients' capital in the coming year(s) due to the weakening operating environment in the Gulf Cooperation Council (GCC) region driven by depressed oil prices. Moody's anticipates that the significantly reduced level of government revenues will result in substantially lower government spending, declining corporate investment and softening consumption in the GCC region. With a majority of the company's clients located in the GCC region, Moody's expects Investcorp's assets under management (AUM) growth to slow which will put pressure on Investcorp's key financial metrics including financial leverage and profitability. Moody's also noted that due to the volatile market environment Investcorp may find it more challenging to stabilize its hedge fund business which has suffered from net outflows over the last several years.

The Ba2 rating reflects Investcorp's strong franchise in the GCC region as a leading alternative investment provider to Gulf investors as well as investors in the US and Europe. Investcorp has a strong reputation and recognizable brand name in the GCC due to its thirty-year plus track record. The ratings also reflect Investcorp's high, albeit improving, financial leverage and balance sheet risk related to its co-investment activities. The ratings also benefit from a good liquidity profile and from the ongoing improvement in earnings quality due to the growth in more stable and predictable asset management fees.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upwards rating pressure on Investcorp may result from: (i) reduced debt levels; (ii) further reduction in the company's investment portfolio; (iii) growth of Investcorp's clients' AUM, particularly in the hedge fund segment; and (iv) further expansion and diversification of revenue streams, in particular from fund of hedge fund management fees.

Downwards rating pressure could result from a weaker financial position driven by: (i) a deterioration in the company's ability to raise new client capital or reinvest client capital that would substantially affect revenue generation capacity; (ii) lower private equity origination and placement activities that would constrain the company's profitability; (iii) material on-balance sheet investment losses; (iv) a reversal in the trend of declining debt and on-balance sheet investment levels and (v) an erosion in the company's improving capital position.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Asset Managers: Traditional and Alternative published in December 2015. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Manama, Bahrain, Investcorp Bank B.S. C. (Investcorp) is the principal parent of the Investcorp Group and operates under a wholesale banking license issued by the Central Bank of Bahrain. Investcorp's asset under management were \$10.7billion as of December 2015.

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