INVESTCORP S.A.

CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2017
FISCAL YEAR 2017

CONTENTS

Building a better
working world

Ernst & Young
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700 / 29977

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Investcorp S.A ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at June 30, 2017, 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 June 30, 2017, 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 June 30, 2017. 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP S.A. (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**
For corporate 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 fair value unquoted investments. 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$ 19.7 million in respect of its unquoted investments representing fees accrued for performance in excess of hurdle / performance rates as agreed with investors.	Our audit work included the involvement of EY specialized valuation teams to review valuations of a sample of these unquoted investments. We obtained relevant documents supporting the valuations and reviewed the data and assumptions used in the valuations. We reviewed the changes in fair values by comparing these to the performance of the underlying investments. On a sample basis, we assessed the performance fee calculations and the investment fair values used in this computation. 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, 12, 25 and 28 to the consolidated financial statements.
2. Acquisition of Credit Management business and the recognition and subsequent measurement of goodwill	
Key audit matter	**How the key audit matter was addressed in the audit**
The Group completed the acquisition of the debt management business of 3i Group plc during the current year (subsequently renamed as Investcorp Credit Management). This was achieved through the acquisition of 100% of the share capital of 3i Debt Management Investments Limited and 3i Debt Management US LLC, (together the DM entities), for a total cash consideration of US$ 316.4 million. Accounting for the acquisition is a complex and judgemental exercise, requiring determination of the fair value of acquired assets and liabilities and the determination of the acquisition date goodwill. The purchase price was allocated to the various assets and liabilities of the DM entities resulting in goodwill of US$ 49.3 million.	Our audit work included a review of the purchase agreements relating to the acquisition of the DM entities and verification of the consideration paid. We evaluated the fair values of the identifiable assets and liabilities acquired and the resulting goodwill. Refer to the disclosures in note 2 to the consolidated financial statements.

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

Key Audit Matters (continued)

<table>
<tr><th colspan="2">3. Early adoption of IFRS 9</th></tr>
<tr><th>Key audit matter</th><th>How the key audit matter was addressed in the audit</th></tr>
<tr><td>
The International Accounting Standards Board issued "IFRS 9 – Financial Instruments" which replaces "IAS 39 – Financial Instruments" in three phases as follows:

Phase 1 – Classification and measurement of financial assets and liabilities;
Phase 2 – Impairment methodology; and
Phase 3 – Hedge Accounting

Effective July 1, 2016, the Group has early adopted IFRS 9 (Phase 1 and Phase 2) ahead of its mandatory effective date of January 1, 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.

The net difference between previously reported carrying amounts of financial instruments as of June 30, 2016 and new carrying amounts as of July 1, 2016 amounting to US$ 3.5 million has been recognized in the opening retained earnings.

The key change arising from the early adoption of Phase 1 of IFRS 9 is the classification of certain of the Group's co-investments as Fair Value through Other Comprehensive Income (FVOCI), where these were earlier classified as Fair Value Through Profit or Loss (FVTPL) and, hence, the re-classification of the related gain/loss to other comprehensive income.

The key change arising from early adoption of Phase 2 of IFRS 9 is that the Group's credit losses are now based on an expected loss model rather than an incurred loss model.
</td><td>
With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised of the following:

We assessed compliance of the Group's policy for classification and measurement of financial assets and financial liabilities with the requirements of IFRS 9;
For debt instruments, we

discussed the underlying business rationale;
obtained an understanding and assessed the Group's business model assessment; and
engaged internal specialists to audit management's cash flow projections for the underlying instruments, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test];

We tested financial assets classified as FVOCI to ensure that these meet the requirements of IFRS 9;
For those financial assets and financial liabilities where there is no change in classification following the early adoption of IFRS 9, we have checked that no adjustments were made; and
We checked the opening balance adjustments.

Since the majority of the Group's financial assets are classified either as FVTPL or FVOCI (equity instruments), our audit procedures with regard to impairment were limited to the remaining financial assets and comprised of the following:

We assessed compliance of the Group's impairment provisioning policy, impairment models, methodologies, policies and procedures with the requirements of IFRS 9;

</td></tr>
</table>

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

Key Audit Matters (continued)

3. Early adoption of IFRS 9 (continued)	
Key audit matter	**How the key audit matter was addressed in the audit**
	• We checked the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; • For Probability of Default (PD) and forward looking assumptions used by the Group in its Expected Credit Loss (ECL) calculations, we held discussions with management and corroborated the PDs using internally developed and publicly available information; • We engaged internal specialists to review cash flow and loss projections underlying the principal and interest repayments; • We checked the completeness of balances included in the ECL calculations; and • We checked the opening balance adjustments. Refer to the accounting policies, critical accounting estimates and judgements and disclosures in notes 5, 14, 24 and 28 to the consolidated financial statements.

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.

Building a better working world

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

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.

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.

Building a better
working world

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with the Board of Directors 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 Board of Directors 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.

From the matters communicated to the Board of Directors, 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.

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

Ernst & Young

August 8, 2017
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2017

$000s	*2017*	*2016*	*Notes*	*Page*
FEE INCOME				
AUM fees	135,541	97,370		
Deal fees	181,004	210,097		
Fee income	316,545	307,467	4	19
ASSET BASED INCOME				
Corporate investment	19,189	100,773		
Alternative investment solutions	15,784	(27,664)		
Real estate investment	23,436	(1,513)		
Credit management investment	33,476	-		
Treasury and other asset based income	8,857	1,279		
Asset based income	100,742	72,875	4	19
Gross operating income	417,287	380,342	4	19
Provisions for impairment	(4,114)	(8,216)	14	38
Interest expense	(56,474)	(60,941)	4	19
Operating expenses	(236,440)	(221,132)	6	31
PROFIT FOR THE YEAR	120,259	90,053		

Rishi Kapoor
Director

Tony Robinson
Director

The attached Notes 1 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017

$000s	*2017*	*2016*	*Notes*	*Page*
PROFIT FOR THE YEAR	120,259	90,053		
Other comprehensive income that will be recycled to statement of profit or loss				
Fair value movements - available for sale investments	-	(101)	21	43
Fair value movements - cash flow hedges	(3,059)	8,415	21	43
Other comprehensive income that will not be recycled to statement of profit or loss				
Movements - Fair value through other comprehensive income investments	(26,828)	-		
Other comprehensive (loss)/ income	(29,887)	8,314		
TOTAL COMPREHENSIVE INCOME	90,372	98,367		

Rishi Kapoor
Director

Tony Robinson
Director

The attached Notes 1 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

$000s	*June 30, 2017*	*June 30, 2016*	*Notes*	*Page*
ASSETS				
Cash and short-term funds	35,043	286,976		
Placements with financial institutions and other liquid assets	517,406	133,234		
Positive fair value of derivatives	62,069	90,210	22	44
Receivables and prepayments	267,220	310,619	7	32
Advances	84,894	102,197	8	33
Underwritten investments	460,394	493,484	9	34
Co-investments				
Corporate investment	538,989	602,640	10	35
Alternative investment solutions	236,331	315,827	11	36
Real estate investment	79,115	104,412	12	37
Credit management investment	258,712	-	13	38
Total co-investments	1,113,147	1,022,879		
Premises, equipment and other assets	9,368	8,718		
Intangible assets	58,072	-	15	39
TOTAL ASSETS	2,607,613	2,448,317		
LIABILITIES AND EQUITY				
LIABILITIES				
Due to a related party	388,026	208,162	27	67
Payables and accrued expenses	152,882	198,492	16	39
Negative fair value of derivatives	43,645	49,480	22	44
Medium-term debt	381,733	403,081	17	40
Long-term debt	409,539	478,981	18	41
Deferred fees	86,575	92,878	19	41
TOTAL LIABILITIES	1,462,400	1,431,074		
EQUITY				
Preference share capital	223,239	223,239	20	42
Ordinary shares at par value	200,000	200,000		
Reserves	320,321	282,250		
Treasury shares	(3,229)	(45,449)		
Retained earnings	371,702	318,386		
Ordinary shareholders' equity excluding proposed appropriations and other reserves	888,794	755,187		
Proposed appropriations	44,087	44,611		
Other reserves	(10,907)	(5,794)	21	43
TOTAL EQUITY	1,145,213	1,017,243		
TOTAL LIABILITIES AND EQUITY	2,607,613	2,448,317		

Rishi Kapoor
Director

Tony Robinson
Director

The attached Notes 1 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017

$000s	Preference share capital	Ordinary share capital	Reserves: Share premium	Reserves: Statutory reserve	Reserves: Fair Value Reserve	Reserves: Total	Treasury shares	Retained earnings	Proposed appropriations	Unrealized fair value changes recognised directly in equity: Available for sale investments	Unrealized fair value changes recognised directly in equity: Cash flow hedges	Unrealized fair value changes recognised directly in equity: Total	Total equity
Balance at July 1, 2015	225,000	200,000	159,166	100,000	-	259,166	(103,566)	273,220	42,288	2,155	(16,263)	(14,108)	882,000
Total comprehensive income	-	-	-	-	-	-	-	90,053	-	(101)	8,415	8,314	98,367
Preference shares redeemed during the year	(1,761)	-	-	-	-	-	-	(276)	-	-	-	-	(2,037)
Treasury shares sold/ vested during the year - net of purchases	-	-	-	-	-	-	81,201	-	-	-	-	-	81,201
Gain on sale of treasury shares - net of loss on vesting	-	-	23,084	-	-	23,084	(23,084)	-	-	-	-	-	-
Approved appropriations for fiscal 2015 paid	-	-	-	-	-	-	-	-	(42,288)	-	-	-	(42,288)
Proposed appropriations for fiscal 2016:	-	-	-	-	-	-	-	(44,611)	44,611	-	-	-	-
Balance at June 30, 2016	**223,239**	**200,000**	**182,250**	**100,000**	**-**	**282,250**	**(45,449)**	**318,386**	**44,611**	**2,054**	**(7,848)**	**(5,794)**	**1,017,243**
Balance at July 1, 2016	**223,239**	**200,000**	**182,250**	**100,000**	**-**	**282,250**	**(45,449)**	**318,386**	**44,611**	**2,054**	**(7,848)**	**(5,794)**	**1,017,243**
Restatement arising from early adoption of IFRS 9	-	-	-	-	2,054	2,054	-	(3,521)	-	(2,054)	-	(2,054)	(3,521)
Balance at July 1, 2016 (Restated)	**223,239**	**200,000**	**182,250**	**100,000**	**2,054**	**284,304**	**(45,449)**	**314,865**	**44,611**	**-**	**(7,848)**	**(7,848)**	**1,013,722**
Total comprehensive income	-	-	-	-	(26,828)	(26,828)	-	120,259	-	-	(3,059)	(3,059)	90,372
Transferred to retained earnings upon derecognition	-	-	-	-	19,335	19,335	-	(19,335)	-	-	-	-	-
Treasury shares sold / vested during the year - net of purchases	-	-	(878)	-	-	(878)	86,608	-	-	-	-	-	85,730
Gain on sale of treasury shares - net of loss on vesting	-	-	44,388	-	-	44,388	(44,388)	-	-	-	-	-	-
Approved appropriations for fiscal 2016 paid	-	-	-	-	-	-	-	-	(44,611)	-	-	-	(44,611)
Proposed appropriations for fiscal 2017	-	-	-	-	-	-	-	(44,087)	44,087	-	-	-	-
Balance at June 30, 2017	**223,239**	**200,000**	**225,760**	**100,000**	**(5,439)**	**320,321**	**(3,229)**	**371,702**	**44,087**	**-**	**(10,907)**	**(10,907)**	**1,145,213**

The attached Notes 1 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

$000s	*2017*	*2016*	Notes	Page
OPERATING ACTIVITIES				
Profit for the year	120,259	90,053		
Adjustments for non-cash items in net income				
Depreciation	1,756	1,797	6	31
Provisions for impairment	4,114	8,216	14	38
Amortization of transaction costs of borrowings and intangible assets	6,624	5,914		
Employee deferred awards	25,627	22,183		
Operating profit adjusted for non cash items	158,380	128,163		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non-cash equivalent)	(103,385)	(24,474)		
Receivables and prepayments	41,627	(55,670)	7	32
Advances	15,150	1,889	8	33
Underwritten and warehoused investments	74,090	(405,979)	9	34
Due to a related party	179,864	92,285	27	67
Payables and accrued expenses	(74,013)	(13,984)	16	39
Deferred fees	(6,303)	(7,412)	19	41
Co-investments				
Corporate investment	63,651	64,498	10	35
Alternative investments solutions	79,496	105,229	11	36
Real estate investment	(1,531)	38,485	12	37
Credit management investment	(30,002)	-	13	38
Fair value of derivatives	(48,248)	132,021		
Other assets	51	(84)		
NET CASH FROM OPERATING ACTIVITIES	348,827	54,967		
FINANCING ACTIVITIES				
Medium-term debt repaid - net of transaction costs	(29,058)	(14,021)	17	40
Treasury shares sold - net	72,586	65,595		
Preference shares purchased	-	(2,037)		
Dividends paid	(41,641)	(39,788)		
Charitable contributions paid	(2,970)	(2,500)		
NET CASH (USED IN)/ FROM FINANCING ACTIVITIES	(1,083)	7,249		
INVESTING ACTIVITIES				
Acquisition of subsidiaries	(316,406)	-		
Investment in premises and equipment	(2,457)	(165)		
NET CASH USED IN INVESTING ACTIVITIES	(318,863)	(165)		
Net increase in cash and cash equivalents	28,881	62,051		
Cash and cash equivalents at beginning of the year	395,736	333,685		
Cash and cash equivalents at end of the year	424,617	395,736		
Cash and cash equivalents comprise of:				
Cash and short-term funds	35,043	286,976		
Placements with financial institutions and other liquid assets	389,574	108,760		
	424,617	395,736		

In addition to the above, the Group has an undrawn and available balance of $422.1 million (June 30, 2016: $428.3 million from its revolving medium-term facilities.

Additional cash flow information

$000s	*2017*	*2016*
Interest paid	(55,751)	(61,876)
Interest received	10,486	12,439

The attached Notes 1 to 28 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

(i) Incorporation

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

The Company is an indirect wholly-owned subsidiary of Investcorp Bank B.S.C. ("Investcorp Bank"). Investcorp Bank and its subsidiaries, including the Company, are referred to herein as "Investcorp".

The activities of the Company are substantially transacted through its subsidiaries. The Company and its subsidiaries are referred to herein as the "Group".

The ultimate parent of the Group is SIPCO Holdings Limited ("SHL"), incorporated in the Cayman Islands [see Note 1(iii)].

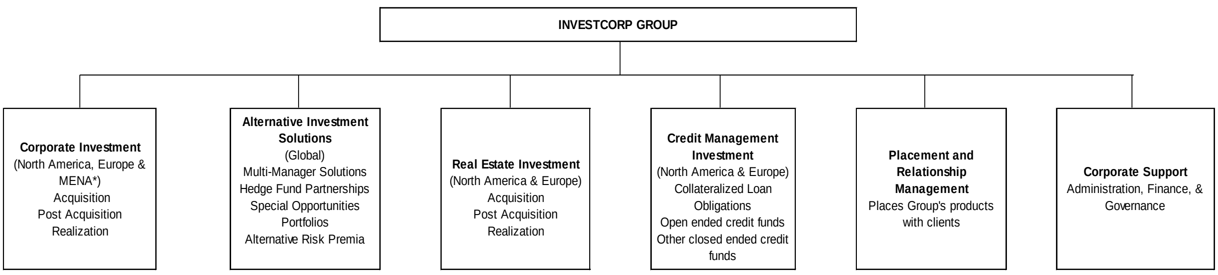
The consolidated financial statements for the year ended June 30, 2017 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 8, 2017.

(ii) Activities

Investcorp 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, Investcorp provides products in four broad investment asset classes. The investment asset classes in which Investcorp 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.

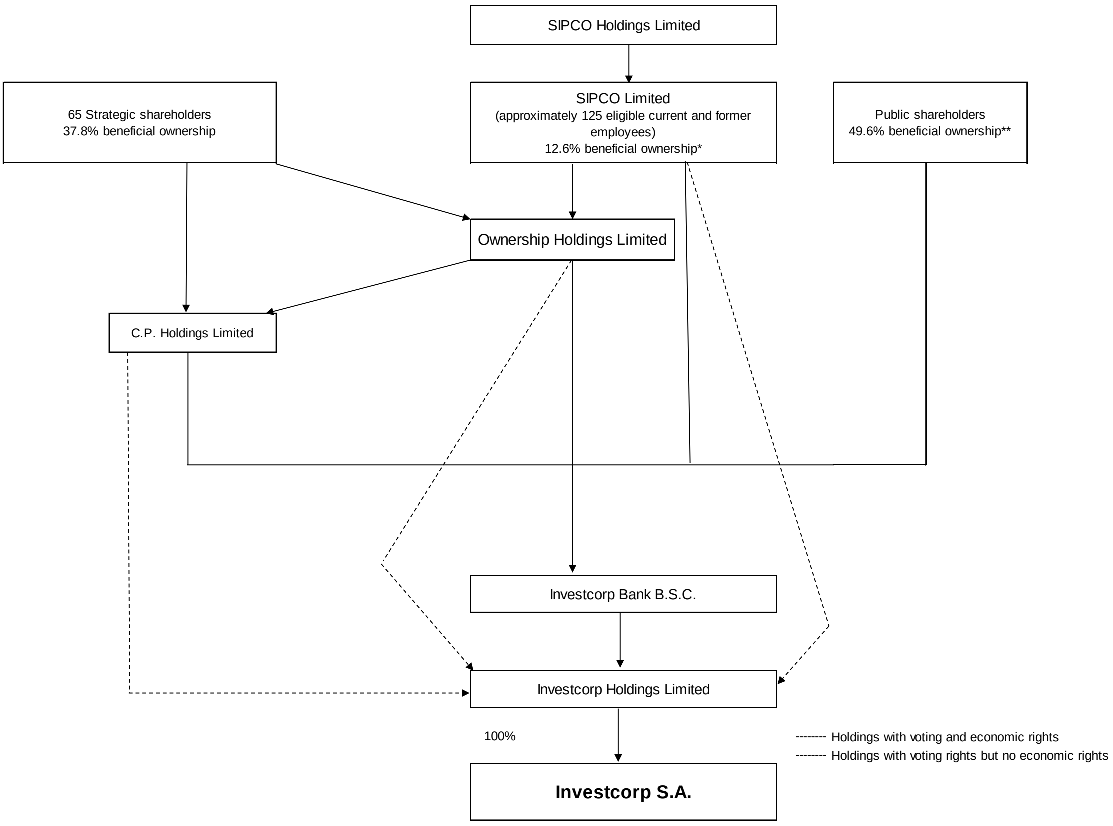
The Group owns 98.18% of the assets of Investcorp and it is therefore an integral part of Investcorp. For that reason, certain of the disclosures in these Notes relate to Investcorp or the Board of Directors of Investcorp Bank.



*Includes Turkey

1. ORGANIZATION (CONTINUED)

(iii) Ownership



* Includes 0.4% shares granted but not acquired under the various Employee Share Ownership Plans. The Bank has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of its shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.
** Includes 0.1% beneficial ownership held in the form of unlisted Global Depositary Receipts.

As noted above, the Company is an indirect wholly-owned subsidiary of Investcorp Bank, which is controlled by Ownership Holdings Limited ("OHL"), through OHL's shareholding directly, and its shareholding indirectly through C.P. Holdings Limited ("CPHL"), and its largest shareholder SIPCO Limited ("SIPCO") through its direct ownership, of the issued ordinary shares of the Investcorp Bank. SIPCO, a subsidiary of SHL, is the entity through which Investcorp employees own beneficial interests in the ordinary shares of Investcorp Bank. As a result of the Investcorp Bank's ownership structure, the directors of SIPCO, comprised of certain of the Investcorp 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 50.4% of the Investcorp Bank's ordinary shares.

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

1. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies

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

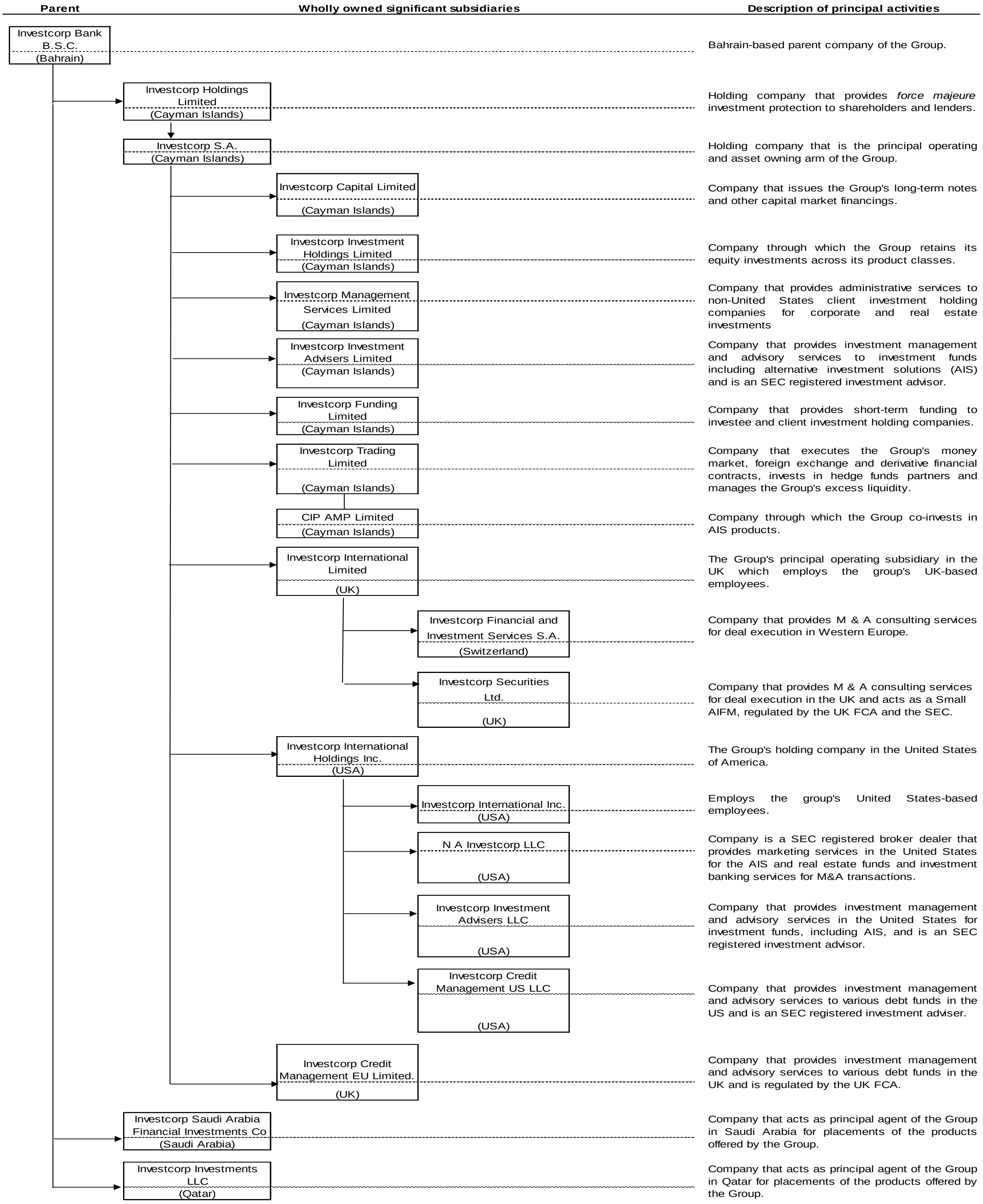
The Company and its subsidiaries are the principal asset holding and operating entities within Investcorp and consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of Investcorp are held by the Company or subsidiaries that are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

Investcorp 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 2017 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 the Company.

1. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies (continued)

Investcorp's structure along with its significant subsidiaries is illustrated below:



2. BUSINESS COMBINATION

As part of the Investcorp's strategy to more than double assets under management ('AUM') in the medium term, during the year, Investcorp acquired the credit management business of 3i Group PLC to add credit investments to its asset classes and product offerings. This was achieved through the acquisition of 100% of the share capital of 3i Debt Management Investments Limited and 3i Debt Management US LLC for a total cash consideration of $316.4 million.

The fair value of the assets acquired was the same as their carrying value as of the date of acquisition. The fair value of the total identifiable net assets of the business as at the date of acquisition was $267.1 million and comprises of investments of $269.7 million, intangible assets of $9.8 million and net current working capital liabilities of $12.4 million.

Total goodwill of $49.3 million was recognized on the acquisition of the credit management business as this transaction will enable the business to leverage upon Investcorp's strategic commitment, capital and distribution capabilities and will support the credit management business in its next phase of global growth.

From the date of acquisition, the credit management business contributed $63.3 million of gross operating income and $53.3 million to the profit of the Group. If the acquisition had taken place at the beginning of the year, gross operating income would have been $467.2 million and profit of the Group would have been $145.9 million.

3. ASSETS UNDER MANAGEMENT

Investcorp'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, 2017				June 30, 2016			
$millions	Clients	Investcorp	Affiliates and co-investors	Total	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment								
Closed-end committed funds								
CI - NA & Europe	191	20	4	215	-	-	-	-
Sub total	191	20	4	215	-	-	-	-
Closed-end invested funds								
CI - NA & Europe	201	48	19	268	237	81	19	337
CI - MENA	552	53	7	612	584	67	7	658
Sub total	753	101	26	880	821	148	26	995
Deal-by-deal								
CI - NA & Europe	2,029	356	162	2,547	2,062	348	315	2,725
CI - MENA	699	57	1	757	609	58	-	667
Sub total	2,728	413	163	3,304	2,671	406	315	3,392
Deal-by-deal underwriting								
CI - NA & Europe	-	190	20	210	-	83	27	110
CI - MENA	-	-	-	-	-	84	-	84
Sub total	-	190	20	210	-	167	27	194
Strategic and other investments	-	24	-	24	-	48	-	48
Total corporate investment	**3,672**	**748**	**213**	**4,633**	**3,492**	**769**	**368**	**4,629**
Alternative investment solutions*								
Multi-manager solutions	1,927	70	-	1,997	1,947	129	1	2,077
Hedge funds partnerships	962	70	-	1,032	1,441	111	-	1,552
Special opportunities portfolios	107	57	-	164	97	15	-	112
Alternative risk premia	263	39	-	302	200	60	-	260
Special opportunities portfolios underwriting	-	-	-	-	-	30	-	30
Total Alternative investment solutions	**3,259**	**236**	**-**	**3,495**	**3,685**	**345**	**1**	**4,031**
Real estate investment								
Closed-end invested funds	33	7	-	40	33	11	-	44
Deal-by-deal	1,716	70	18	1,804	1,373	87	16	1,476
Deal-by-deal underwriting	-	270	16	286	-	297	-	297
Strategic and other investments	-	2	-	2	-	7	-	7
Total real estate investment	**1,749**	**349**	**34**	**2,132**	**1,406**	**402**	**16**	**1,824**
Credit management investment								
Closed-end invested funds	10,186	259	-	10,445	-	-	-	-
Open-end invested funds	398	-	-	398	-	-	-	-
Total Credit management investment	**10,584**	**259**	**-**	**10,843**	**-**	**-**	**-**	**-**
Client call accounts held in trust	235	-	-	235	298	-	-	298
Total	**19,499**	**1,592**	**247**	**21,338**	**8,881**	**1,516**	**385**	**10,782**
Summary by products:								
Closed-end committed funds	191	20	4	215	-	-	-	-
Closed-end invested funds	786	108	26	920	854	159	26	1,039
Alternative investment solutions	3,259	236	-	3,495	3,685	315	1	4,001
Credit management funds	10,584	259	-	10,843	-	-	-	-
Deal-by-deal	4,444	483	181	5,108	4,044	493	331	4,868
Underwriting	-	460	36	496	-	494	27	521
Client monies held in trust	235	-	-	235	298	-	-	298
Strategic and other investments	-	26	-	26	-	55	-	55
Total	**19,499**	**1,592**	**247**	**21,338**	**8,881**	**1,516**	**385**	**10,782**
Summary by asset classes:								
Corporate investment	3,672	724	213	4,609	3,492	721	368	4,581
Alternative investment solutions	3,259	236	-	3,495	3,685	345	1	4,031
Real estate investment	1,749	347	34	2,130	1,406	395	16	1,817
Credit management investment	10,584	259	-	10,843	-	-	-	-
Client call accounts held in trust	235	-	-	235	298	-	-	298
Strategic and other investments	-	26	-	26	-	55	-	55
Total	**19,499**	**1,592**	**247**	**21,338**	**8,881**	**1,516**	**385**	**10,782**

** Stated at gross value of the underlying exposure. Also, includes $2.0 billion (June 30, 2016: $2.5 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 and real estate investment are stated at current fair values while the other categories are stated at their carrying cost.

3. ASSETS UNDER MANAGEMENT (CONTINUED)

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

4. 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. Investcorp operates through centers in the Arabian Gulf, the US, Europe and Singapore. Investcorp'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.

4. 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) Alternative investment solutions	- Multi-manager solutions - Hedge fund partnerships - Alternative risk premia - Special opportunities portfolios
3) Real estate investment	- Deal by deal offerings - Closed-end fund(s)
4) Credit management investment	- Open-end fund(s) - 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 Investcorp'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) ***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.

4. SEGMENT REPORTING (CONTINUED)

B. ASSET CLASSES AND PRODUCTS (CONTINUED)

iii) ***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 Investcorp'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.

iv) ***Credit Management Investment "CM"***

The Group acquired the 3i Group PLC's debt business, previously known as 3i Debt Management. The transaction was completed during the year, at which point the business's two companies became wholly-owned subsidiaries of Investcorp. Please refer to note 2 for details.

The CM teams are based in London, New York and Singapore. The teams primary 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 out performance against market returns for debt investors through active and diversified portfolio management.

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

4. SEGMENT REPORTING (CONTINUED)

C. REVENUE GENERATION (CONTINUED)

i) Fee income (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 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 and a proportion of drawn medium term debt, including loans secured by co-investments in AIS, are allocated to the Co-investment Business to the extent possible with the residual being allocated to Fee Business. Amounts due to Investcorp Bank, the residual amount of 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.

4. 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 ex-post net asset based income from the Co-investment Business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business.

4. 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:

$000s	*2017*	*2016*
FEE BUSINESS		
AUM fees		
Corporate investment	92,870	75,453
Alternative investment solutions	12,024	9,564
Real estate investment	15,301	12,353
Credit management investment	15,346	-
Total AUM fees	135,541	97,370
Deal fees		
Corporate investment	134,905	148,271
Alternative investment solutions	804	3,265
Real estate investment	45,295	58,561
Total deal fees	181,004	210,097
Treasury and other asset based income	8,857	1,279
Gross income attributable to fee business (a)	325,402	308,746
Provisions for impairment	(4,114)	(8,216)
Interest expense (b)	(34,330)	(30,999)
Operating expenses attributable to fee business (c)	(209,396)	(204,988)
FEE BUSINESS PROFIT (d)	77,562	64,543
CO-INVESTMENT BUSINESS		
Asset based income		
Corporate investment	19,189	100,773
Alternative investment solutions	15,784	(27,664)
Real estate investment	23,436	(1,513)
Credit management investment	33,476	-
Asset based income	91,885	71,596
Gross income attributable to co-investment business (e)	91,885	71,596
Interest expense (f)	(22,144)	(29,942)
Operating expenses attributable to co-investment business (g)	(27,044)	(16,144)
CO-INVESTMENT BUSINESS PROFIT (h)	42,697	25,510
PROFIT FOR THE YEAR (d) + (h)	120,259	90,053
Gross operating income (a) + (e)	417,287	380,342
Gross operating expenses (c) + (g)	(236,440)	(221,132)
Interest expense (b) + (f)	(56,474)	(60,941)

4. 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 (2016: nil).

$161.3 million (2016: $169.5 million) of deal fees relates to activity fees and $19.7 million (2016: $40.6 million) represents performance fees.

Treasury and other asset based income includes $9.3 million (2016: $3.5 million) of interest income. CI, RE and CM asset based income includes $12.1 million (2016: $4.2 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, 12, 13 and 24 (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.

4. 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, 2017 *$000s*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	35,043	35,043
Placements with financial institutions and other liquid assets	-	517,406	517,406
Positive fair value of derivatives	-	62,069	62,069
Receivables and prepayments	28,716	238,504	267,220
Advances	-	84,894	84,894
Underwritten investments	-	460,394	460,394
Co-investments			
Corporate investment	538,989	-	538,989
Alternative investment solutions	236,331	-	236,331
Real estate investment	79,115	-	79,115
Credit management investment	258,712	-	258,712
Premises, equipment and other assets	-	9,368	9,368
Intangible assets	-	58,072	58,072
Total assets	1,141,863	1,465,750	2,607,613
Liabilities and Equity			
Liabilities			
Due to a related party	-	388,026	388,026
Payables and accrued expenses	5,820	147,062	152,882
Negative fair value of derivatives	-	43,645	43,645
Medium-term debt	13,792	367,941	381,733
Long-term debt	304,930	104,609	409,539
Deferred fees	-	86,575	86,575
Total liabilities	324,542	1,137,858	1,462,400
Total equity	817,321	327,892	1,145,213
Total liabilities and equity	1,141,863	1,465,750	2,607,613

4. SEGMENT REPORTING (CONTINUED)

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

June 30, 2016 *$000s*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash and short-term funds	-	286,976	286,976
Placements with financial institutions and other liquid assets	-	133,234	133,234
Positive fair value of derivatives	-	90,210	90,210
Receivables and prepayments	85,098	225,521	310,619
Advances	-	102,197	102,197
Underwritten investments	-	493,484	493,484
Co-investments			
Corporate investment	602,640	-	602,640
Alternative investment solutions	315,827	-	315,827
Real estate investment	104,412	-	104,412
Premises, equipment and other assets	-	8,718	8,718
Total assets	1,107,977	1,340,340	2,448,317
Liabilities and Equity			
Liabilities			
Due to a related party	-	208,162	208,162
Payables and accrued expenses	12,717	185,775	198,492
Negative fair value of derivatives	-	49,480	49,480
Medium-term debt	41,694	361,387	403,081
Long-term debt	303,093	175,888	478,981
Deferred fees	-	92,878	92,878
Total liabilities	357,504	1,073,570	1,431,074
Total equity	750,473	266,770	1,017,243
Total liabilities and equity	1,107,977	1,340,340	2,448,317

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Early adoption of IFRS 9

The Group has early adopted IFRS 9 (excluding hedge accounting section) during the financial year, which sets out the requirements for classification of financial assets and financial liabilities into categories below.

Financial Assets

a) Financial assets at Fair Value through Profit and Loss ("FVTPL")

b) Financial assets at Amortized Cost ("AC")

c) Financial assets at Fair Value through Other Comprehensive Income ("FVOCI")

Financial Liabilities

a) Financial liabilities at Fair Value through Profit and Loss ("FVTPL")

b) Financial liabilities at Amortized Cost ("AC")

Please refer to Note 28 for accounting policy changes with reference to IFRS 9.

The following table shows the original classification and measurement categories in accordance with IAS 39 and the new classification and measurement categories under IFRS 9 for the Group's financial assets and reconciles the carrying amounts as at June 30, 2016 under IAS 39 to the carrying amounts as at July 1, 2016 under IFRS 9.

$000s	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	Re - Measurement	New carrying value under IFRS 9
Financial assets					
Cash and short-term funds	Amortized cost	Amortized cost	286,976	(2)	286,974
Placements with financial institutions and other liquid assets	Amortized cost	Amortized cost	133,234	(24)	133,210
Receivables	Amortized cost	Amortized cost	278,030	(2,324)	275,706
Advances	Amortized cost	Amortized cost	102,197	(1,171)	101,026
Co-investments					
Corporate investment					
- FVTPL	FVTPL	FVOCI	11,000	-	11,000
- AFS	AFS	FVOCI	15,015	-	15,015
Alternative investment solutions					
- FVTPL	FVTPL	FVOCI	29,807	-	29,807
Real estate investment					
- FVTPL	FVTPL	FVOCI	39,710	-	39,710
Total			**895,969**	**(3,521)**	**892,448**

There were no changes to classification and measurement categories of financial liabilities of the Group upon early adoption of IFRS 9.

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) 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, 2017 *$000s*	*FVTPL Investments*	*Items at amortized cost*	*FVOCI Investments*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	35,043	-	-	35,043
Placements with financial institutions and other liquid assets	-	517,406	-	-	517,406
Positive fair value of derivatives	-	-	-	62,069	62,069
Receivables	-	227,400	-	-	227,400
Advances	-	84,894	-	-	84,894
Underwritten investments	460,394	-	-	-	460,394
Co-investments					
Corporate investment	493,940	20,649	24,400	-	538,989
Alternative investment solutions	217,619	-	18,712	-	236,331
Real estate investment					
Debt	-	3,654	-	-	3,654
Equity	60,704	-	14,757	-	75,461
Credit management Investment	-	258,712	-	-	258,712
Total financial assets	1,232,657	1,147,758	57,869	62,069	2,500,353
Non-financial assets					
Prepayments					39,820
Premises, equipment and other assets					9,368
Intangible assets					58,072
Total assets					2,607,613
Financial liabilities					
Due to a related party	-	388,026	-	-	388,026
Payables and accrued expenses	-	152,882	-	-	152,882
Negative fair value of derivatives	-	-	-	43,645	43,645
Medium-term debt*	-	381,733	-	-	381,733
Long-term debt*	-	409,539	-	-	409,539
Total financial liabilities	-	1,332,180	-	43,645	1,375,825
Non-financial liabilities					
Deferred fees					86,575
Total liabilities					1,462,400

* Adjusted for related fair value hedges.

The comparative information has not been restated for early adoption of IFRS 9, therefore, the information presented in relation to the prior year categorizes the financial instruments as per the requirements of IAS 39.

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) Categories of financial assets and financial liabilities (continued)

June 30, 2016 *$000s*	*Designated as FVTPL*	*Items at amortized cost*	*AFS*	*Derivatives*	*Total*
Financial assets					
Cash and short-term funds	-	286,976	-	-	286,976
Placements with financial institutions and other liquid assets	-	133,234	-	-	133,234
Positive fair value of derivatives	-	-	-	90,210	90,210
Receivables	-	278,030	-	-	278,030
Advances	-	102,197	-	-	102,197
Underwritten investments	493,484	-	-	-	493,484
Co-investments					
Corporate investment	565,336	22,289	15,015	-	602,640
Alternative investment solutions	315,827	-	-	-	315,827
Real estate investment					
Debt	-	10,287	-	-	10,287
Equity	94,125	-	-	-	94,125
Total financial assets	1,468,772	833,013	15,015	90,210	2,407,010
Non-financial assets					
Prepayments					32,589
Premises, equipment and other assets					8,718
Total assets					2,448,317
Financial liabilities					
Due to a related party	-	208,162	-	-	208,162
Payables and accrued expenses	-	198,492	-	-	198,492
Negative fair value of derivatives	-	-	-	49,480	49,480
Medium-term debt*	-	403,081	-	-	403,081
Long-term debt*	-	478,981	-	-	478,981
Total financial liabilities	-	1,288,716	-	49,480	1,338,196
Non-financial liabilities					
Deferred fees					92,878
Total liabilities					1,431,074

* Adjusted for related fair value hedges.

6. OPERATING EXPENSES

$000s	***2017***	*2016*
Staff compensation and benefits	150,179	143,843
Other personnel and compensation charges	10,548	8,051
Professional fees	23,983	22,612
Travel and business development	12,521	11,700
Administration and research	13,472	13,474
Technology and communication	6,227	4,590
Premises	10,930	11,065
Depreciation	1,756	1,797
Taxation	6,824	4,000
Total	236,440	221,132

The Group's tax expense for the year is $6.8 million (2016: 4.0 million). The deferred tax asset amounts to $22.5 million (June 30, 2016: $19.3 million). The current tax liability amounts to $12.4 million (June 30, 2016: $4.4 million). The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities in respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide reconciliation between the accounting and taxable profits.

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

	2017	*2016*
United States	40%	40%
United Kingdom	20%	20%

7. RECEIVABLES AND PREPAYMENTS

$000s	*June 30, 2017*	*June 30, 2016*
Subscriptions receivable	114,879	89,881
Receivables from investee and holding companies	98,218	109,490
Investment disposal proceeds receivable	6,616	74,793
AIS related receivables	9,097	4,429
Accrued interest receivable	7,194	1,735
Prepaid expenses	39,820	32,589
Other receivables	1,906	2,759
	277,730	315,676
Provisions for impairment (see Note 14)	(10,510)	(5,057)
Total	267,220	310,619

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

$000s	*June 30, 2017*	*June 30, 2016*
Advances to investment holding companies	68,754	74,074
Advances to employee investment programs	17,036	25,829
Advances to CI closed-end funds	10,959	10,958
Other advances	985	2,020
	97,734	112,881
Provisions for impairment (see Note 14)	(12,840)	(10,684)
Total	84,894	102,197

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

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

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

Advances to the CI closed-end funds represent amounts invested on behalf of the Group's clients in the acquisitions and expenses of the funds in the interim period prior to receipt of the associated capital call from clients.

These advances carry interest at market rates. The advances, in management's opinion, represent a low risk to the Group.

9. UNDERWRITTEN INVESTMENTS

At the time the Group acquires an investment it earmarks a significant portion of each investment for placement with investors and classifies this as an underwritten investment. These investments are placed with the investors over the underwriting period which typically can take up to 6 months.

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

	June 30, 2017				June 30, 2016			
$000s	North America	Europe	MENA	Total	North America	Europe	MENA	Total
Corporate investment:								
Consumer Products	8,379	21,107	-	29,486	-	2,386	-	2,386
Consumer Services	-	128,552	-	128,552	25,301	-	-	25,301
Healthcare	-	-	-	-	-	-	84,248	84,248
Industrial Products	3,883	-	-	3,883	-	-	-	-
Industrial/ Business Services	27,707	-	-	27,707	-	-	-	-
Security	-	-	-	-	-	55,132	-	55,132
Total corporate investment	39,969	149,659	-	189,628	25,301	57,518	84,248	167,067
Real estate investment:								
Core / Core Plus	224,404	46,362	-	270,766	296,627	-	-	296,627
Total real estate investment	224,404	46,362	-	270,766	296,627	-	-	296,627
Alternative investment solutions:								
Special opportunities portfolio	-	-	-	-	29,790	-	-	29,790
Total alternative investment solutions	-	-	-	-	29,790	-	-	29,790
Total	264,373	196,021	-	460,394	351,718	57,518	84,248	493,484

10. CORPORATE CO-INVESTMENTS

$000s	*June 30, 2017*	*June 30, 2016*
CI co-investments [See Note 10 (A)]	514,589	554,336
Strategic and other investments [See Note 10 (B)]	24,400	48,304
Total	538,989	602,640

10 (A) CI CO-INVESTMENTS

The Group's CI co-investments are primarily classified as FVTPL investments. However certain debt investments amounting to $20.4 million (June 30, 2016: $22.3 million) are carried at amortised cost.

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, 2017 and June 30, 2016 are:

	June 30, 2017				June 30, 2016			
$000s	**North America**	**Europe**	**MENA***	**Total**	**North America**	**Europe**	**MENA***	**Total**
Consumer Products	55,014	42,680	32,903	130,597	59,480	50,876	41,561	151,917
Consumer Services	39,855	17,007	10,800	67,662	28,871	-	24,118	52,989
Healthcare	-	-	5,581	5,581	-	-	-	-
Industrial Products	-	75,193	4,384	79,577	30,800	66,745	4,946	102,491
Industrial/ Business Services	9,323	1,091	53,113	63,527	26,162	2,228	48,593	76,983
Telecom	111,283	-	-	111,283	108,494	-	-	108,494
Technology								
Big Data	606	-	-	606	606	816	-	1,422
Internet / Mobility	692	4,987	2,445	8,124	692	4,832	-	5,524
Security	14,287	33,345	-	47,632	31,321	20,693	2,502	54,516
Total	231,060	174,303	109,226	514,589	286,426	146,190	121,720	554,336

*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.

On adoption of IFRS 9, strategic investments in equity instruments are held as FVOCI investments. Please refer to note 5 for details on reclassification of investments to FVOCI on adoption of IFRS 9. For FVOCI investments, during the year, $0.4 million of dividend income was recognized in the statement of profit or loss and $1.0 million of losses were recognized in other comprehensive income.

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

11. ALTERNATIVE INVESTMENT SOLUTIONS CO-INVESTMENTS

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

$000s	***June 30, 2017***	*June 30, 2016*
Multi-manager solutions	70,088	130,058
Hedge funds partnerships	70,939	111,061
Alternative risk premia	38,733	59,952
Special opportunities portfolios	56,571	14,756
Total	236,331	315,827

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 25) 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 $18.7 million (June 30, 2016: Nil) are classified as FVOCI investments. For FVOCI investments, during the year, $4.3 million of losses were recognized in other comprehensive income.

Out of the total AIS co-investment, $18.7 million (June 30, 2016: $29.8 million) comprise funds which are not immediately available for redemption due to the liquidity profile of the instruments held by the underlying managers.

11. ALTERNATIVE INVESTMENT SOLUTIONS CO-INVESTMENTS (CONTINUED)

Of the above, co-investments amounting to Nil (June 30, 2016: $57.4 million) are subject to a lock up-period.

A portion of the Group's AIS co-investment is utilized to secure amounts drawn under a bi-lateral revolving facility. At June 30, 2017, $13.8 million was the drawn balance from the bi-lateral revolving facility (June 30, 2016: $41.7 million) (See Note 17).

12. REAL ESTATE CO-INVESTMENTS

On adoption of IFRS 9, 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

Please refer to note 5 for details on reclassification on adoption of IFRS 9.

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 Discounted Cash flow (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 $3.7 million (June 30, 2016: $10.3 million). Strategic and other equity investments which are classified as FVOCI investments amount to $14.8 million (June 30, 2016: Nil). For FVOCI investments, during the year, $21.5 million of losses were recognized in other comprehensive income and loss of $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, 2017 were located in United States and Europe and at June 30, 2016, were all located in the United States are:

$000s **PORTFOLIO TYPE**	***June 30, 2017***	*June 30, 2016*
Core / Core Plus	71,829	92,294
Debt	3,654	3,736
Opportunistic	1,453	1,831
Strategic	2,179	6,551
Total	79,115	104,412

13. CREDIT MANAGEMENT INVESTMENTS (CM)

$000s	June 30, 2017	June 30, 2016
European CLO Investments	219,376	-
US CLO Investments	39,336	-
Total	258,712	-

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 debt instruments 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.

14. PROVISIONS FOR IMPAIRMENT

Impairment provisions are as follows:

$000s Categories	*At beginning*	*Restatement due to IFRS 9**	*Restated balance At beginning*	*Charge*	*Written-off*	*At end*
12 months to June 30, 2017						
Receivables (Note 7)	5,057	2,324	7,381	3,129	-	10,510
Advances (Note 8)	10,684	1,171	11,855	985	-	12,840
Cash and short-term funds	-	2	2	-	-	2
Placement with financial institututions and other liquid assets	-	24	24	-	-	24
Total	15,741	3,521	19,262	4,114	-	23,376

* Restatement of opening balance due to early adoption of IFRS 9 by the Group during the year. Refer to Consolidated Statement of Changes in Equity and Note 5 for details

$000s Categories	*At beginning*	*Charge*	*Written-off*	*At end*
12 months to June 30, 2016				
Receivables (Note 7)	10,927	5,620	(11,490)	5,057
Advances (Note 8)*	17,520	2,596	(9,432)	10,684
Total	28,447	8,216	(20,922)	15,741

*Includes $2 million of portfolio provision.

15. INTANGIBLE ASSETS

$000s	Management Contracts	Goodwill	Total
Recognized at acquisition of subsidiaries	9,762	49,329	59,091
Amortisation during the year	(1,019)	-	(1,019)
At end	8,743	49,329	58,072

Intangible assets were recognized on the acquisition of the credit management business acquired through business combination (refer to Note 2). Management contracts have a useful life of 5 years and are amortized accordingly.

16. PAYABLES AND ACCRUED EXPENSES

$000s	*June 30, 2017*	*June 30, 2016*
Accrued expenses - employee compensation	76,056	56,188
Vendor and other payables	46,363	26,568
Unfunded deal acquisitions	19,504	105,000
Investment related payables	1,868	2,368
Accrued interest payable	9,091	8,368
Total	152,882	198,492

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

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

17. MEDIUM-TERM DEBT

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

$000s	*Final Maturity*	*June 30, 2017*		*June 30, 2016*	
		Size	*Current outstanding*	*Size*	*Current outstanding*
3-year secured bi-lateral revolving facility	February 2017	-	-	175,000	41,694
2-year secured bi-lateral revolving facility	June 2019	50,000	13,793	-	-
5-year fixed rate bonds	November 2017	250,000	250,000	250,000	250,000
4-year syndicated revolving facility					
	March 2020	25,000	-	420,000	-
	March 2021	397,145	-	-	-
5-year fixed rate bonds	June 2019	139,249	139,249	139,249	139,249
Total			403,042		430,943
Foreign exchange translation adjustments			(8,769)		(11,391)
Fair value adjustments relating to interest rate hedges			180		713
Transaction costs of borrowings			(12,720)		(17,184)
Total			381,733		403,081

The 2-year secured bi-lateral revolving facility of $50 million, replaces the 3 year secured bi-lateral revolving facility of $175 million that matured in February 2017. This facility is secured, to the extent it is drawn, by an equivalent amount of the Group's AIS co-investments. As of June 30, 2017, based on the amount of eligible collateral, the effective available facility was $13.8 million, which was fully drawn.

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 facility 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.

18. LONG-TERM DEBT

$000s	*Final Maturity*	*June 30, 2017*	*June 30, 2016*
PRIVATE NOTES			
JPY 37 Billion Private Placement	March 2030	332,328	332,328
$50 Million Private Placement	July 2032	50,000	50,000
		382,328	382,328
Foreign exchange translation adjustments		(2,221)	27,682
Fair value adjustments relating to interest rate hedges		31,208	70,889
Transaction costs of borrowings		(1,776)	(1,918)
Total		409,539	478,981

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.

19. DEFERRED FEES

$000s	*June 30, 2017*	*June 30, 2016*
Deferred fees relating to placements	85,479	91,453
Deferred fees from investee companies	1,096	1,425
Total	86,575	92,878

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 $49.1 million (2016: $36.2 million).

20. SHARE CAPITAL AND RESERVES

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

	June 30, 2017			June 30, 2016		
	No. of shares	Par value $	$000	No. of shares	Par value $	$000
Authorized share capital						
- Ordinary shares	1,000,000	1,000	1,000,000	1,000,000	1,000	1,000,000
- Preference and other shares	1,000,000	1,000	1,000,000	1,000,000	1,000	1,000,000
			2,000,000			2,000,000
Issued share capital						
- Ordinary shares	200,000	1,000	200,000	200,000	1,000	200,000
- Preference shares	223,239	1,000	223,239	223,239	1,000	223,239
			423,239			423,239

Ordinary share capital

The Company's subscribed ordinary share capital comprises 200,000 (June 30, 2016: 200,000) ordinary shares of $1,000 (June 30, 2016: $1,000) each.

Treasury shares

881 (June 30 2016: 15,210 ordinary shares were held as treasury shares, which includes 881 shares (June 30, 2016: 1,540 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 3,902 shares (June 30, 2016: 5,932 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2017, are not counted as treasury shares (see Note 26). During the year, a gain of $43.5 million (2016: $23.1 million) was realized on the sale of treasury shares.

Preference share capital

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

These preference shares are callable, at the Company'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 ordinary shareholders. The preference shares take priority over the Company's ordinary shares for payment of dividends and distribution of assets in the eve
nt of a liquidation or dissolution.

20. SHARE CAPITAL AND RESERVES (CONTINUED)

Dividend per share

The proposed ordinary share dividend is $96 (2016: $96) per share payable only on issued shares (excluding treasury shares), that are held on the record date.

The proposed preference share dividend of $25 million (2016: $23.9 million) represents an annual dividend on issued preference shares.

21. OTHER RESERVES

During the year the Group early adopted IFRS 9. Based on the adoption, the AFS investments and related revaluation reserves were reclassified as FVOCI investments and fair value reserve respectively.

Other reserves now consist of cash flow hedges recognized directly in equity.

Movements relating to other reserves are set out below:

$000s	**Available for sale invesments**	**Cash flow hedges**	**Total**
Balance at June 30, 2015	2,155	(16,263)	(14,108)
Net realized gain recycled to statement of profit or loss	-	(2,656)	(2,656)
Net unrealized (losses) / gains for the year	(101)	11,071	10,970
Balance at June 30, 2016	2,054	(7,848)	(5,794)
Restatement arising from early adoption of IFRS 9	(2,054)	-	(2,054)
Balance at July 1, 2016 (Restated)	-	(7,848)	(7,848)
Net realized loss recycled to statement of profit or loss	-	5,253	5,253
Net unrealized losses for the year	-	(8,312)	(8,312)
Balance at June 30, 2017	-	(10,907)	(10,907)

22. 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.

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

Type of hedge	Changes in fair value of underlying hedged item relating to the hedged risk	Changes in fair value of hedging instrument
Fair value hedges	Recorded in the consolidated Statement of 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 25) represent interest rate swaps, cross currency swaps, currency forwards and option contracts. For derivatives that are not valued using internal models, the Group's policy is to rely on third party valuations, whilst benchmarking them against observable market data.

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

Description $000s	June 30, 2017 Notional value	Positive fair value*	Negative fair value	June 30, 2016 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	280,029	-	(5,419)	330,950	30,055	-
ii) Cash flow hedges						
Forecasted transactions	56,969	940	(2,652)	-	-	-
Coupon on long-term debt	54,895	-	(1,176)	53,571	4,973	-
Total forward foreign exchange contracts	391,893	940	(9,247)	384,521	35,028	-
Interest rate risk being hedged using interest rate swaps						
i) Fair value hedges - fixed rate debt	738,025	21,094	(649)	768,219	1,054	(1,083)
ii) Cash flow hedges - floating rate debt	25,000	-	(2,081)	325,000	-	(4,936)
Total interest rate hedging contracts	763,025	21,094	(2,730)	1,093,219	1,054	(6,019)
Total hedging derivatives	1,154,918	22,034	(11,977)	1,477,740	36,082	(6,019)
B) OTHER DERIVATIVES						
Interest rate swaps	464,145	11,682	(11,863)	75,000	16,028	(16,032)
Total return swaps	108,072	-	(96)	23,313	92	(175)
Forward foreign exchange contracts	1,705,248	13,416	(9,741)	989,332	17,473	(23,093)
Cross currency swaps	436,988	14,937	(9,968)	438,832	20,535	(4,161)
Total other derivatives	2,714,453	40,035	(31,668)	1,526,477	54,128	(43,461)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**3,869,371**	**62,069**	**(43,645)**	**3,004,217**	**90,210**	**(49,480)**

** Net collateral received by the Group amounting to $64.9 million has been taken against the fair values above (June 30, 2016: $129.6 million)*

Interest rate swaps, classified as hedging derivatives include notional value of $38.3 million (June 30, 2016: $41.8 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 $119.9 million (June 30, 2016: $123.5 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, which are in aggregate notional value of $108.1 million (June 30, 2016: $23.3), are transactions with a financial counterparty where the economic returns under the swap are linked to the Group’s $250 million 8.25% notes due 2017.

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2017 *$000s*	*Notional amounts by term to maturity* *Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	280,029	-	-	-	280,029
Interest rate swaps	-	250,000	70,941	417,084	738,025
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	54,895	60,119	-	-	115,014
Interest rate swaps	-	-	-	25,000	25,000
Other Derivatives:					
Interest rate swaps	414,145	-	-	50,000	464,145
Total return swaps	-	108,072	-	-	108,072
Forward foreign exchange contracts	1,590,835	118,267	-	-	1,709,102
Cross currency swaps	-	-	436,988	-	436,988
	2,339,904	536,458	507,929	492,084	3,876,375

June 30, 2016 *$000s*	*Notional amounts by term to maturity* *Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	330,950	-	-	-	330,950
Interest rate swaps	-	-	320,146	448,073	768,219
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	53,571	-	-	-	53,571
Interest rate swaps	100,000	200,000	-	25,000	325,000
Other Derivatives:					
Interest rate swaps	25,000	-	-	50,000	75,000
Total return swaps	-	-	23,313	-	23,313
Forward foreign exchange contracts	967,308	22,024	-	-	989,332
Cross currency swaps	-	-	438,832	-	438,832
	1,476,829	222,024	782,291	523,073	3,004,217

Fair value hedges

Loss arising from fair value hedges during the year ended June 30, 2017 were $86.9 million (2016: losses of $ 80.4 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $88.9 million (2016: gains of $80.7 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 $1.9 million (2016: $0.5 million) on derivative instruments classified as other derivatives.

22. 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, 2017 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk*					
Coupon on long-term debt	(5,777)	(5,777)	(46,215)	(92,430)	(150,199)
Operating expenses	-	(18,217)	-	-	(18,217)
Fee income	-	31,205	-	-	31,205
Interest rate risk*					
Interest on liabilities	(2,103)	(2,373)	(18,149)	(46,951)	(69,576)
	(7,880)	4,838	(64,364)	(139,381)	(206,787)

June 30, 2016 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*>1 year up to 5 years*	*Over 5 years*	*Total*
Currency risk*					
Coupon on long-term debt	(6,300)	(6,300)	(50,401)	(113,403)	(176,404)
Interest rate risk*					
Interest on liabilities	(2,534)	(3,243)	(17,127)	(50,160)	(73,064)
	(8,834)	(9,543)	(67,528)	(163,563)	(249,468)

* 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, 2017 was a loss of $5.3 million (2016: gain of $2.7 million).

23. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	***June 30, 2017***	*June 30, 2016*
Investment commitments	61,428	47,138
Non-cancelable operating leases:		
Up to 1 year	5,565	6,062
1 year to 5 years	11,783	8,061
Over 5 years	10,941	-
Total non-cancelable operating leases	28,289	14,123
Guarantees and letters of credit issued to third parties	10,000	3,500

Investment related commitments represent the Group's unfunded co-investment commitments to various CI and RE investment funds, a special opportunities portfolio, and forward placements in money market instruments.

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

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

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

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

24. RISK MANAGEMENT

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

The Investcorp's primary risk management objective is to support its business objectives with sufficient economic capital. The Investcorp employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital. The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently aggregated to determine the 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.

In the notes below, placements with financial institutions includes $110.0 (June 30, 2016: $24.5) million placed as funded credit contingent derivative with a financial counterparty.

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

i) Counterparty credit risk

Investcorp is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, advances, debt investments and guarantees. Investcorp manages counterparty credit risk by setting limits for all counterparties that have been set by Investcorp Bank. Investcorp also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 22). With respect to the counterparty credit risk exposure arising from other financial assets, the Group has a maximum exposure equal to the carrying value of these instruments. Investcorp also actively attempts to mitigate counterparty credit risks, where possible, through documented netting and margin arrangements with counterparties, under ISDA and CSA agreements.

Investcorp's 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.

24. 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, 2017 $000s	*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	86	34,818	-	-	(2)	34,902
Placements with financial institutions and other liquid assets	206,184	311,246	-	-	(24)	517,406
Positive fair value of derivatives	62,069	-	-	-	-	62,069
Receivables	-	144,295	83,829	9,786	(10,510)	227,400
Advances	-	86,064	-	11,670	(12,840)	84,894
Co-investments - debt	-	284,008	-	-	(993)	283,015
Guarantees	-	10,000	-	-	-	10,000
Total	268,339	870,431	83,829	21,456	(24,369)	1,219,686

Of the total provisions, $1.95m relates to Stage 1, $0.96m relates to Stage 2 and $21.46m relates to Stage 3 assets

June 30, 2016 $000s	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*
	Credit risk rating					
	High	Standard				
Short-term funds	782	286,052	-	-	-	286,834
Placements with financial institutions and other liquid assets	609	132,625	-	-	-	133,234
Positive fair value of derivatives	90,210	-	-	-	-	90,210
Receivables	-	188,149	89,881	5,057	(5,057)	278,030
Advances	-	104,197	-	8,684	(10,684)	102,197
Co-investments - debt	-	32,576	-	-	-	32,576
Guarantees	-	3,500	-	-	-	3,500
Total	91,601	747,099	89,881	13,741	(15,741)	926,581

24. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

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

$000s	June 30, 2017	June 30, 2016
Up to 1 month	42,870	74,190
> 1 up to 3 months	4,614	5,556
> 3 up to 6 months	26,075	8,960
> 6 months	10,270	1,175
Total	**83,829**	**89,881**

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, 2017 amounts to $156.0 million (June 30, 2016: $776.7 million).

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

$000s	*June 30, 2017*	*June 30, 2016*
Geographical Region		
North America	23,503	15,741
Europe	843	-
Other	23	-
Total	24,369	15,741

$000s	*June 30, 2017*	*June 30, 2016*
Industry Sector		
Banking and Finance	6,526	2,014
Real estate	17,843	13,727
Total	24,369	15,741

24. 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 have occurred.

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

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

The receivable 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 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 defaults 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 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.

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

24. RISK MANAGEMENT (CONTINUED)

iii) Funding liquidity risk

Funding liquidity risk is the risk that Investcorp will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, Investcorp implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems and scenario analyses that are incorporated into a contingency funding plan. The framework is consistent with regulatory requirements and is subject to Investcorp Bank Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain comfortable and laddered debt maturities. Investcorp 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, 2017 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Non-cash items*	*Total*
Assets								
Financial assets								
Cash and short-term funds	35,043	-	35,043	-	-	-	-	35,043
Placement with financial institutions and other liquid assets	396,822	116,783	513,605	3,801	-	-	-	517,406
Positive fair value of derivatives	5,266	1,818	7,084	8,034	511	46,440		62,069
Receivables	141,390	3,710	145,100	82,300	-	-	-	227,400
Advances	4,194	5,252	9,446	75,448	-	-	-	84,894
Underwritten investments	393,381	67,013	460,394	-	-	-	-	460,394
Co-investments								
Corporate investment	23,723	48,633	72,356	466,633	-	-	-	538,989
Alternative investment solutions	89,806	77,989	167,795	68,536	-	-	-	236,331
Real estate investment	-	-	-	79,115	-	-	-	79,115
Credit management Investment	9,883	28,743	38,626	155,176	64,910	-	-	258,712
Total financial assets	1,099,508	349,941	1,449,449	939,043	65,421	46,440	-	2,500,353
Non-financial assets								
Prepayments	-	-	-	-	-	-	39,820	39,820
Premises, equipment and other assets	-	-	-	-	-	-	9,368	9,368
Intangibles	-	-	-	-	-	-	58,072	58,072
Total assets	1,099,508	349,941	1,449,449	939,043	65,421	46,440	107,260	2,607,613
Liabilities								
Financial liabilities								
Due to a related party	29,499	48,833	78,332	309,694	-	-	-	388,026
Payables and accrued expenses	120,890	15,249	136,139	16,743	-	-	-	152,882
Negative fair value of derivatives	14,467	6,145	20,612	10,025	-	13,008	-	43,645
Medium-term debt	2,720	250,000	252,720	129,013	-	-	-	381,733
Long-term debt	-	-	-	-	-	409,539	-	409,539
Total financial liabilities	167,576	320,227	487,803	465,475	-	422,547	-	1,375,825
Non-financial liability								
Deferred fees	-	-	-	-	-	-	86,575	86,575
Total liabilities	167,576	320,227	487,803	465,475	-	422,547	86,575	1,462,400
Net gap	931,932	29,714	961,646	473,568	65,421	(376,107)	20,685	1,145,213
Cumulative liquidity gap	931,932	961,646	961,646	1,435,214	1,500,635	1,124,528	1,145,213	

24. RISK MANAGEMENT (CONTINUED)

iii) Funding liquidity risk (continued)

June 30, 2016 *$000s*	*Up to 3 months*	*>3 months up to 1 year*	*Sub-Total up to 1 year*	*>1 year up to 5 years*	*>5 years up to 10 years*	*>10 years up to 20 years*	*Non-cash items*	*Total*
Assets								
Financial assets								
Cash and short-term funds	286,976	-	286,976	-	-	-	-	286,976
Placement with financial institutions and other liquid assets	108,026	-	108,026	25,208	-	-	-	133,234
Positive fair value of derivatives	21,512	37	21,549	9,416	581	58,664	-	90,210
Receivables	185,838	9,008	194,846	83,184	-	-		278,030
Advances	16,768	2,927	19,695	82,502	-	-	-	102,197
Underwritten investments	493,484	-	493,484	-	-	-	-	493,484
Co-investments								
Corporate investment	30,800	29,665	60,465	542,175	-	-	-	602,640
Alternative investment solutions	159,156	60,046	219,202	96,625	-	-	-	315,827
Real estate investment	-	-	-	104,412	-	-	-	104,412
Total financial assets	1,302,560	101,683	1,404,243	943,522	581	58,664	-	2,407,010
Non-financial assets								
Prepayments	-	-	-	-	-	-	32,589	32,589
Premises, equipment and other assets	-	-	-	-	-	-	8,718	8,718
Total assets	1,302,560	101,683	1,404,243	943,522	581	58,664	41,307	2,448,317
Liabilities								
Financial liabilities								
Due to a related party	41,399	44,532	85,931	122,231	-	-	-	208,162
Payables and accrued expenses	170,619	13,985	184,604	13,888	-	-	-	198,492
Negative fair value of derivatives	23,006	246	23,252	5,418	-	20,810	-	49,480
Medium-term debt	-	41,694	41,694	361,387	-	-	-	403,081
Long-term debt	-	-	-	-	-	478,981	-	478,981
Total financial liabilities	235,024	100,457	335,481	502,924	-	499,791	-	1,338,196
Non-financial liability								
Deferred fees	-	-	-	-	-	-	92,878	92,878
Total liabilities	235,024	100,457	335,481	502,924	-	499,791	92,878	1,431,074
Net gap	1,067,536	1,226	1,068,762	440,598	581	(441,127)	(51,571)	1,017,243
Cumulative liquidity gap	1,067,536	1,068,762	1,068,762	1,509,360	1,509,941	1,068,814	1,017,243	

24. 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, 2017 ***$000s***	***Up to*** ***3 months***	***>3 months*** ***up to 1 year***	***>1 year*** ***up to 5 years***	***>5 years*** ***up to 10 years***	***>10 years*** ***up to 20 years***	***Total***
Financial liabilities						
Due to a related party	72,692	52,582	287,002	-	-	412,276
Payables and accrued expenses	120,890	15,249	16,743	-	-	152,882
Medium-term debt	13,717	266,510	136,678	-	-	416,905
Long-term debt	7,797	7,797	62,375	77,969	436,989	592,927
	215,096	342,138	502,798	77,969	436,989	1,574,990
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	1,536,084	124,979	300,754	-	-	1,961,817
Contractual amounts receivable	(1,531,323)	(123,252)	(312,671)	-	-	(1,967,246)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	1,501	(9,037)	(31,713)	(31,861)	(15,836)	(86,946)
Commitments	14,559	35,340	28,876	10,941	-	89,716
Guarantees	-	-	-	10,000	-	10,000
Total undiscounted financial liabilities	235,917	370,168	488,044	67,049	421,153	1,582,331

June 30, 2016 *$000s*	*Up to* *3 months*	*>3 months* *up to 1 year*	*>1 year* *up to 5 years*	*>5 years* *up to 10 years*	*>10 years* *up to 20 years*	*Total*
Financial liabilities						
Due to a related party	131,327	38,792	39,997	-	-	210,116
Payables and accrued expenses	167,722	13,985	16,785	-	-	198,492
Medium-term debt	3,032	69,181	400,317	-	-	472,530
Long-term debt	8,320	8,320	66,561	83,202	486,671	653,074
	310,401	130,278	523,660	83,202	486,671	1,534,212
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	1,338,290	34,375	303,587	-	-	1,676,252
Contractual amounts receivable	(1,366,885)	(34,261)	(323,336)	-	-	(1,724,482)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	743	(9,242)	(41,402)	(43,400)	(32,268)	(125,569)
Commitments	10,047	37,075	14,139	-	-	61,261
Guarantees	-	-	-	3,500	-	3,500
Total undiscounted financial liabilities	292,596	158,225	476,648	43,302	454,403	1,425,174

24. 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, 2017			June 30, 2016		
$000s	***Assets exposed to credit risk***	***Off-balance sheet items exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet items exposed to credit risk*	*Total credit risk exposure*
Geographical Region						
North America	782,687	-	782,687	722,082	3,500	725,582
Europe	357,037	10,000	367,037	157,207	-	157,207
MENA*	69,962	-	69,962	43,792	-	43,792
Total	1,209,686	10,000	1,219,686	923,081	3,500	926,581

* including Turkey

	June 30, 2017			June 30, 2016		
$000s	***Assets exposed to credit risk***	***Off-balance sheet exposed to credit risk***	***Total credit risk exposure***	*Assets exposed to credit risk*	*Off-balance sheet exposed to credit risk*	*Total credit risk exposure*
Industry Sector						
Banking and Finance	921,469	-	921,469	561,953	-	561,953
Consumer products	25,014	-	25,014	82,969	-	82,969
Consumer services	98,099	-	98,099	47,542	-	47,542
Industrial /business services	12,585	10,000	22,585	1,065	-	1,065
Industrial products	45,437	-	45,437	85,556	-	85,556
Real estate	59,058	-	59,058	52,560	3,500	56,060
Technology and Telecom	42,861	-	42,861	88,844	-	88,844
Others	5,163	-	5,163	2,592	-	2,592
Total	1,209,686	10,000	1,219,686	923,081	3,500	926,581

24. RISK MANAGEMENT (CONTINUED)

v) Market price risk

The principal market related risks to which Investcorp 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, Investcorp has established appropriate procedures and limits approved by the Investcorp Bank's Board of Directors.

In addition, for internal risk assessments, Investcorp 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

Investcorp's overall policy is generally to hedge all non-US dollar denominated assets, liabilities, 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 Investcorp utilizes forward foreign exchange contracts and other foreign exchange derivatives to manage its exposure to fluctuations in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established exposure and Value at Risk ("VaR") risk limits.

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

$000s	***June 30, 2017***		*June 30, 2016*	
Long (Short)	***Net hedged exposure***	***Net unhedged exposure***	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	13	54,060	27,030	60,599
Saudi Riyal*	-	(172)	-	(313)
Euro	242,129	(61)	172,620	77
Pounds Sterling	(7,503)	25	10,165	126
Swiss Francs	(137,752)	92	(134,902)	7
Japanese Yen	(330,730)	(1)	(360,772)	(1,694)
	(233,843)	53,943	(285,859)	58,802

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of those rates. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, Investcorp'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.

24. 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.

$000s	2017	2016
Average FX VaR	7	9
Year end FX VaR	9	31
Maximum FX VaR	31	43
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 $1.9 million (2016: gain of $0.3 million).

v) (b) Interest rate risk

Investcorp 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. Investcorp actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by Investcorp Bank's Board of Directors. Investcorp does not take interest rate trading positions and all of its interest rate risk is typically in the banking book where hedge accounting applies. Investcorp also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $20.8 million (June 30, 2016: $29.1 million), which earn interest at an effective rate approximating 13.0% (June 30, 2016: 14.8%) per annum.
- Credit management Investments amounting to $258.7 million (June 30, 2016: Nil), which earn interest at an effective rate approximating 8% (June 30, 2016: Nil) per annum.

24. 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.

$000s *Currency*	*Sensitivity to profit/ (loss) for +200 basis points*	*Sensitivity to profit/ (loss) for -200 basis points*
	June 30, 2017	
Euro	(3,445)	-
Pounds Sterling	624	(76)
Japanese Yen	526	(10)
US Dollar	(3,783)	3,850
Others	(1,860)	1,084
Total	(7,938)	4,848

$000s *Currency*	*Sensitivity to profit/ (loss) for +200 basis points*	*Sensitivity to profit/ (loss) for -200 basis points*
	June 30, 2016	
Euro	(633)	-
Pounds Sterling	(36)	9
Japanese Yen	660	-
US Dollar	(12,844)	5,588
Others	1,200	(378)
Total	(11,653)	5,219

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

24. 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 and RE to changes in multiples / capitalization rates / quoted bid prices.

June 30, 2017 *$000s*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income*	
				For increase	For decrease	For increase	For decrease
CI co-investments	EBITDA Multiples	+/- 0.5x	480,307	527,183	436,683	46,876	(43,624)
	Revenue Multiples	+/- 0.5x	6,442	7,143	5,741	701	(701)
	Quoted bid price	+/- 1%	7,191	7,263	7,119	72	(72)
				For decrease	For increase	For decrease	For increase
RE co-investments	Capitalization Rate	-/+ 1%	60,704	75,556	50,115	14,852	(10,589)

June 30, 2016 *$000s*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income*	
				For increase	For decrease	For increase	For decrease
CI co-investments	EBITDA Multiples	+/- 0.5x	538,810	591,182	488,524	52,372	(50,286)
	Quoted bid price	+/- 1%	15,286	15,681	15,371	155	(155)
				For decrease	For increase	For decrease	For increase
RE co-investments	Capitalization Rate	-/+ 1%	94,125	111,952	77,715	17,827	(16,410)

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.

$000s	**2017**	2016
Average VaR	6,734	12,213
Year end VaR	4,908	10,659
Maximum VaR	9,066	13,714
Minimum VaR	4,908	10,659

24. 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. Investcorp's 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.

25. 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.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investcorp has established guidelines for the valuation of its investments which are reviewed by Investcorp Bank's 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 Investcorp. 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 amounts to $258.5 million (June 30, 2016: nil) as compared to the carrying value of 258.7 million (June 30, 2016: nil). The fair value of medium and long term debt amounts to $783.9 million (June 30, 2016: $814.3 million) as compared to the carrying value of $805.8 million (June 30, 2016: $901.2 million). The fair value of medium and long term debt is based on inputs from third party banks and falls under Level 3 of the fair value hierarchy 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: input other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

During the current financial year, there was a transfer of $1.8 million from level 3 to level 1 (2016: $15.5 million) under co-investments in corporate investments. This represents the listing on a stock exchange of previously unquoted investments. Additionally, under alternative investment solutions, an exposure of $18.7 million (June 30, 2016: $29.8 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 loss of $4.3 million (June 30, 2016: loss of $6.5 million) and the net redemptions amounts to $6.8 million (June 30, 2016: $15.3 million).

25. 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 22 to the financial statements.

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

June 30, 2017 $000s	Level 1	Level 2	Level 3	Total
Financial assets				
Positive fair value of derivatives	-	62,069	-	62,069
Co-investments				
Corporate investment	7,191	-	511,149	518,340
Alternative investment solutions	-	217,619	18,712	236,331
Real estate investment	-	-	75,461	75,461
Total financial assets	7,191	279,688	605,322	892,201
Financial liabilities				
Negative fair value of derivatives	-	43,645	-	43,645
Total financial liabilities	-	43,645	-	43,645

June 30, 2016 $000s	Level 1	Level 2	Level 3	Total
Financial assets				
Positive fair value of derivatives	-	90,210	-	90,210
Co-investments				
Corporate investment	15,526	-	564,825	580,351
Alternative investment solutions	-	286,019	29,808	315,827
Real estate investment	-	-	94,125	94,125
Total financial assets	15,526	376,229	688,758	1,080,513
Financial liabilities				
Negative fair value of derivatives	-	49,480	-	49,480
Total financial liabilities	-	49,480	-	49,480

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2017 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations*	*Other movements***	*At end*
CI co-investments	564,825	53,663	26,512	(128,822)	(5,029)	511,149
RE co-investments	94,125	15,272	(28,071)	(13,317)	7,452	75,461
Total	**658,950**	**68,935**	**(1,559)**	**(142,139)**	**2,423**	**586,610**

***Includes $26.8 m million fair value loss on FVOCI investments**

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

June 30, 2016 *$000s*	*At beginning*	*Net new acquisitions*	*Fair value movements**	*Movements relating to realizations*	*Other movements***	*At end*
CI co-investments	626,855	42,142	96,523	(231,365)	30,670	564,825
RE co-investments	119,523	32,776	(19,589)	(31,844)	(6,741)	94,125
Total	**746,378**	**74,918**	**76,934**	**(263,209)**	**23,929**	**658,950**

***Includes $0.7 million fair value gain on available for sale investments and unrealized fair value gains of $16.4m.**

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

26. 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.

26. EMPLOYEE COMPENSATION (CONTINUED)

Programs for Investment Profit Participation

Investcorp's investment professionals in its corporate investment, real estate investment and placement and relationship management lines of business participate in investment carried interest programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with these professionals, provided certain pre-established minimum client return hurdles are satisfied. Netting mechanisms are used so that returns from investments that perform well are netted against other investments in which losses are sustained. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Programs for Investment Participation

Investment professionals and relationship managers also participate in a co-investment program pursuant to which they acquire an interest in the Investcorp investments that they manage at the Investcorp 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, Investcorp Bank 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, 2017 is $18.2 million (June 30, 2016: $25.8 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 $11.4 million (2016: $13.0 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 Investcorp 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 $19 million (2016: $15.7 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.

26. EMPLOYEE COMPENSATION (CONTINUED)

An expense charge of $13.3 million (2016: $15.6 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 $13.9 million (2016: $15.5 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of shares	***2017***	*2016*
Granted during the year	4,927	4,400
Vested during the year	4,907	5,774
Forfeited during the year	83	121

27. RELATED PARTY TRANSACTIONS

A. DUE TO A RELATED PARTY

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

B. OTHER RELATED PARTY TRANSACTIONS

For the Group, related parties include, in addition to Investcorp Bank, 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 Investcorp, 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. Investcorp's management approves the terms and conditions of all related party transactions.

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

In addition to the compensation and benefits to employees disclosed in Note 26, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

27. RELATED PARTY TRANSACTIONS (CONTINUED)

B. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

$000s		June 30, 2017	June30,2016
AUM fees	Investee and investment holding companies	86,496	64,741
Deal fees	Investee and investment holding companies	116,502	152,835
Asset based income	Investee companies	32,873	22,502
Provisions for impairment	Employee investment programs	(959)	(1,560)
Interest expense	Due to a related party	(2,663)	(1,955)

Of the staff compensation for the year set out in Note 26, $70.1 million (2016: $70.3 million) is attributable to senior management (including a director who was an employee during the year). Of the above mentioned remuneration of senior management, $48.4 million (2016: $47.2 million) is in the form of salaries and other short term benefits.

In addition to the compensation and benefits to employees disclosed in Note 26, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2017			June 30, 2016		
$000s	Assets	Liabilities	Off-balance sheet	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	723	6,272	-	-	6,272	-
Investee companies	50,095	1,095	-	56,113	-	-
Investment holding companies	111,756	167,933	40,599	137,950	100,282	19,986
Fund companies associated with the AIS	9,098	-	12,003	42,817	-	20,786
Senior management	-	23,533	-	-	3,088	-
	171,672	198,833	52,602	236,880	109,642	40,772

28. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared and presented in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands ($000s) unless otherwise stated. Certain prior year balances have been reclassified to conform to the current period presentation.

The accounting policies adopted are consistent with those of the previous financial year except for accounting policies related to Financial Instruments due to early adoption of IFRS 9 that was issued in July 2014.

Standards issued but not yet effective

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

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (1 January 2017)
- Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative (1 January 2017)
- Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions (1 January 2018)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (1 January 2018)
- Amendments to IAS 40 - Transfers of Investment Property (1 January 2018)
- IFRS 16 Leases (1 January 2019)
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Annual Improvements to IFRS Standards 2014–2016 Cycle

- Amendments to IFRS 12 Disclosure of Interests in Other Entities (1 January 2017)
- Amendments to IAS 28 Investments in Associates and Joint Ventures (1 January 2018)

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

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 applicable for the period before July 1, 2016 and under IFRS 9 applicable for the period after July 1, 2016 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 Company 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 Company's subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 FVPTL co-investments in corporate investments and real estate investments (see Notes 10 and 12), 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 13).

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

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vi) Early adoption of IFRS 9

The Group has early adopted IFRS 9 during the year. With regard to classification, measurement and impairment of financial assets, changes in accounting policies resulting from the early adoption of IFRS 9 have been applied as described below.

a) Comparative information has not been restated. The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 July 2016. Accordingly, the information presented for 2016 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
   - The determination of the business model within which a financial asset is held.
   - The designation and revocation of previously designated financial assets as measured at FVTPL.
   - The designation of certain investments in equity instruments not held for trading as FVOCI.

vii) Classification of financial assets

(a) Investments

Upon early adoption of IFRS 9, the group classifies the financial assets into various categories as set out in Note 5(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 and AIS investments as FVOCI investments.

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

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vii) Classification of financial assets (continued)

(a) Investments (continued)

Prior year accounting policy

Prior to 1 July 2016, the Group had classified co-investment exposures as held to maturity, held for trading, carried as FVTPL, Available-For-Sale (“AFS”) or carried at amortised cost as required under IAS 39.

Investments which were acquired with the intention of a long-term holding period, in CI, RE or AIS investments, including those over which the Group had significant influence, were classified as FVTPL investments when the following criteria were met:

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

All other equity investments were classified as AFS and certain debt investments were carried at amortised cost.

(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.

viii) 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.

Prior year accounting policy

Prior to 1 July 2016, all co-investments in alternative investment solutions were classified as FVTPL investments and the resulting fair value changes were recorded in the consolidated statement of profit or loss.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ix) 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.

Prior year accounting policy

Prior to 1 July 2016, certain of the Group's strategic and other investments were classified as AFS and were initially recorded at fair value including acquisition charges. These investments were then re-measured to fair value at each reporting date and any resulting change in value of these investments was taken to the consolidated statement of comprehensive income and recorded as a separate component of equity until they were impaired or derecognized at which time the cumulative gain or loss previously reported in equity was included in the consolidated statement of profit or loss.

x) Co- investments in credit management investment

The Group's co-investments in credit management are classified as debt instruments carried at amortised cost less any impairment provision. Interest income on these debt instruments is recognized using the effective interest rate ("EIR").

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xi) 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 equity investments and debt investments classified as FVTPL and 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'.

Prior year accounting policy

Prior to 1 July 2016, an assessment was made at each reporting date for all financial assets other than those classified as FVTPL assets to determine whether there was objective evidence that a specific financial asset may be impaired. Any impairment loss was recognized in the consolidated statement of profit or loss and credited to an allowance account. In the case of AFS equity investments, such impairment was reflected directly as a write down of the financial asset.

In the case of financial assets other than AFS, the impaired financial assets together with the associated allowance were written off when there was no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss was increased or reduced by adjusting the allowance account. If an amount written off earlier was later recovered, the recovery was credited to the consolidated statement of profit or loss.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xii) 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 statement of other comprehensive income in respect of 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.

Prior year accounting policy

Prior to 1 July 2016, on derecognition of financial assets classified as AFS investments, any cumulative gain/loss recognized separately in equity was recycled to the consolidated statement of profit or loss.

xiii) 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.

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 other comprehensive income. *Prior to 1 July 2016, foreign currency differences arising from the translation of AFS equity instruments were also recognized in OCI.*

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xiv) 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.

xv) Advances

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

xvi) 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).

xvii) Premises and equipment

Premises and equipment substantially comprise leasehold improvements used by the Group.

These items are recorded at cost less accumulated depreciation.

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

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

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

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xviii) 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 and are amortized accordingly.

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 statement of profit or loss for the period.

xix) 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 Investcorp Bank Board of Directors (see Note 26).

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.

xx) 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.

xxi) 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.

xxii) 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.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxiii) 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.

xxiv) 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.

xxv) 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.

xxvi) 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.

xxvii) 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 22.

For derivatives that do not qualify for hedge accounting, any gain or loss arising from changes in their fair value is taken to the consolidated statement of profit or loss.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxviii) 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.

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.

xxix) 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.

28. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxx) 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 and are included under operating expenses.

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.