INVESTCORP

In Fiscal Year 2016 we embarked on an ambitious growth strategy to more than double our assets under management in the medium term. We remained committed to investing in the right infrastructure and world class talent to support this vision globally. Strong results across all core businesses have enabled Investcorp to increase ordinary share dividends by 60% with the Fiscal Year demonstrating good momentum for Investcorp as our business continued to grow in what have been challenging markets.

Investcorp Group 2016 Annual Report

MISSION

Investcorp's mission is to be our clients' preferred choice in meeting their needs for alternative investment products: corporate investment, alternative investment solutions and real estate investment. In fulfilling this mission, our most important asset is our reputation. Investcorp has earned its distinction through reliability, transparency, business judgment, value creation, innovation and superior results.

The Investcorp brand is universally recognized for its excellent performance in global alternative investments. We are determined to maintain and build on this powerful reputation. To this end, we will ensure that all our lines of business generate top-quartile results in their respective sectors.

We will continue to set the standard for superior client service in our industry, focusing on our core market of institutional and high-net-worth clients in the Gulf region and growing our franchise with selected new clients. Investcorp will continue to be a management-driven organization, institutional in its practices and disciplines while preserving its entrepreneurial environment and partnership mindset. Our determination to develop, retain and attract talented people, and to provide a distinctive culture in which they can thrive and excel, will remain unchanged.

MESSAGE TO SHAREHOLDERS

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 33rd fiscal year ended June 30, 2016.

Dear Shareholders,

This has been a transformational year for Investcorp. The growth strategy that we unveiled last November has been fully embraced throughout the Firm and we are entirely focused on the goal of more than doubling our assets under management (AUM) over the medium term. This plan is underpinned by a series of strategic initiatives that aim to leverage the global reach of Investcorp's brand and footprint, tap into logical adjacencies for existing businesses, extend our product offerings and supplement all these with strategic acquisition opportunities.

At a corporate level, we were delighted to welcome Mubadala as a key shareholder. The two-step transaction sees Mubadala acquire a 9.99% ownership stake immediately, with a further 10.01% following necessary regulatory approvals. This marked the next logical step in our journey to further institutionalize our shareholding across the GCC. As you no doubt know, Mubadala stands tall as an experienced successful international investor, with stakes in major international institutions like Carlyle, GE and EMI, to name a few. This new investment will provide us with greater reach and firepower and will significantly facilitate our efforts, regionally and worldwide, to achieve our long-term vision.

The Mubadala deal, coupled with the continued de-leveraging of our balance sheet through record levels of recent exit activity, means that our balance sheet is well positioned to act quickly on any opportunities that support our growth ambitions. This includes synergistic acquisitions that leverage the scalability of the recent investments we have made in our infrastructure, as well as tapping natural adjacencies and adding complementary products or markets to our current capabilities. Liquidity and capital have never been stronger and there is enough dry power to grow the business and continue making investments across all product areas to facilitate organic and inorganic growth.

On the European front this past year, we established a real estate investment business. It is still early days but we are very encouraged by the progress that the team has made, and we are looking forward to bringing our first investment opportunity within this space to our clients. We are confident our clients will have access to a truly diverse and exciting range of investment opportunities throughout the continent.

Looking at the United States, we expanded our real estate product offering to include trophy buildings within downtown areas in gateway markets, with syndication to a small group of investors in a 'club format'. We have also hired additional resources to oversee post-acquisition management of the expanded portfolio of real estate investments

Meanwhile, our alternative investment solutions team (formerly known as Hedge Funds) is building upon the momentum created by our Alternative Risk Premia platform, which is already completely engrained in our DNA. The launch of Alternative Risk Premia is an excellent example of how Investcorp can seize upon an opportunity and respond to investor demand to deliver a superior product that creates real value for our clients. As well as growing organically, we have also demonstrated our willingness to pursue strategic acquisitions through the acquisition of the hedge fund of funds business unit of SSARIS Advisors, LLC ('SSARIS').

In another strategic development, we have successfully established co-investor partnerships with select large global institutional investors, and correspondingly been able to pursue larger-sized deals in corporate investments and real estate. This is something we will look to do even more of in the coming year.

To support this growth, one of our key areas for investment this year has been people. Strategic hires have taken place across the business and across geographies, including a new Head of Corporate Investment in North America, along with additional real estate team members for Europe and the US, and additional technology investment, Gulf-based relationship managers and investor relations and fundraising professionals in the US for the alternative investment solutions Group. Overall, we have seen our net headcount grow by 8%.

Performance

As we mentioned earlier, progress against Investcorp's ambitious growth target of more than doubling AUM in the medium term, while maintaining a solid balance sheet, has enabled the Firm to increase the ordinary share dividend by 60%.

Over the course of the year, Investcorp saw near record levels of activity across the business, driven by a series of significant transactions – including two milestone transactions in Saudi Arabia – and solid fundraising activity of $2.5 billion in the US and the Gulf (including the AUM acquired from the acquisition of the hedge fund of funds business of SSARIS). The continued fundraising momentum underlines the strong appetite of the Firm's clients for attractive diversified alternative investment opportunities.

Net income for the period was $90.1 million compared with $116.7 million in the same period in 2015, with the decline predominantly attributable to an increase in headcount and other operating expenses from our investment in the requisite resources and infrastructure to support the Firm's medium term growth strategy.

On the corporate investment front, we added a number of exciting businesses to the Investcorp portfolio, including Bindawood, Corneliani, SecureLink, Coresec and Wrench. At the same time, we saw a record number of exits, notably the IPO of L'azurde, which was the first majority private equity-owned business in Saudi Arabia to list on the Saudi Stock Exchange ('Tadawul'). Other divestments included GL Education, CSID, Veritext, Icopal, N&W, Sophos and Asiakastieto.

Our ongoing commitment to broadening our Gulf office network in order to be closer to our investors has been one of the driving factors of our performance in the region and specifically our success in becoming one of the most active private investment institutions in the GCC. Through our past transactions and the recent acquisition of Bindawood and the IPO of L'azurde, Investcorp has indeed positioned itself as one of the strongest international private investors in Saudi Arabia.

Elsewhere, real estate investment activity reached an all-time high in Investcorp's 34-year history. Key highlights include our first ever club investments, along with the acquisition of several portfolios of residential, office and industrial assets across the United States.

Asset-based income performance was very strong across the corporate investment portfolio and the post-crisis real estate portfolio, underscoring the health of our overall portfolio. However, this was dampened by negative returns from alternative investment solutions in light of elevated levels of market turmoil, initially a consequence of the steep decline in commodity prices and then compounded by the impact of Brexit.

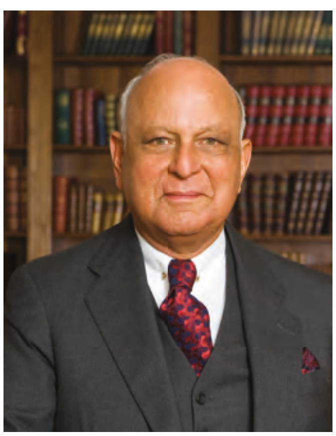
Outlook

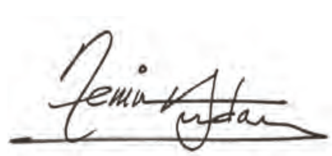
We are confident that we have the foundations in place to deliver on our vision and medium-term growth plans, and we have the ambition and capability to execute these in a determined and responsible manner.

However, we also recognize that markets are challenging and we are living in an uncertain time, as illustrated recently by the extreme market moves following Brexit. As such, we will remain prudent in order to navigate a safe course through these volatile market conditions. We will also focus on our key strengths and core competencies – our unrivaled client service platform, a multi-product multi-asset class investment capability spread across three continents, and a track record of performance and delivery.

On behalf of the Investcorp Board of Directors, we would like to thank you for your continued support and trust. As we look ahead to our Fiscal Year 2017, we see many opportunities and we look forward to sharing the Investcorp journey with you.

> We are pleased to report that the progress we have made so far has enabled us to increase the ordinary share dividend by 60% to 24 cents per share, up from 15 cents per share last year, subject to the approval of the shareholders at the 2016 Ordinary General Meeting of Shareholders.





Nemir A. Kirdar
Chairman of the Board of Directors

H. E. Mohammed bin Mahfoodh
bin Saad Alardhi
Executive Chairman

OUR BUSINESS

Over Fiscal Year 2016 all business lines at Investcorp demonstrated continued momentum as the Firm maintained its focus on finding new ways for our clients to invest in attractive opportunities across our corporate, real estate and alternative investment solutions sectors in the US, Europe and the Gulf.

PLACEMENT & CLIENT RELATIONSHIP MANAGEMENT

This fiscal year saw near record levels of activity across the business, driven by a series of significant transactions and solid fundraising activity of $2.5 billion in the US and the Gulf, including $810 million in discretionary and advisory AUM related to the acquisition of SSARIS Advisors' hedge fund of funds business in November 2015.

In the Gulf, Investcorp raised more than $1.0 billion in new money from investors, marking the second year in a row that this noteworthy threshold has been exceeded. Total fundraising for real estate deal-by-deal investment exceeded the highest ever recorded level in a single year including the execution and placement of the first ever real estate club deal.

Realizations and other distributions to Investcorp and its clients for the period exceeded $1.5 billion. Landmark exits for the Firm included the IPO of L'azurde, a landmark transaction which saw the first majority private equity-owned business in Saudi Arabia list on the KSA stock exchange.

The period was marked by substantial investment in broadening the Firm's Gulf office network to allow it to be closer to investors. This has been a key factor in performance in the region, so much so that it has helped Investcorp become one of the most active private investment institutions in the GCC.

In Fiscal Year 2016, Investcorp continued to demonstrate its ability to provide exciting investment opportunities for its clients. Across several markets and a number of sectors, the Firm has succeeded in delivering attractive returns for shareholders and investors.

Our corporate investment businesses were once again very active in Fiscal Year 2016 with a record number of transactions during the year across North America, Europe and the Gulf.

CORPORATE INVESTMENT

Despite a challenging macro-economic environment, we completed nine full or partial corporate investment realizations including: (i) the IPO of L'Azurde, the first majority private equity-owned business in Saudi Arabia to list on the KSA stock exchange; (ii) the sale of GL Education, a leading provider of educational assessments globally; and (iii) the sale of VText Holdings ('Veritext'), a leader in deposition and litigation support services.

Total proceeds and other distributions to Investcorp and its clients from corporate investment for the year exceeded $1.0 billion. Asset-based income for corporate investment more than doubled on the back of strong EBITDA growth of 9% over the last year in the Firm's corporate investment portfolio companies.

The performance and activity of our corporate investment businesses this year have once again demonstrated the value we bring to our clients in delivering attractive investment opportunities across all the regions in which we operate. In particular, we have continued to offer promising investment opportunities in the West as well as in the Gulf markets. During Investcorp's Fiscal Year 2016, the Firm invested $648 million in seven new corporate investment deals. This included the acquisition of Coresec Systems, one of Scandinavia's largest managed cyber security service providers; Corneliani, one of Italy's oldest independent luxury brands; The Wrench Group, a provider of essential home maintenance and repair services headquartered in Atlanta, GA; Bindawood, Saudi Arabia's leading supermarket and hypermarket group; SecureLink, a leading cyber security infrastructure and managed services provider; and POC, a revolutionary manufacturer of skiing and cycling helmets, gear and accessories

The global hedge funds industry has been significantly impacted by the tumultuous market environment during Fiscal Year 2016. In spite of these challenges, Investcorp has established a strong pipeline of clients for its diverse product offerings.

ALTERNATIVE INVESTMENT SOLUTIONS

Fiscal Year 2016 was a milestone year for Investcorp's alternative investment solutions business, formerly known as hedge funds, as the Firm continues to invest in upgrading its offering to better serve clients' needs.

During the year, Investcorp successfully launched the first institutional tranche of its Special Opportunities Portfolios. Investcorp also established partnerships with two hedge fund managers: a quantitative equity manager and a credit manager.

Client demand for Investcorp's products was demonstrated by the success of fundraising over Fiscal Year 2015 including from public pension plans, insurance companies, asset managers, foundations and family offices. The period also saw the successful acquisition of the hedge fund of funds business unit of SSARIS Advisors, which added $810 million in discretionary and advisory assets, and clients from across US and Asia. The acquisition marked the Firm's first strategic acquisition in its 34-year history.

Furthermore, since the business has evolved considerably since its launch 20 years ago, it has rebranded itself as 'alternative investment solutions' to reflect its broadened array of investment solutions.

The business line now offers clients four distinct product capabilities: (i) Multi-Manager Solutions, formerly known as Fund of Hedge Funds, (ii) Hedge Fund Partnerships, formerly known as Single Managers, (iii) Special Opportunity Portfolios and (iv) Alternative Risk Premia, formerly known as Alternative Beta Funds.

Global market volatility over Fiscal Year 2016 did not dampen enthusiasm for real estate investments. The consistent low interest rate environment created more demand for good, cash-flowing real estate investments. Real estate prices in many submarkets in the US saw a return to pre-recession levels.

REAL ESTATE INVESTMENT

Investcorp's real estate investment activity reached a record high during the Fiscal Year 2016, with the highest levels of activity seen since the Firm's inception 34 years ago. Investcorp has now established itself as the Gulf's largest private investor in US real estate. Since 1996, Investcorp has completed over 440 property investments totaling more than $14 billion in value.

Fiscal Year 2016 also marked the introduction of a new product, the Firm's first club investment, a Class A office building in Washington D.C., with a second club investment made near the end of the year. The Firm's recent additions to its real estate portfolio now include student housing in Florida, apartments in Atlanta, Chicago, Dallas, Denver and Minneapolis, and commercial property in the Northeast, Southeast, Northwest and West Coast. These commercial and residential investments continue to reflect Investcorp's strategy of investing in desirable, high quality properties located in high demand markets.

Having delivered for its client base over a number of years, the next strategic step for Investcorp is entering the European real estate market. Diversification into the European real estate market is a key component of Investcorp's strategy moving forward, with an initial focus on core-plus opportunities in residential and commercial properties across the United Kingdom, Germany, France, Italy and Spain.

FINANCIAL REVIEW

CONTENTS

"Despite challenging markets this year we have demonstrated the resilience of our business model and delivered a robust performance. The performance of our corporate investments portfolio, the fundraising pipeline in our alternative investment solutions business and our continued strength in US real estate has led to another year of solid performance for Investcorp and our shareholders and clients while staying committed to navigating a prudent course through these volatile conditions."

Mohammed bin Mahfoodh bin Saad Alardhi

GROWTH INITIATIVES

A number of strategic initiatives were launched or completed in Fiscal Year 2016 (FY16) to achieve Investcorp's medium-term objective of more than doubling assets under management, including:

Fundraising platform:

- Additional client-facing resources hired to increase market penetration in the Gulf
- Co-investor partnerships established with select large global institutional investors
- Additional resources hired to broaden AIS distribution in North America and Europe

Investment platform:

- Strategic hires made across the CI, RE and AIS investment businesses
- New real estate investment business established in Europe
- Real estate products expanded to include trophy buildings, syndicated to a small group of investors
- Alternative Risk Premia product investment platform enhanced

Inorganic growth:

- Acquisition of SSARIS Advisors' Hedge Fund of Funds business

Balance sheet:

- Mubadala acquisition of 20% in Investcorp equity via a two-step transaction with the first step completed

1 Investcorp's hedge fund business is now called 'Alternative Investment Solutions'. Please refer to a more detailed explanation on page 23 of this Business Highlights section.

Capital deployed ($m)

Near record levels of new investment activity with $1.5 billion of capital deployed in aggregate for corporate investment and real estate, an increase of 47% year-on-year

Deal-by-deal placement ($m)

Investcorp raised more than $1.0 billion in new money from Gulf investors for the second year in a row

Investcorp's investment in broadening its Gulf office network has been a key driving factor in performance

Realizations and distributions ($m)

Continued healthy exit activity, returning in excess of $1.5 billion back to clients and the balance sheet, from realizations, dividends and other distributions

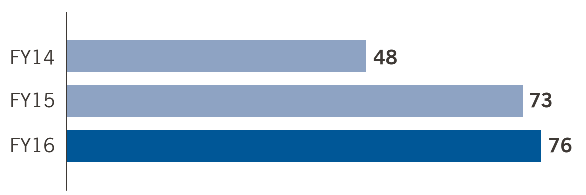
Net income ($m)

The decline in net income is predominantly attributable to an increase in operating expenses from Investcorp's investment in resources and infrastructure to support the medium-term growth strategy

Fee income ($m)

Despite challenging market conditions, total fee income exceeded $300 million for the third consecutive year, driven by increased transactional activity and reflecting the sustainability of Investcorp's client franchise and fee-generating business

Asset-based income ($m)



Asset-based income was very strong across the corporate investment portfolio and the post-crisis real estate portfolio. This was dampened by negative returns from AIS, impacted by elevated levels of market turmoil

Cost-to-income

Interest expense increased by 5% due to higher levels of average debt. Operating expenses increased by 10%, with staff compensation up 11%.
There was an 8% increase in global headcount across the Gulf, Europe and US in all core businesses to support business growth

FY 16 KEY BUSINESS HIGHLIGHTS

Shareholder KPIs

$0.94 — **Fully diluted EPS**

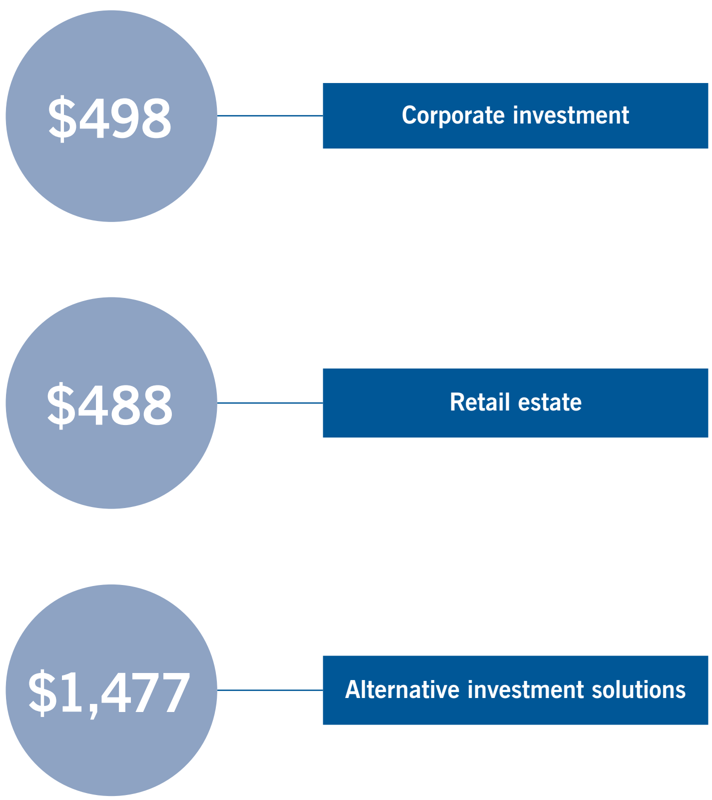
10% — **Return on equity**

$10.15 — **Book value per share**

Balance sheet KPIs

Jun-15	Jun-16	
$2.2b	$2.5b	**Total assets** increase reflects increase in deal underwriting
$0.9b	$1.0b	**Total equity** increase reflects the sale of 9.99% of shares to Mubadala
$864m	$829m	**Accessible liquidity** substantially covers next three years of debt
0.7x	0.6x	**Net leverage** remains well below 1.0x
28.7%	30.3%	**Basel III regulatory capital** well above CBB minimum requirements
0.8x	0.6x	**Co-investments/permanent & long-term capital** well below 1.0x

Fundraising ($m)



Total deal-by-deal fundraising in the Gulf was **$1,017 million** (FY15: $1,095 million)

$498 million placed with clients in corporate investments

A record **$488 million** placed with clients across three new real estate portfolios and one single-property club deal

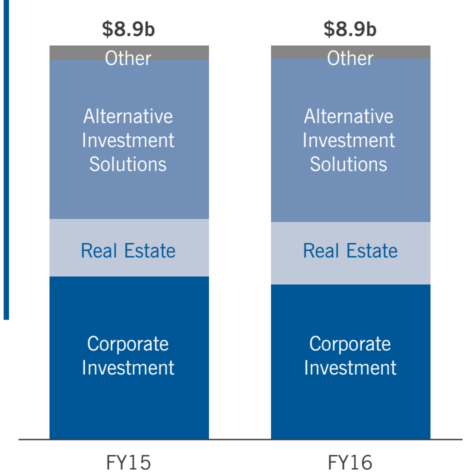
$1,477 million of inflows and advisory mandates for AIS, including AUM acquired through the acquisition of the hedge fund of funds business of SSARIS Advisors

Corporate investment client AUM decreased 5% to $3.5 billion reflecting new deal placement activity more than offset by the healthy level of distributions from realization activity

Real estate client AUM increased by 9% to $1.4 billion reflecting a record level of activity for the year including the expansion of the product offering to include 'club format' single property deals

Client AUM in AIS increased 3% including the first client mandate, a $200 million investment, into Alternative Risk Premia

Client AUM ($b)



INVESTMENT ACTIVITY

CORNELIANI

Secure Link Infrastructure Security Solutions

The Wrench Group

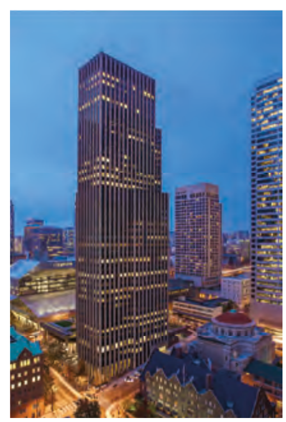
مجموعة بن داود
Bin Dawood Group

coresec
SAFELY ENABLING BUSINESS

poc

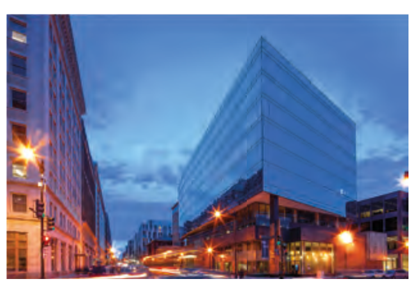
$648 million…

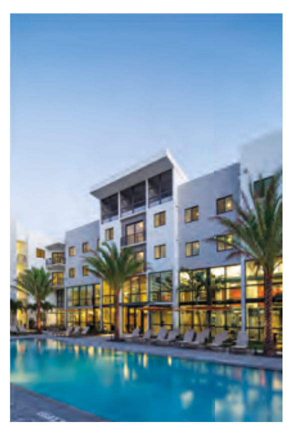
…the aggregate capital deployed in seven new **CI investments** (one to be announced in FY17); and an additional **$43 million** invested via one of Investcorp's technology funds into an existing portfolio company



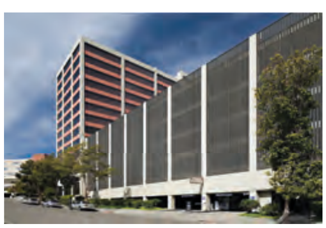
$763 million…

…the aggregate capital deployed in five new **real estate portfolios**, including the first ever club investments and twelve new properties which will form two new portfolios for placement in FY17





EXITS & DISTRIBUTIONS



Corporate investment exits included the sale of **Veritext**, a leading national provider of deposition and litigation support services in the US; **Icopal**, the world's leading producer of roofing and waterproofing membranes; **CSID**, the technology leader in identity theft and fraud protection; **GL Education**, the UK's leading independent provider of pupil assessments and school improvement solutions; and the partial exit via the notable IPO of **L'azurde**, the first majority private equity-owned business in Saudi Arabia to list on the Saudi Stock Exchange

Significant real estate exits included the sale of the following properties: multifamily properties at **Villages at Meyerland** and **Bristol Square** in Texas; the **Residence Inn Manhattan Beach**, California; the **Broadway Webster** office building in California; the **Coral Palm Plaza** in Florida; and multifamily properties, **Lakes at Fountain Square** and **Fountains at Stone Crest** in Illinois, Arium **Citrus Park** in Florida and Arium **Pineville** in North Carolina

INVESTCORP'S KEY PERFORMANCE INDICATORS*:

	FY12	FY13	FY14	FY15	**FY16**	5-year view (FY12-FY16)
Fee income ($m)	240	309	316	308	**307**	1,480 (cumulative)
Asset-based income ($m)	31	32	48	73	**76**	260 (cumulative)
Gross operating income ($m)	271	341	363	381	**383**	1,739 (cumulative)
Cost-to-income ratio	68%	69%	66%	64%	**71%**	68% (average)
Return on average assets	3%	3%	4%	5%	**4%**	4% (average)
Return on ordinary shareholders' equity	2%	5%	11%	16%	**10%**	9% (average)
Diluted earnings per share ($)**	0.16	0.36	0.76	1.29	**0.94**	3.51 (cumulative)
Book value per share ($)**	6.73	6.95	7.38	9.00	**10.15**	51% (cumulative growth)
Dividend per ordinary share ($)**	0.08	0.15	0.15	0.15	**0.24**	0.77 (cumulative)

* Restated for adoption of IFRS15 for FY12 to FY14.

** The weighted average ordinary shares and the resulting metrics for FY12-FY15 have been realigned to reflect the share split executed in FY16.

NOTE TO READER: CHANGE IN NAME FROM 'HEDGE FUNDS' TO 'ALTERNATIVE INVESTMENT SOLUTIONS'

Investcorp's hedge funds business was launched twenty years ago as a means of providing a liquid investment alternative for Investcorp's balance sheet, and a diversified and non-correlated return stream to Investcorp's clients. Since then, the business has evolved significantly, and today it offers four distinct product capabilities: (i) Fund of Hedge Funds, (ii) Single Managers, (iii) Special Opportunity Portfolios ('SOPs') and (iv) Alternative Beta Funds. The name 'Hedge Funds' is no longer representative of the scope of products that Investcorp currently offers. As a result, the name of the business unit has been changed from 'Hedge Funds' to '**Alternative Investment Solutions' ('AIS')**. The name is consistent with the industry terminology for similar investment platforms and with Investcorp's positioning as a global leader and manager of alternative investment products.

Simultaneously, the name of each of the individual product lines has been changed as follows:

'Fund of Funds' has been changed to '**Multi-Manager Solutions**' as both flagship products and customized accounts are offered to clients.

'Single Managers' has been changed to '**Hedge Fund Partnerships**' as this will convey the nature of the product offering to the marketplace.

'Alternative Beta' has been changed to '**Alternative Risk Premia**' since this is the standard industry term for this investment strategy.

'**Special Opportunity Portfolios**' will be retained, as Investcorp's clients in the Gulf are already familiar with this terminology.

BUSINESS ENVIRONMENT[1]

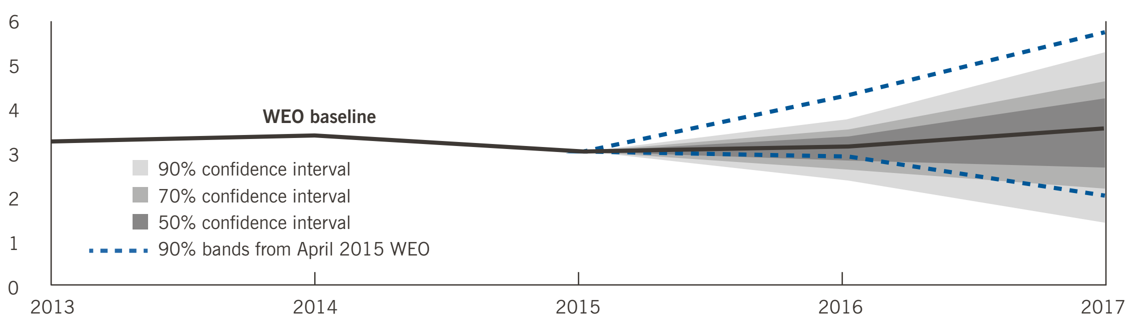
Global recovery continues, but at an ever-slowing and increasingly fragile pace. In recent months there has been a renewed episode of global asset market volatility, some loss of growth momentum in the advanced economies and continuing headwinds for emerging market economies and lower-income countries.

Activity softened toward the end of 2015 in advanced economies, and stresses in several large emerging market economies showed no signs of abating. With heightened risk aversion and increasing concerns about the lack of policy space, the valuation of risky assets as well as oil prices dropped sharply in early 2016. However, market sentiment began to improve in mid-February, and by the end of March market valuations had recovered most or all of the ground lost earlier in the year.

The International Monetary Fund ('IMF') baseline projection for global growth in 2016 is a modest 3.2%, broadly in line with 2015. The recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies, as conditions in stressed economies start gradually to normalize. However, uncertainty has increased, and risks of weaker growth scenarios are becoming more tangible.

Prospects for World GDP Growth

(% change)



Source: World Economic Outlook April 2016, International Monetary Fund

Growth in the **United States** fell to 1.4% at a seasonally adjusted annual rate in the fourth quarter of 2015. While some of the reasons for this decline – including very weak exports – are likely to prove temporary, final domestic demand was weaker as well, with a decline in non-residential investment, including outside the energy sector. Despite signs of weakening growth, labor market indicators continued to improve. In particular, employment growth was very strong, labor force participation rebounded, and the unemployment rate continued its downward trend, with a 4.5% reading in March.

Growth is projected to continue in the United States at a moderate pace, supported by strengthening balance sheets, no further fiscal drag in 2016 and an improving housing market. These forces are expected to offset the drag to net exports coming from the strengthening of the dollar and slower growth in trading partner countries, the additional decline in energy investment, weaker manufacturing, and tighter domestic financial conditions for some sectors of the economy (for example, oil and gas and related industries). As a result, growth is projected to level off at 2.4% in 2016, with a modest uptick in 2017. Longer-term growth prospects are weaker, with potential growth estimated to be only about 2%, weighed down by an aging population and low total factor productivity growth.

1 Unless otherwise stated, all references to years are 'calendar year'.

In the **Euro area**, the risk of a de-anchoring of inflation expectations is a concern amid large debt overhangs in several countries. The recovery was broadly in line with the January forecast in the Euro area, as strengthening domestic demand offset a weaker external outlook. Among countries, growth was weaker than expected in Italy but the recovery was stronger in Spain.

The modest Euro area recovery is projected to continue in 2016–17, with weakening external demand outweighed by the favorable effects of lower energy prices, a modest fiscal expansion and supportive financial conditions. Potential growth is expected to remain weak, as a result of financial crisis legacies (high private and public debt, low investment, and eroding skills due to high long-term unemployment), aging effects, and slow total factor productivity growth. Output in the Euro area is expected to grow at about 1.5% in 2016 and 1.6% in 2017 and remain around 1.5% in the medium term. Growth is expected to increase modestly in Germany (to 1.6% by 2017), France (to 1.1% in 2016 and 1.3% in 2017), and Italy (to 1% in 2016 and 1.1% in 2017). Growth in Spain is projected to soften (to 2.6% in 2016 and 2.3% in 2017) while remaining above the Euro area average. Activity is expected to decelerate in Portugal (to 1.4% in 2016 and 1.3% in 2017), while Greece is expected to return to growth in 2017 after contracting further this year.

On the upside, the recent decline in oil prices may boost demand in oil-importing countries more strongly than currently envisaged, including through consumers' possible perception that prices will remain lower for longer. More aggressive policy actions to lift demand and supply potential could also foster stronger growth, in both the short and longer term. This could also help boost financial market confidence, and imply a recovery in equity prices and an unwinding of the recent tightening in financial conditions.

The outlook across the **Middle East** region has weakened considerably because of further declines in oil prices and intensifying conflicts and security risks. With oil prices now expected to remain low for longer, oil-exporting countries have taken substantial further steps to restrain government spending, cut subsidies and raise revenues. Even with these measures, fiscal deficits are projected to widen in 2016. Growth in the member countries of the Gulf Cooperation Council[1] ('GCC') is now expected to decline from 3.3% in 2015 to 1.8% in 2016 and pick up to more than 2% over the medium term. However, increased oil production in post-sanctions Iran and in Iraq, as well as the bottoming out of activity in Yemen as the conflict is assumed to ease gradually, is projected to raise the aggregate growth rate of oil-exporting MENAP (Middle East and North African Perspectives) countries to 2.9% in 2016 and 3.1% in 2017 from 1.9% in 2015.

Growth in oil-importing countries is expected to remain subdued as gains from greater political stability, economic reforms, reduced drag from fiscal consolidation and lower oil prices are offset by spillovers from security disruptions and regional conflicts, social tensions, and, more recently, slowdowns in member countries of the GCC.

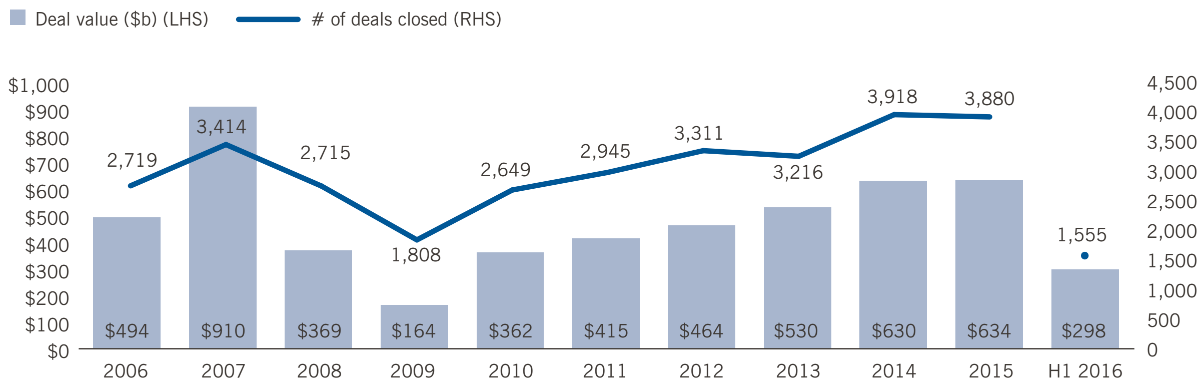
CORPORATE INVESTMENT – NORTH AMERICA AND EUROPE

The declining activity at the end of 2015 remained through the start of 2016 in both North American and European geographies as a result of global economic concerns and unfavorable economic forecasts. Global economic activity was tepid in Q1 2016 over concerns about the recessionary pressures faced by China and emerging markets. Growth continues to be affected by the gradual slowdown and ongoing rebalancing of the Chinese economy, lower prices of raw commodities and crude oil, as well as the policy change of the Federal Reserve in the United States. The IMF revised its global growth forecast to 3.2% in 2016 broadly in line with 2015 growth performance. The modest growth rate is due to uncertainty increasing and risks of weaker growth scenarios becoming more tangible. Recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies stabilizing.

The first half of 2016 produced 1,555 transactions and $298 billion of capital invested, equating to approximately a flat performance in terms of volume and value when compared to the same period the prior year. The performance was helped by the $14 billion take private of Keurig Green Mountain by JAB Holding Co. Similarly, in the second half of 2015, deal value was assisted by the mega Kraft-Heinz transaction that closed in July 2015. Excluding these mega transactions, which are rare, and infrequent, deal value and volume have receded from the record breaking levels in 2014 and 2015.

1 The Gulf Cooperation Council consists of six Middle Eastern Countries: Bahrain, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar, and the United Arab Emirates.

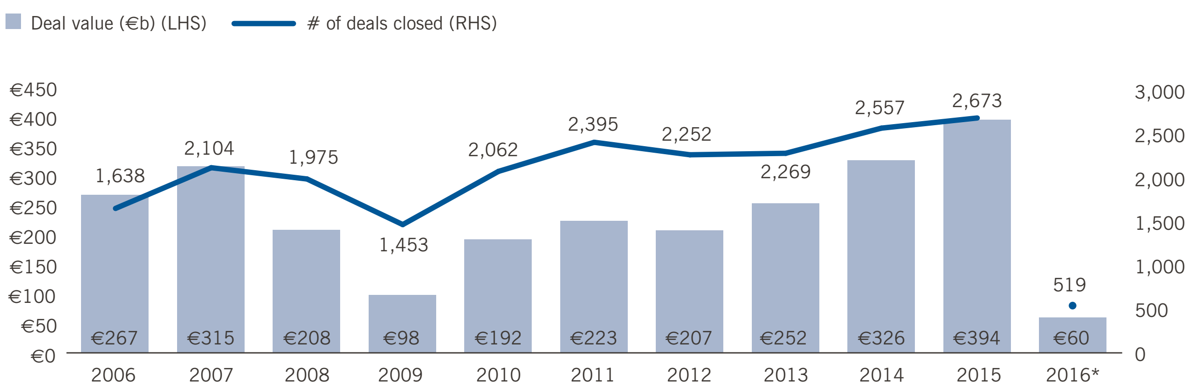
US PE deal flow by year



Source: Pitchbook 2Q 2016 US Private Equity Breakdown Report

The European private equity market fell by a significant amount in the first quarter of 2016 with 519 transactions and €60 billion in capital invested. The first quarter saw deal volume drop by over 20% over the previous quarter and deal value was down by over 40%. The Euro region was overwhelmed by uncertainty amidst a tougher growth environment which made it difficult for GPs to justify high valuations. For the foreseeable future it can be expected that firms will hold on to higher growth assets rather than sell them until greater certainty on economic growth becomes more evident.

Europe PE deal flow by year

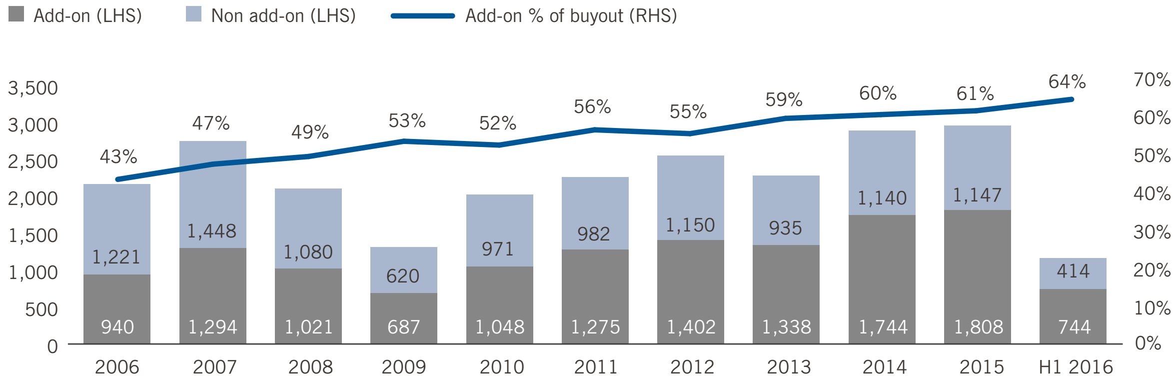


Source: Pitchbook 1Q 2016 European Private Equity Breakdown Report
* As of March 31, 2016

Despite the weak environment and bleak forecasts, the significant amounts of dry powder and available flexible financing are allowing private equity investors to find a way to complete transactions. A continued development in global deal activity is the growing shift away from new buyouts to add-on acquisitions. Investors are placing more capital to work through smaller add-on acquisitions that can increase the value of their existing portfolio rather than investing in new and unfamiliar businesses that typically command higher multiples. Add-on acquisitions, particularly in Europe, are highly-executable due to the number of companies willing to consider transactions as a result of the poor macro environment.

Similar to Europe, add-on acquisitions continue to make up more transaction activity than historically in the US. Add-on acquisition levels have steadily increased from 43% in 2006 to 64% of US private equity transactions in H1 2016. The slowdown in the acquisition of larger mid-market businesses reflects a decline in supply following the recent active record breaking years. Add-on acquisitions and minority positions have gained in popularity due to their lower valuation multiples compared to larger buyouts. Owners of complementary businesses find add-on acquisitions to be accretive due to the benefits of revenue and expense synergies. The market has therefore produced more reasonably priced transactions with a particularly defined group of potential buyers.

US Buyout vs. Add-on

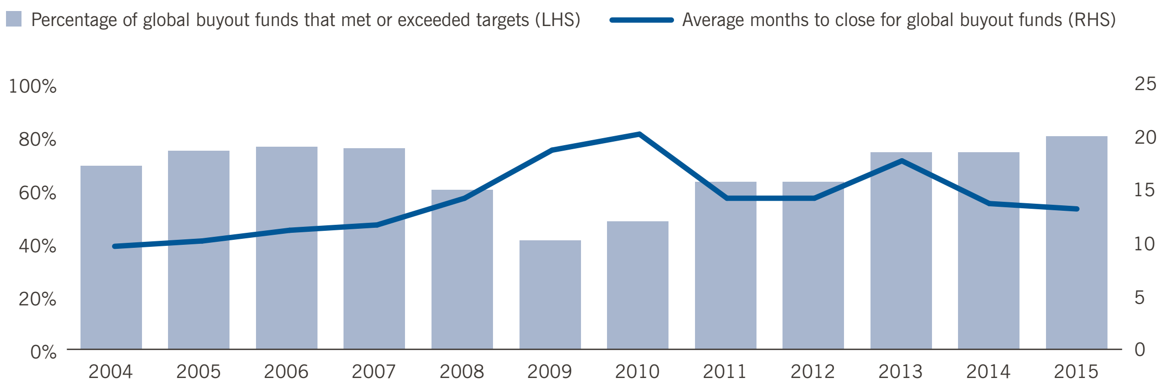


Source: Pitchbook 2Q 2016 US Private Equity Breakdown Report

Investcorp has pursued three add-on acquisitions in FY16 which are discussed in the Portfolio Performance section of this Business Review.

Despite the unfavorable macro trends, the private equity industry continues to see strong interest from investors in alternative assets. The industry has seen successive years of healthy returns and limited movements in transaction characteristics, such as debt and valuation multiples. This underlines the fact that good assets are still available and private equity investors are recommitting capital back into the private equity asset class.

Speed of Fundraising for Global Buyout Funds



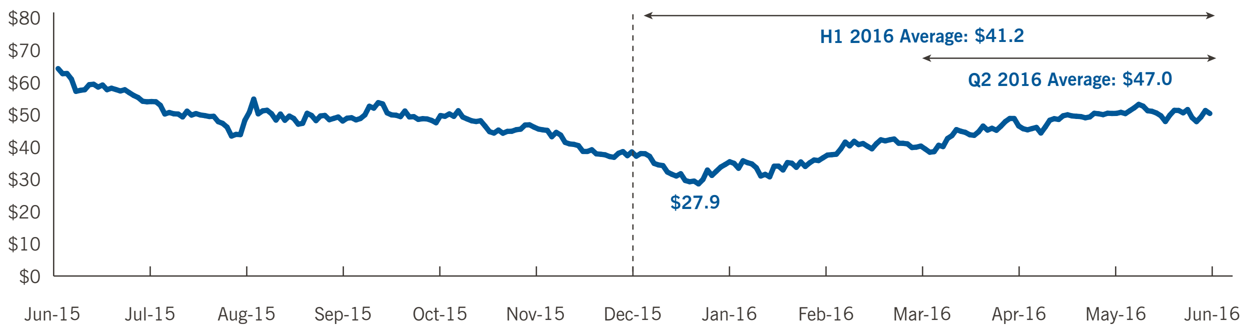
Source: Bain and Company Global Private Equity Report 2016

Driven by the pressure to invest capital and a healthy supply of dry powder, high valuation multiples have persisted for strong performing assets. High valuation multiples are becoming more challenging to justify, however, and are expected to contract. In the interim, investors, such as Investcorp will need to be creative and exploit their niche expertise to differentiate themselves in producing outsized returns.

CORPORATE INVESTMENT – MENA

In January 2016, the price of oil reached its all-time low price since October 2003 at $28 per barrel. It recovered during the first half of 2016, averaging $41 per barrel. During the second quarter of 2016, in particular, the average price per barrel rose to approximately $47 per barrel. The rise in oil prices was driven mainly by unplanned supply disruptions in Venezuela, Nigeria and Canada coupled with continuing declines in US shale output and talks on production freezes among OPEC nations and Russia. Oil prices are expected to see further gains during the second half of 2016 on the back of higher oil demand from India and China coupled with declining non-OPEC supply. As a consequence, the forward oil price for December 2016 is set at approximately $51 per barrel, which represents an increase of 8.4% compared to the second quarter 2016 average of $47 per barrel.

Brent Crude Oil Price – June 30, 2015 – June 30 2016 ($bbl)



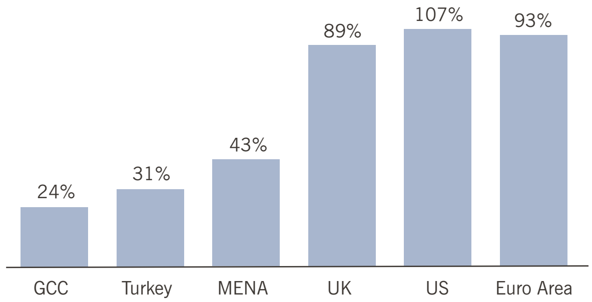
Source: Bloomberg

GCC countries are currently making significant efforts to consolidate public finances, rationalize subsidies and reduce fiscal deficits. The GCC economies are expected to borrow between $285 billion and $390 billion through to 2020 to finance budget deficits resulting from low oil prices. The IMF projects GCC economies to register a fiscal deficit of -12.3% of GDP in 2016.

Nonetheless, given the significant wealth accumulated over the years which is estimated to be in excess of $2.8 trillion, and low levels of public debt, most of the GCC countries are well positioned to raise domestic and international debt through government bond issuances and finance their deficits. Saudi Arabia alone is expected to issue as much as $15 billion of bonds in 2016. In April, the Kingdom completed its first loan in 15 years with a $10 billion facility. In May, Qatar issued $9 billion in international bonds and in April, Abu Dhabi raised $5 billion from bond issues.

The debt to GDP ratio of the GCC countries is expected to increase from 15% as of December 2015 to 24% by the end of 2016. While debt levels in the region have increased, they are expected to remain significantly lower than in the rest of the world (93% in Europe and 107% in US), allowing GCC governments to continue to invest in large development projects and infrastructure.

2016E Government Debt (% GDP)



Source: International Monetary Fund

In this context, there has been a significant acceleration in reforms focusing on diversifying the economy and increasing the role of the private sector. Saudi Arabia's recently announced 'Vision 2030' and the National Transformation Plan sets out goals to diversify growth, reduce dependence on oil and increase the role of the private sector through privatization and public-private partnerships. The plan targets to increase non-oil revenues to $141 billion, with a focus on producing over $72 billion of goods and services locally. The government is also looking to reduce the percentage of delayed state projects from 70% to 40%, whilst expecting the private sector to fund 40% of the initiatives outlined in the plan.

Dubai recently announced its '2030 Dubai Industrial Strategy' which will oversee 75 initiatives focusing on increasing the output of the manufacturing sector, improving innovation, making Dubai a preferred manufacturing platform for international firms, promoting energy-efficient manufacturing and making the city a global hub for Islamic financial products.

Oman recently announced plans to invest around $52 billion for its tourism strategy through 2040 with plans to attract over 11 million international and domestic tourists in 2040 and create 535,000 direct and indirect jobs.

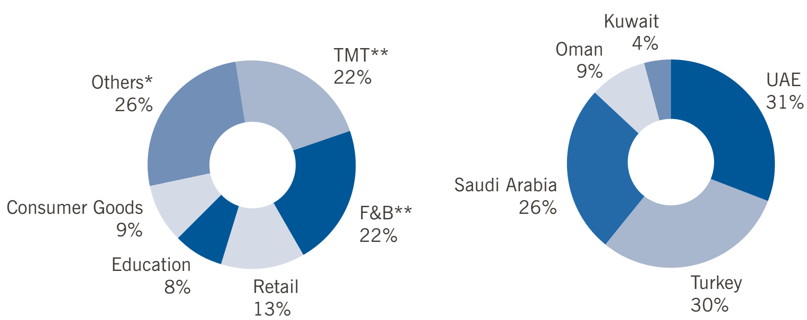
The GCC IPO markets witnessed three transactions during the first half of 2016 compared to six transactions in the first half of 2015, Capital raised from public markets during the period amounted to $744 million compared to $1.6 billion in the first half of 2015. All three IPOs took place in Saudi Arabia, which continued to be the most active market. The relatively subdued activity is mainly attributable to the volatility in the local stock exchanges, due to instability in oil prices and geo-political developments in the GCC region which continued into the first half of 2016. Nonetheless, the GCC pipeline for the remainder of 2016 looks promising, with IPOs that were put on hold in 2015 expected to come back to market in 2016 as lower oil prices become factored in as the norm.

The first half of 2016 in Turkey was characterized by political uncertainty, geopolitical tension with Russia and terrorist attacks. Turkey recently also overcame a failed military coup aimed at ousting the country's current ruling President. However, given the quick suppression of the coup, this event could be viewed as a temporary confidence shock without any major macro-economic impact in the near term.

Despite the deterioration of household confidence amid domestic political uncertainties and regional conflicts, GDP growth in Turkey has been strong driven by strong private consumption. Household spending remains robust, driven by the rise in minimum wage earners' income and the influx of Syrian refugees. While the near term real GDP growth is expected to slow from 4% in 2015 to 3.5% in 2016 due to the impact of Russian sanctions, the long-run GDP growth is still expected to be at a relatively healthy level of c. 4% given the economy's proven resilience in previous crises and as economic reforms become a government priority once again. Turkey's current account deficit continues to improve on the back of a depreciating currency, lower oil prices that have reduced the energy import bill and improved export competitiveness. As of June 2016, year-on-year inflation in Turkey stood at 7.6% compared to the long-term inflation target of 5.0%. Despite the current economic cyclicality and political environment, the long-term outlook of the Turkish economy continues to be positive, on account of the country's strong fundamentals such as its sizeable young population, its aspiring middle class, its entrepreneurial culture and its strategic geographical position as a trading hub. Such overall market dynamics would require a patient and selective approach by investors doing business in Turkey.

Despite challenging market fundamentals, regional markets (GCC & Turkey) continue to attract the interest of equity investors on the basis of strong and positive long terms fundamentals. During the first half of 2016, there were 62 M&A transactions in the region, of which 23 were private equity investments, compared to 27 in the first half of 2015. The majority of the private equity investments were in Saudi Arabia, UAE and Turkey with the most active sector being in the food & beverage ('F&B') and technology, media and telecommunications ('TMT') sectors. The regional private equity market remains active despite the fact that investors continue to face increased competition for attractive assets, both from existing family groups and larger, foreign private equity firms.

Breakdown of GCC and Turkey Private Equity Transactions in H1 2016



* Others includes transactions in Real Estate, Construction, Financial Services, Power and Utilities, Industrials and Oil and Gas.
** TMT – Technology, Media and Telecommunications; F&B – Food and Beverage.
Source: Zawya, Merger Market, Investcorp Analysis

Private equity firms continue to plan the exits of their mature portfolio companies, in order to return capital to investors and realize returns on their investments. The first half of 2016 witnessed five private equity exits in the GCC and four private equity exits in Turkey, both to private buyers and through IPOs, compared to six in the GCC and three in Turkey during the first half of 2015.

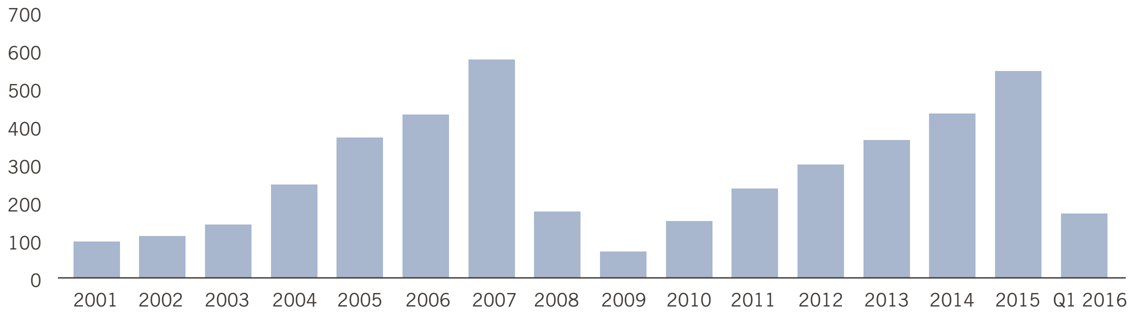
In summary, despite the current oil price trends and volatility in capital markets, the region continues to be buoyed by favorable demographic trends and continued government expenditure in key sectors, helped by relatively low debt levels. Deal flow and IPO activity, though tempered, should both create a healthy environment for strong and well-capitalized firms, like Investcorp, to find attractive corporate investment opportunities in the region.

REAL ESTATE INVESTMENT – NORTH AMERICA

Commercial real estate market fundamentals in the United States remain healthy across most asset classes in a majority of metropolitan areas. Although there are broader global economic concerns, a relatively stable US economy continues to drive demand for US property with an increase in leasing activity, market rents and values. US job growth has slowed slightly, with the US adding 2.5 million jobs through June 2016, down from 2.9 million for the same prior year period. However the unemployment rate stands at 4.9% as of June 2016 (versus 5.3% in June 2015). In addition, US consumer confidence remains high. These mostly positive trends continue to have a favorable impact on the office, multifamily, retail, industrial and hospitality sectors.

US real estate transaction volume is down for the year versus the same period last year ($169 billion year-to-date May 2016 vs. $216 billion year-to-date May 2015). However, overall activity is still at elevated levels compared to historical averages. This current slide in volume is predominantly due to a lack of large portfolio deals in 2016 – not to a decline in property performance. In fact, prices have held steady and cap rates remain largely unchanged from a year ago. Further, operating fundamentals remain solid. As a result of global concerns, such as Brexit, the Federal Reserve has not raised rates and is not expected to do so in the near term. Interest rates are expected to remain lower for longer than previously anticipated and as such will keep both cap rates and borrowing costs lower. Capital flows into the US should increase because the US is seen as a safe haven relative to other countries.

Transaction Volume ($b)



Source: Real Capital Analytics, Inc. 2016

US **office market** fundamentals remained sound through Q1 2016, despite market and economic volatility. Office-using employment remained resilient and expanded for the 26th straight quarter, adding almost 120,000 jobs. According to CBRE, rent growth year-over year was strong at 6.0% and vacancy remained flat for the quarter at 13.2%. New supply slightly outpaced net absorption for the first time in four years. The majority of new construction is concentrated in 10 markets and over 50% of this space is pre-leased. Leasing demand continues to be led by the high-tech and financial sectors, which accounted for one-third of major leasing activity year-to-date through Q1 2016. Low oil prices continue to impact major leasing activity in the energy markets. Many southern and western markets, such as Tampa, Nashville, Phoenix, and Orlando, outperformed other markets due to increased job growth and limited new construction.

US **retail market** fundamentals remained healthy through the first quarter of 2016 due to consistent demand and relatively low supply. According to CBRE, net absorption was positive for the 20th consecutive quarter. Demand was strongest in neighborhood, community and smaller shopping centers. Demand remained relatively weak at large outdoor shopping malls, lifestyle centers and malls. Vacancy ticked up slightly during the quarter to 8% from 7.9% in Q4 2015 due primarily to a vacancy increase in regional malls. Rent growth remained resilient as retail net asking rents increased for an eighth consecutive quarter by 2.3% year-over-year. Retail sales, excluding sales at gasoline stations, increased by 4.2% year-over-year as demand drivers such as employment and personal income remain relatively strong. Class A properties, including high-end urban retail, in the most desirable locations, such as New York, Atlanta, Dallas and Charlotte, continue to thrive. New supply increased slightly during Q1 2016, but still remains well below average compared to prior years.

Growth in the **industrial market** continued throughout the first quarter of 2016. Per CBRE, demand outpaced new supply for the 24th consecutive quarter. Increased consumer spending and a strong dollar have helped drive industrial demand. Industrial leasing demand continues to be led by three industries – e-commerce, food and beverage, and third party logistics companies. Demand continued to be broad-based, with strong growth in core distribution markets such as Philadelphia, Dallas/Fort Worth, Atlanta and the Inland Empire region of Southern California. The US Industrial availability rate hit a new cycle low of 9.2%, the lowest rate since 2001. The San Francisco peninsula, Oakland, Orange County, Los Angeles and Cincinnati led the way with the lowest availability rates. Low availability rates and strong leasing demand have resulted in sustained rental growth. The average net asking rent grew 1.7% in Q1 2016 and was up 6.0% year-over-year (CBRE). Construction is under way in many markets although supply remains limited.

US market fundamentals in the **'for rent' multifamily market** softened slightly in Q1 2016 but still remain very healthy. According to CBRE, the vacancy rate of 4.7% was flat for the quarter and year-over-year rent growth of 4% remains above the historical average. Demand is strong due to favorable demographics and shifting lifestyle preferences favoring renting rather than owning. As of Q1 2016, the national home-ownership rate remained unchanged at 63.6%. While urban fundamentals and millennial demand are still solid, suburban markets are also improving, led by baby boomer demand. However, supply has been on the uptick. Year-over-year supply increased by 38% during Q1 2016. This is expected to taper off in 2017. Markets that saw the biggest increase in supply for the four quarters ended in Q1 2016 were New York, Dallas/Fort Worth, Houston and Seattle. Demand in each of these markets remains solid.

The US **hospitality market** weakened slightly in Q1 2016. According to STR, Inc., demand growth slowed to 1% year-over-year while supply increased by 1.5%, causing national occupancy levels to fall for the first time in seven years. Average daily rate ('ADR') increases remained modest at 3.2% and combined with a lower occupancy level resulted in revenue per available room ('RevPAR') growth of 2.7%. A strong US dollar weakened demand in many gateway cities that rely more heavily on tourism spending; and low oil prices continued to negatively impact demand in energy industry markets such as Houston. Western cities like San Jose-Santa Cruz, Oakland, Portland, and Los Angeles continued to lead the way in US-lodging performance. Markets that are expected to see the biggest increase in supply for 2016 are New York, Miami, Seattle and Austin.

REAL ESTATE INVESTMENT – EUROPE

The outlook for the **UK** real estate market has been significantly affected by the Brexit vote in June. The vote to leave the European Union has broad economic and political ramifications that will affect trade and migration as well as UK real estate.

In 2014 and 2015, the UK economy performed very well, with strong GDP growth, low levels of inflation and interest rates and strong employment growth. Brexit was a game-changer, and the concomitant political and economic uncertainty it has created makes medium-term investment decisions and real estate underwriting more difficult. UK real estate fundamentals will suffer if UK GDP falls significantly and does not recover; jobs are lost to Europe; and consumer confidence is adversely affected. Not all real estate asset classes will be affected in the same manner. Sectors most likely to be affected by Brexit are development projects, the City of London office market and the residential sector (particularly the high end in London). The financial services and the technology sector, both areas that play a large role in the UK economy, will also be negatively impacted – the financial services sector, if services and products are moved to the continent and the tech sector, if access to skilled labor from Europe becomes less reliable for UK companies.

Initial evidence suggests that there has been a 5 to 10% correction in the value of UK real estate post-Brexit, but it is dangerous to generalize. There are data points that show both wider and narrower discounts to pre-Brexit values.

In the lead-up to Brexit, deal volumes reduced dramatically as buyers held back commitment decisions and sellers were concerned about 'tainting their assets' through a sales process. After the vote, some sellers, particularly the open-ended funds, were forced to bring assets to market. However, sentiment appears to have recovered quickly and sellers are now becoming more emboldened and more price-sensitive. With interest rates much lower than during the last credit crisis, it is easier for owners of real estate to hold on to assets for longer periods.

On the positive side, interest rates should remain 'low for longer'; the pound sterling has weakened, which is benefiting dollar based investors; and real estate fundamentals are generally quite positive across the UK in most real estate asset classes. Supply and demand fundamentals for the office sector are good; industrial and logistics are strong, due to very little new construction; and pricing generally remains below replacement cost. The retail sector has bifurcated between strong locations with good tenant demand, which will survive; and weaker locations, that will suffer.

Following the Brexit vote, it seemed that **Europe** focused only on the positives, with Frankfurt competing with Dublin, Amsterdam and Paris for financial services jobs expected to relocate from the City of London. The cities of Berlin and Stockholm are looking to compete over jobs that might leave the UK's technology sector. However, Europe has its own challenges with anemic growth, issues in some peripheral countries like Italy and Greece, the pressures on social systems across the Eurozone and the challenge of dealing with security issues. GDP remains subdued in Germany and France, the two engine houses of Europe; Spain is still struggling with high unemployment; and Italy is weighed down by an under-capitalized banking system and the difficulty of dealing with the issue.

In the European real estate sector, the operating fundamentals remain quite strong and vacancy levels are stable, apart from some peripheral areas across European cities. Rental growth is muted in most markets and there is limited new supply. In the real estate capital markets, equity remains available and seeking good risk-adjusted returns. Debt financing is available at reasonable loan-to-value levels from a multitude of providers including German Pfandbriefe[1] banks and French banks. With almost all tenors of government bonds at negative yields, the cost of borrowing for real estate projects is at historic lows, providing a healthy spread between the yield on real estate assets and the cost of leverage. Transaction volumes in France and Germany, the largest real estate markets in Europe, remain strong, with little sign of a slowdown post Brexit. Real estate sectors such as logistics and industrial in France and Germany; and office assets in the larger German cities, Paris and Lyon are well positioned to deliver good returns in the near term.

ALTERNATIVE INVESTMENT SOLUTIONS

FY16 was difficult for the hedge funds industry with a negative performance of -5.2%, as measured by the HFRI Fund of Funds Composite Index, compared to a performance of +3.9% for FY15. Most managers struggled as global markets experienced remarkable bouts of volatility. The turbulence was driven mainly by widespread anxiety about the pace of global growth following the US Federal Reserve's December 2015 interest rate increase and the dramatic moves in oil prices.

As Investcorp's fiscal year ended, markets were further challenged by the 'Brexit' decision of UK voters to exit the European Union. The outcome has negative implications for UK and European growth and is expected to lead to more central bank stimulus, thus pushing bond yields further down. The post-Brexit sell-off in global financial institutions hurt a number of global managers who were positioned for a 'Remain' vote.

Equities struggled with the anemic growth across the world and were down -5.0% as measured by the HFRI Equity Hedge index. US equity managers crowded into the technology and healthcare sectors, which were the two sectors which continued to demonstrate better growth prospects. However, with the US heading into an election year, the political rhetoric against egregious drug pricing accelerated, which led to a historic 54% drop in specialty pharma in October 2015, followed by a second one in February and March 2016. The sell-off also hurt event driven managers who were betting on accretive merger events in the specialty pharma space, which was the best performing event strategy in the prior year. On the short side, equity managers crowded into energy shorts which worked in the first half of the fiscal year and then suffered a vicious reversal beginning in January 2016 with the recovery in oil prices.

The dramatic drop in the price of oil combined with expectations for the Fed to raise interest rates led to an extended sell-off in **credit**. Energy-related companies had grown to account for 17% of the US high yield market as they led the issuance wave during the latest credit cycle. That hurt corporate credit and distressed managers earlier in the year and then had a ripple effect on structured credit, where the sell-off was exacerbated by the illiquidity of the asset class coupled with investor redemptions. Corporate credit started to rebound in March 2016 and is currently benefitting from the hunt for yield, as a growing amount of debt globally is offering negative yields.

1 The Pfandbriefe class of debt is similar to mortgage-backed securities in the United States.

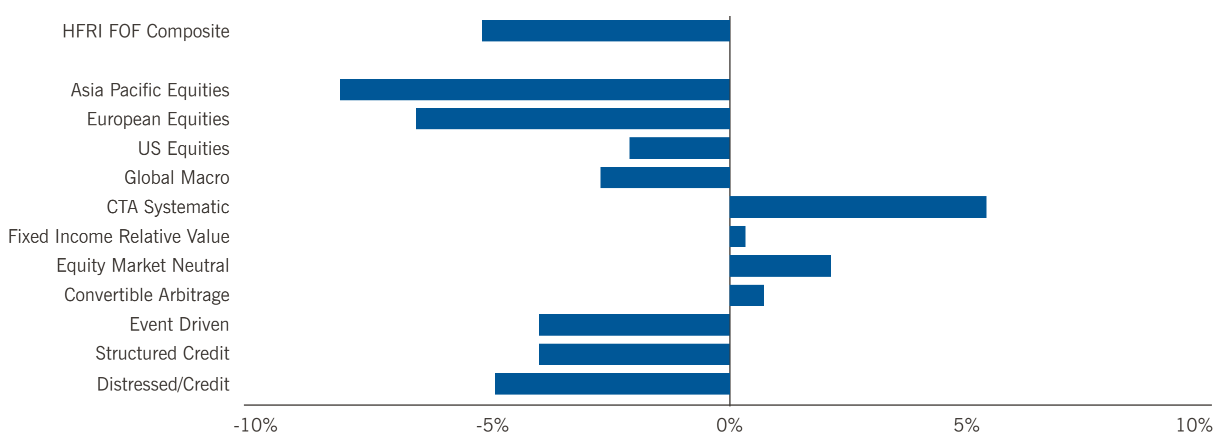
Macro strategies in aggregate were broadly flat over the fiscal year. While not generating strong absolute returns, they performed well relative to most other hedge fund strategies and were an additive diversifier to overall hedge fund portfolios. Within the macro universe there was some notable strong performance in certain sub-strategies – macro systematic (particularly medium-term and short-term CTAs[1]), as well as certain emerging markets and commodity strategies. January 2016 was a case in point, where macro systematic managers (particularly trend followers) performed very well as the S&P 500 fell over 12% from December end to the trough in February. Macro systematic managers were well positioned, being short equities, short energy-related companies and a long duration bias. After struggling in the sharp reversal between February and May they performed well through the associated turbulence through 'Brexit', particularly benefitting again from their long duration bias as global bond yields hit all-time lows.

The performance of **macro discretionary** managers was more mixed. Those positioned with a reflationary stance at the turn of 2016 were wrong footed by policy actions from both the ECB in December 2015 and the Bank of Japan in January 2016, as well as through Brexit in June 2016. Managers playing emerging markets themes, which included receiving rates, taking a long credit bias or being nimble with their duration with a long or flattening bias, performed well. In addition, several commodity specialists were able to profit from volatility and trends in energy, metals and certain agricultural markets.

Increased financial regulation has led to the reduction of risk warehousing by banks that has led to less capital flowing to arbitrage opportunities. This trend along with increased episodes of volatility has led to both **fixed income relative value** and **volatility arbitrage** managers continuing to find opportunities. Volatility arbitrage managers with more balanced portfolios tended to outperform those with a structural long volatility bias, as a recurring theme was for rapid compression of volatility both in Q1 and post Brexit, making profit taking problematic.

Equity market neutral was mixed as many managers found Q1 2016 to be a very difficult period, with some managers citing it as the most challenging period since August 2007. The strong reversal in risk sentiment and the recovery in oil markets in early February saw sharp reversals in several quantitative factors such as momentum, value and growth. More often, short books orientated to lower quality stock suffered due to significant short covering.

Performance of hedge fund strategies (July 2015 – June 2016)

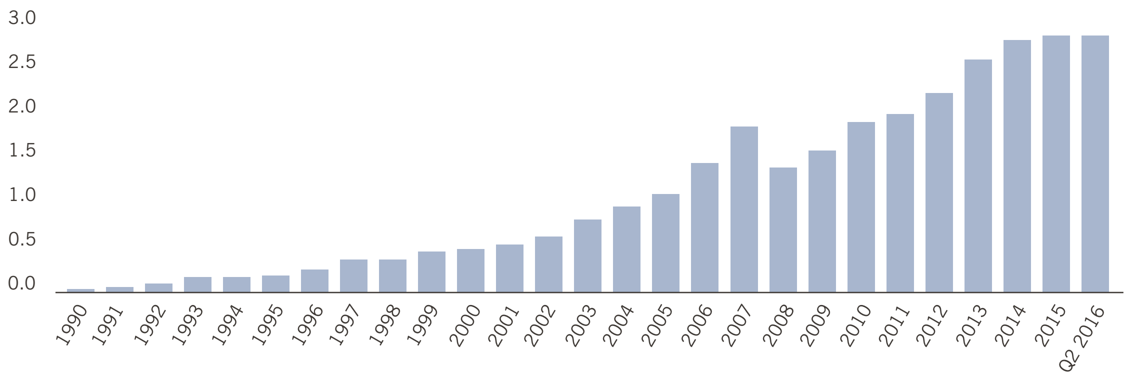


Source: PerTrac, Investcorp

1 Commodity Trading Advisors, often used to refer to systematic macro strategies.

The growth of the hedge fund industry has stalled in the last two to three years, as can be seen in the chart below. The challenging returns faced recently by the industry and investors' reassessment of their portfolio allocations have slowed down the inflows. The hedge funds industry experienced estimated investor inflows of $4 billion during H1 FY2016 (July 1 to December 31, 2015), but experienced estimated investor outflows of $23 billion in H2 FY16 (January 1 to June 30, 2016). As of June 30, 2016, total industry assets were $2.9 trillion, down from $3.0 trillion as of June 30, 2015. The number of new hedge fund launches has also decelerated in the recent past. In spite of the recent industry slow-down, it is anticipated that the hedge funds industry will continue to experience an upward trend in assets in the future.

Hedge fund industry assets under management ($t)



Source: HFR Industry Reports © HFR, Inc. Q2 2016, www.hedgefundresearch.com

There is significant interest in alternative risk premia by the institutional investor community. However there is divergence among various investors in their stage of adoption of risk premia investments into their respective portfolios. At one end of the adoption scale, investors are starting to research the space and conducting due diligence on managers whereas at the other end, the investors have already allocated significantly to risk premia. It is anticipated that risk premia will experience a significant growth in the next few years. Investment managers are also responding to this increase in demand. There have been several new launches in the recent years, primarily by existing investment platforms that are diversifying their product offerings into risk premia.

DISCUSSION OF RESULTS

NET INCOME

Net income includes fee income from client-centric activities and asset-based income from returns generated on balance sheet assets, including unrealized changes in fair value of co-investments in Investcorp's corporate investment ('CI') and real estate ('RE') and realized changes in the fair value of alternative investment solutions ('AIS') products.

Net income of $90.1 million for FY16 was 23% lower than net income for the prior fiscal year ('FY15'), primarily driven by higher operating expenses that reflect an investment in resources and infrastructure to support the firm's medium-term strategy for growth in AUM and related fee income. Investcorp's FY16 results represent a return on equity ('ROE') of 10% and fully diluted earnings per share ('EPS') of $0.94 per ordinary share.

Income ($m)	**FY16**	FY15	% Change B/(W)
Fee income	**307.5**	308.2	<(1%)
Asset-based income	**76.0**	73.0	4%
Gross operating income	**383.5**	381.1	1%
Provisions for impairment	**(8.2)**	(2.8)	>(100%)
Interest expense	**(60.9)**	(58.0)	(5%)
Operating expenses	**(224.3)**	(203.6)	(10%)
Net income	**90.1**	116.7	(23%)
Basic earnings per ordinary share ($)	**0.97**	1.31	(26%)
Fully diluted earnings per ordinary share ($)	**0.94**	1.29	(27%)

Despite challenging markets, Investcorp's core operating performance in terms of fee income remained strong at $307.5 million as compared to $308.2 million in FY15, with near record levels of activity across the business. Asset-based income increased to $76.0 million, a slight increase from the income of $73.0 million in FY15. This was primarily driven by a strong performance in CI, reflective of improving economic conditions, particularly in the US.

Interest expense increased by 5% due to higher levels of average interest bearing liabilities. Operating expenses increased by 10% to $224.3 million (FY15: $203.6 million) reflecting a number of strategic hires and an 8% increase in headcount.

FEE INCOME

Fee income has two components: (i) AUM fees which includes management and administrative fees on aggregate client investments under management in corporate and real estate deals, as well as fees from client investments in AIS; and (ii) deal fees which are generated and earned from transactional activities related to direct investments (CI, RE and special opportunities portfolios ('SOPs')), including their initial acquisition, subsequent placement and eventual exit, plus performance fees for value added during the ownership period.

Summary of fees ($m)	**FY16**	FY15	% Change B/(W)
AIS fees	**9.6**	21.4	(55%)
Other management fees	**87.8**	90.1	(3%)
AUM Fees	**97.4**	111.5	(13%)
Activity fees	**169.5**	158.9	7%
Performance fees	**40.6**	37.7	8%
Deal fees	**210.1**	196.6	7%
Fee income	**307.5**	308.2	<(1%)

Despite challenging market conditions, total fee income in FY16 remained relatively flat at $307.5 million (FY15: $308.2 million). This is the third consecutive year where fee income has exceeded $300 million reflecting the sustainability of Investcorp's client franchise and fee-generating business.

AUM fees were $97.4 million in FY16, 13% lower than FY15. The decline was primarily the result of lower AIS fees, reflecting a combination of lower absolute returns to clients with consequently lower performance fees compared to FY15; and a lower level of average client assets under management. Other management fees decreased marginally by $2.3 million in FY16 as compared to FY15.

Deal fees increased in FY16 to $210.1 million. Activity fees increased by 7% to $169.5 million, primarily reflecting an all-time record amount of capital deployed into new RE investments. Performance fees also increased by 8% relative to FY15 reflecting the strong performance of the underlying CI portfolio.

ASSET-BASED INCOME

Asset-based income is earned on Investcorp's CI, RE and AIS co-investments held on the balance sheet, including invested liquidity. Asset-based income includes unrealized changes in the fair value of CI and RE co-investments and realized changes in the fair value of AIS co-investments.

Gross asset-based income during FY15 increased by $3.0 million versus FY15 to a net gain of $76.0 million, primarily driven by strong returns in CI asset-based income which more than doubled from $49.8 million in FY15 to $100.8 million in FY16. The improvement in CI returns was offset by declines in RE and AIS asset-based income from $20.6 million in FY15 to a loss of $29.2 million in FY16. Treasury and other asset-based income increased to $4.4 million from higher returns on cash and other liquidity.

Asset-based income ($m)	**FY16**	FY15	% Change B/(W)
Corporate investment	**100.8**	49.8	>100%
Alternative investment solutions	**(27.7)**	9.1	>(100%)
Real estate investment	**(1.5)**	11.5	>(100%)
Treasury and other asset-based income	**4.4**	2.6	69%
Gross asset-based income	**76.0**	73.0	4%

The tables below summarize the primary drivers of asset-based income for CI, AIS and RE.

CI asset-based income KPIs ($m)	**FY16**	FY15	% Change B/(W)
Asset-based income	**100.8**	49.8	>100%
Average co-investments	**611.0**	734.1	(17%)
Absolute yield	**16.5%**	6.8%	9.7%

AIS asset-based income KPIs ($m)	**FY16**	FY15	% Change B/(W)
Asset-based income	**(27.7)**	9.1	>(100%)
Average co-investments	**442.8**	451.2	(2%)
Absolute yield	**(6.2%)**	2.0%	(8.2%)

RE asset-based income KPIs ($m)	**FY16**	FY15	% Change B/(W)
Asset-based income	**(1.5)**	11.5	>(100%)
Average co-investments	**271.8**	209.7	30%
Absolute yield	**(0.6%)**	5.5%	(6.1%)

The table below shows the average yields on balance sheet co-investments for each of the last five fiscal years by asset class.

Asset yields	FY12	FY13	FY14	FY15	FY16	Average (FY12–FY16)
Corporate investment	5.6%	0.0%	2.6%	6.8%	**16.5%**	6.3%
Alternative Investment Solutions (net)	(8.4%)	6.6%	7.2%	2.0%	**(6.2%)**	0.2%
Real estate investment	7.9%	0.1%	(3.6%)	5.5%	**(0.6%)**	1.9%
Average co-investment yield	1.4%	1.6%	2.9%	5.0%	**5.4%**	3.3%

CI returns have improved steadily over the last few years due to an improving macro-economic environment and growing profitability across the underlying portfolios companies. RE returns include targeted levels of performance of the post-2009 investments, which yielded 9.3%. In FY16, these returns have been offset by a significant fair value write down on one legacy (pre-2009) asset. During FY16, Investcorp's AIS co-investments delivered a loss of 6.2%. The underperformance was due to bouts of significant market volatility that were primarily driven by anxiety about the pace of global growth, following the US Federal Reserve's December 2015 lift-off of interest rates, the dramatic moves in oil prices and high yield credit spreads and the result of the Brexit vote in the UK in June.

INTEREST EXPENSE

Total interest expense, including commitment fees on undrawn revolving credit facilities, increased by 5% to $60.9 million in FY16 from $58.0 million. The increase was due to higher average levels of outstanding interest-bearing debt in FY16 which increased to $1,306 million (FY15: $1,246 million).

The average cost of drawn funding year-on-year also remained stable as shown in the table below.

Interest expense ($m)	**FY16**	FY15	Change H/(L)
Total interest expense	**60.9**	58.0	2.9
Average short-term interest-bearing liabilities	**424**	422	2
Average medium- and long-term interest-bearing liabilities	**882**	824	58
Average interest-bearing liabilities	**1,306**	1,246	60
Interest expense on funded liabilities[a]	**51.5**	48.6	2.9
Average cost of funding on funded liabilities	**3.9%**	4.0%	<(1%)

(a) Does not include commitment fee and other facility costs on undrawn revolvers.

OPERATING EXPENSES

Operating expenses increased by 10% to $224.3 million in FY16 from $203.6 million in FY15. Staff compensation, which includes fixed and variable components, increased by 11.4%. This was primarily due to an 8% increase in global headcount across the Gulf, Europe and US in all core businesses to support business growth. Total compensation per full time employee ('FTE') grew by 2% over last year, whilst other operating costs per FTE remained unchanged. Other expenses, comprising professional fees, travel and business development, administration and infrastructure costs and non-compensation personnel costs such as training and recruitment increased by 8.1%. Total expenses, as a percentage of net revenues, increased to 71% in FY16 from 64% in FY15.

Operating expenses ($m)	**FY16**	FY15	Change H/(L)
Staff compensation	**143.8**	129.1	14.7
Other personnel costs and charges	**8.1**	8.1	–
Other operating expenses	**72.4**	66.3	6.1
Total operating expenses	**224.3**	203.6	20.8
Full time employees ('FTE') at end of period	**326**	301	25
Staff compensation per FTE ('000)	**438.4**	429.0	2%
Other operating expenses per FTE ('000)	**220.7**	220.4	<1%
Total staff compensation/total operating expenses	**64%**	63%	1%
Operating expenses/Net revenue[a]	**71%**	64%	7%

(a) Net revenue represents net income before operating expenses.

BALANCE SHEET

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	**Jun-16**	Jun-15
Total assets	**$2.5 billion**	$2.2 billion
Leverage[a]	**1.5x**	1.3x
Net leverage ratio[b]	**0.6x**	0.7x
Shareholders' equity	**$1.0 billion**	$0.9 billion
Co-investments[c]/long-term capital[d]	**0.6x**	0.8x
Capital adequacy ratio	**30.3%**	28.7%
Residual maturity – medium- and long-term facilities	**75 months**	75 months

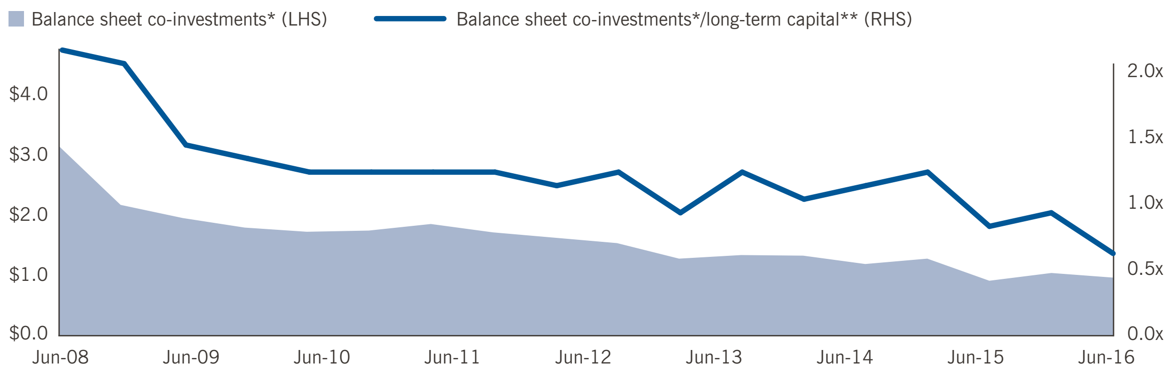
(a) Calculated in accordance with bond covenants.
(b) Calculated in accordance with bank loan covenants and is net of liquidity, underwriting and deferred fees.
(c) Excludes underwriting and is net of revolving facilities secured against alternative investment solutions co-investments.
(d) JPY37 billion debt maturing in 2030 and $50 million debt maturing in 2032, deferred fees and total equity.

ASSETS

Assets ($m)	**Jun-16**	Jun-15	Change H/(L)
Cash and other liquid assets	**425**	339	86
CI RE and AIS underwriting	**493**	88	405
AIS co-investments	**316**	421	(105)
CI and RE co-investments	**707**	810	(103)
Other (working capital and fixed assets)	**555**	503	52
Total assets	**2,497**	2,161	336
Co-investment assets (excluding underwriting)	**1,023**	1,231	(208)

At June 30 2016, total assets were $2.5 billion, 16% higher than at June 30, 2015, primarily due to an increase in underwriting, held for placement. The decrease in CI and RE co-investments reflects realizations net of new acquisitions and a lower carrying value, in USD terms, of CI co-investments in Europe due to exchange rate movements[1]. As at June 30, 2016, gross co-investments in AIS was $316 million of which $42 million was utilized to secure amounts drawn under a bi-lateral revolving facility.

Co-investments are funded entirely by a combination of long-term and permanent sources of capital



* Excludes underwriting and is net of the amount of a bilateral revolving facility (which is secured against AIS co-investments when drawn).
** Long-term capital consists of JPY 37 billion debt maturing in 2030, $50 million debt maturing in 2032, total equity and deferred fees.

Investcorp focuses on maintaining a co-investment to long-term capital ratio of 1.0x or lower, such that the entire balance sheet co-investment portfolio is fully funded through permanent or quasi-permanent capital and does not rely on medium-term debt financing. As at June 30, 2016 the aggregate level of co-investments net of a $50 million[2] revolving credit facility secured against AIS co-investments remained fully covered by permanent and long-term sources of capital.

LIQUIDITY

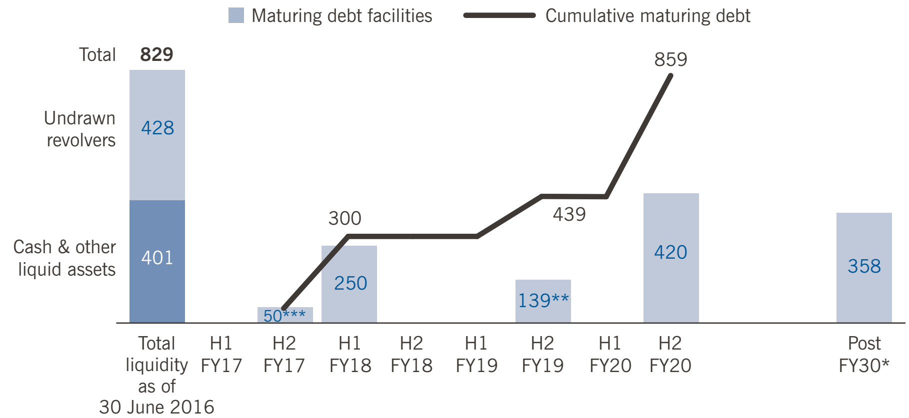
Accessible liquidity, comprising undrawn committed revolving facilities plus balance sheet cash and other liquid assets was $829 million (June 30, 2015: $864 million) and substantially covers all outstanding medium-term debt maturing over the next three years.

Although AIS co-investments are not included in accessible liquidity, they provide an element of structural liquidity but are a much less significant component, given both the substantial reduction over the last five years in the absolute amount of co-investments and the business focus on single manager seeding, which requires a commitment to lock-up periods. The monetization profile of Investcorp's $316 million AIS co-investments at June 30, 2016 was 50% within three months, 51% within six months and 69% within twelve months. As at June 30, 2016, $41.7 million of AIS co-investments were provided as collateral against secured revolving financing facilities.

1 Investcorp hedges its non-USD denominated CI co-investments on the balance sheet against exchange rate movements. The weakening Euro and Pounds Sterling have therefore had no material P&L impact. The offset to the decline in carrying value of CI co-investments resulting from the weakening currencies is reflected in changes in the fair value of derivatives.

2 The secured revolving facility has a contractual size of $175 million. As of June 30, 2016, based on the amount of eligible collateral, the effective available facility size was $50m.

Liquidity cover ($m)



* JPY 37 billion ($302 million at current exchange rates) debt maturing in 2030 and $50 million maturing in 2032.

** CHF 125 million ($125 million at current exchange rates).

*** The secured revolving facility has a contractual size of $175 million. As of June 30, 2016, based on the amount of eligible collateral, the effective available facility size was $50m.

LIABILITIES

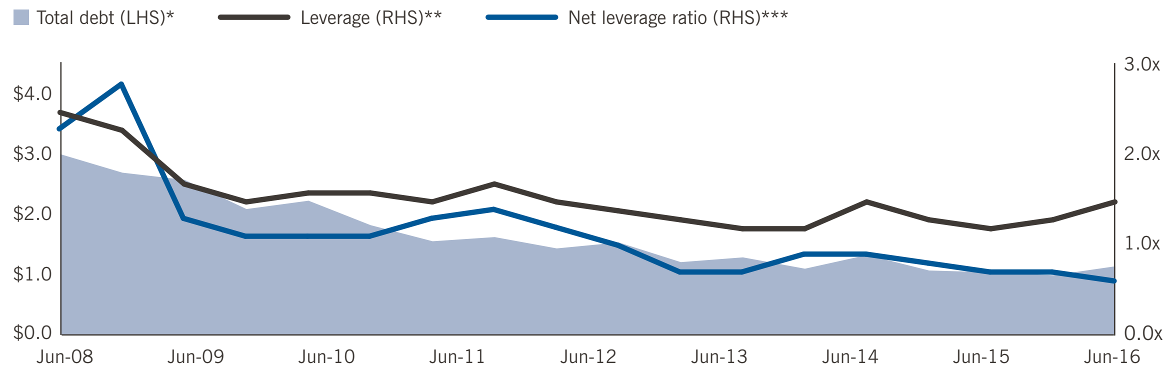
Total liabilities increased by $0.2 billion to $1.5 billion at June 30, 2016.

Liabilities ($m)	**Jun-16**	Jun-15	Change H/(L)
Term and institutional accounts	**124**	38	86
Call accounts	**130**	101	29
Medium-term debt	**403**	417	(14)
Long-term debt	**479**	346	133
Total debt	**1,136**	902	234
Deferred fees	**93**	100	(7)
Other liabilities(a)	**251**	277	(26)
Total liabilities	**1,480**	1,279	201

(a) Payables and accrued expenses, negative fair value of derivatives less prepaid transaction costs of borrowings.

The decrease in medium-term debt was primarily due to currency translation adjustments on the Swiss Franc bonds and repayment of drawn revolvers which remain available for future drawdown as needed for funding new deal underwriting and working capital requirements. The increase in long-term debt, the majority of which is denominated in Japanese Yen, was primarily due to the appreciation of the Yen against the US Dollar. Currency translation risks are fully hedged, and hence there is no material impact on net income from this or other exchange rate movements.

Financial leverage



* Total debt is defined as call accounts, term and institutional accounts, medium and long-term debt.
** Calculated in accordance with bond covenants. Liabilities are net of transitory balances.
*** Calculated in accordance with bank loan covenants, net of liquidity, underwriting and deferred fees.

Leverage, as defined for financial covenants principally in Investcorp's outstanding bond and note issues, is calculated after deducting any transitory liabilities from the aggregate level of liabilities on the balance sheet, and has remained low in line with Investcorp's medium-term objectives to maintain comfortable covenant headroom.

Net leverage, as defined in the $420 million revolving credit facility due 2020, is calculated by deducting cash, underwriting balances and deferred fees (arising from the introduction of IFRS 15) from liabilities.

CREDIT RATINGS

Investcorp held its annual rating review with both Moody's and Fitch in October. In March 2016 Moody's changed the outlook to negative, referring to their concern that Investcorp might face increasing difficulties in raising new capital or reinvesting clients' capital in the coming years due to the risk that prolonged low oil prices will result in substantially lower government spending, declining corporate investment and softening consumption in the GCC region.

Fitch Ratings re-affirmed Investcorp's credit ratings at BB in June 2016 and retained a stable outlook.

Agency	Rating grade	Comment
Moody's Investor Service	Ba2/Negative outlook	Credit Opinion published in Oct 2015 Outlook changed to Negative in Mar 2016
Fitch Ratings	BB/Stable outlook	Ratings Navigator published Dec 2015 Rating report published and outlook affirmed in Jun 2016

EQUITY

Equity ($m)	**Jun-16**	Jun-15	Change H/(L)
Ordinary shareholders' equity	**750**	624	126
Preference share capital	**223**	225	(2)
Proposed appropriations	**45**	42	3
Fair value and revaluation adjustments	**(1)**	(9)	8
Net book equity	**1,017**	882	135

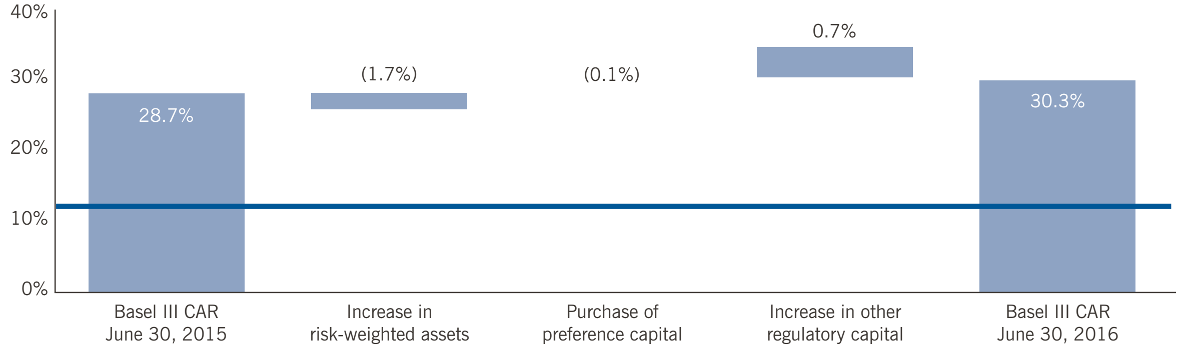
Net equity at June 30, 2016 was $1.0 billion. The increase in FY16 primarily relates to an increase in ordinary shareholders' capital reflecting the sale of 9.99% of shares to Mubadala Development Corporation, a Gulf-based institutional shareholder, and an increase in retained earnings from net income for the year.

Investcorp has now retired more than half of the preference shares raised in 2009, using a combination of retained earnings, capital raised from the sale of treasury shares and capital released from the reduction of balance sheet co-investments. Book value per ordinary share as of June 30, 2015 was $10.15 (FY15: $9.00).

CAPITAL ADEQUACY

Investcorp's capital adequacy ratio ('CAR') at June 30, 2016 was 30.3% (June 30, 2015: 28.7%), reflecting an increase in risk-weighted assets offset by an increase in regulatory capital. The CAR is comfortably in excess of the Central Bank of Bahrain's ('CBB') regulatory minimum requirement of 12.5%.

Regulatory capital adequacy ratio (CAR)



The CBB has designated Investcorp as a Domestic Systemically Important Bank ('DSiB'). As a result of this designation, Investcorp will be subject to an increased frequency of prudential meetings and inspections by the CBB. Subject to a separate future assessment, the CBB may also require DSIBs to maintain a higher minimum regulatory capital threshold.

SHAREHOLDER BASE

At June 30, 2016, Investcorp remains a management-controlled company, with management, in concert with strategic shareholders, controlling the voting of 59.0% of Investcorp's ordinary shares and 41.0% is split between owners holding 40.3% in ordinary shares on the Bahrain Bourse, and 0.7% of beneficial ownership through unlisted GDRs.

In September 2015, at an Extraordinary General Meeting ('EGM') of shareholders, a proposal was approved to split Investcorp Bank B.S.C.'s ordinary shares on a basis of 100:1. Each ordinary share, having a nominal value of US$250 per share, has been split into 100 ordinary shares, having a nominal value of US$2.50 per share, resulting in: (i) an increase in the number of the authorized ordinary shares from 4,000,000 to 400,000,000; and (ii) an increase in the number of the issued ordinary shares from 800,000 to 80,000,000.

SEGMENTAL ANALYSIS

NET INCOME BY OPERATING SEGMENT

Investcorp's activities are classified into two primary operating segments: a fee business and a co-investment business.

The fee business earns income generated from transactional activity and management of client AUM. The co-investment business earns asset-based income on balance sheet co-investments in Investcorp's CI, RE and AIS products. Asset-based income arising from treasury and other activities is attributed to the fee business.

This classification reflects a commonly used approach for a firm such as Investcorp, where the overall business can be considered a combination of fee income and investment income-generating components, essentially the combination of an asset management business and a principal investment business. As the fee and co-investment businesses are clearly distinct, separate financial disclosure of the two segments should enhance stakeholders' understanding of Investcorp's business model. This is especially important as the fee business continues to evolve as the dominant contributor to Investcorp's overall financial performance.

A portion of the aggregate operating expenses are allocated to the co-investment business on an ex-ante basis using a fixed fee that is charged on total balance sheet co-investments at the beginning and middle of the year. Variable compensation expenses are also allocated to the co-investment business based on the firm's overall compensation ratio. All residual operating expenses are attributable to the fee business.

Interest expense is allocated between the two operating segments based on the average balances of interest bearing liabilities utilized by each segment for its operations.

NET INCOME FROM FEE BUSINESS

A detailed analysis of the net income for the fee business is shown in the table below.

Net income: fee business ($m)	**FY16**	FY15	% Change B/(W)
AUM fees	**97.4**	111.5	(13%)
Deal fees	**210.1**	196.6	7%
Treasury and other asset-based income	**4.4**	2.6	69%
Gross revenue from fee business	**311.9**	310.7	<1%
Provisions for impairment	**(8.2)**	(2.8)	>(100%)
Interest expense	**(31.0)**	(30.0)	(3%)
Net revenue from fee business	**272.7**	277.9	(2%)
Operating expenses	**(208.1)**	(191.8)	(9%)
Net income from fee business	**64.5**	86.1	(25%)

Gross revenues from the fee business increased by $1.2 million to $311.9 million in FY16 from $310.7 million in FY15. The recurring AUM fees decreased by 13%, primarily due to lower performance fees from AIS. AUM fees represent more than 30% of the total fee income.

Please refer to Discussion of Results – Fee income for more detail on the performance in FY16 compared to FY15.

Net income from the fee business declined by 25% to $64.5 million in FY16 from $86.1 million in FY15. This was predominantly attributable to an increase in operating expenses from Investcorp's investment in the requisite resources and infrastructure to support the firm's medium-term growth strategy. These plans primarily relate to growth in AUM and related fee income. The increase in operating expenses is therefore primarily allocated to the fee business segment.

NET INCOME FROM CO-INVESTMENT BUSINESS

A detailed analysis of the net income for the co-investment business is shown in the table below.

Net income: co-investment business ($m)	**FY16**	FY15	% Change B/(W)
Asset-based income from alternative investment solutions co-investments	**(27.7)**	9.1	>(100%)
Asset-based income from corporate co-investments	**100.8**	49.8	>100%
Asset-based income from real estate co-investments	**(1.5)**	11.5	>(100%)
Gross revenue from co-investment business	**71.6**	70.4	2%
Interest expense	**(29.9)**	(28.1)	(6%)
Net revenue from co-investment business	**41.7**	42.3	(1%)
Operating expenses	**(16.1)**	(11.7)	(38%)
Net income from co-investment business	**25.5**	30.6	(17%)

Net income from the Group's co-investment business was a gain of $25.5 million in FY16 as compared to $30.6 million in FY15. Asset-based income from co-investments in CI increased significantly, offset by a decline in RE and AIS asset-based income.

Please refer to Discussion of Results – asset-based income for more detail on the performance in FY16 compared to FY15.

BALANCE SHEET BY OPERATING SEGMENT

The following methodology has been used for allocating assets, liabilities and equity to each of the fee and co-investment business segments:

Assets: All co-investments and related receivables, excluding underwriting, are allocated to the co-investment business. All other assets, including cash in transit associated with redemptions from AIS and realizations of CI and RE co-investments and associated advances are allocated to the fee business.

Liabilities: All long-term debt and a proportion of drawn medium-term debt, including secured loans, are allocated to the co-investment business. Client investment accounts, term and institutional accounts and the residual amount of medium-term debt are allocated to the fee business.

Equity: 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 business segment on the basis of the asset or liability to which they relate.

At the beginning of each fiscal year, the amount of equity required for the fee business is re-assessed based on the next 12 months' planned investment and placement activity. As a result, any excess or shortfall in the assessed equity for the fee business will be moved either to, or from, the co-investment business.

As at June 30, 2016, the segmental balance sheets for the fee business and the co-investment business are shown in the table below.

	Fee business		Co-investment business		Total	
Balance sheet ($m)	**Jun-16**	Jun-15	**Jun-16**	Jun-15	**Jun-16**	Jun-15
Cash and other liquid assets	**425.4**	339.3	**–**	–	**425.4**	339.3
Advances and receivables	**340.8**	377.8	**85.1**	8.7	**425.9**	386.4
Co-investments (CI, AIS, RE)	**–**	–	**1,022.9**	1,231.2	**1,022.9**	1,231.2
Underwriting	**493.5**	87.5	**–**	–	**493.5**	87.5
Other assets	**129.5**	117.0	**–**	–	**129.5**	117.0
Total assets	**1,389.2**	921.6	**1,108.0**	1,239.8	**2,497.2**	2,161.4
Call accounts	**130.0**	101.0	**–**	–	**130.0**	101.0
Term and institutional accounts	**124.1**	37.7	**–**	–	**124.1**	37.7
Medium-term debt	**361.4**	332.3	**41.7**	84.7	**403.1**	417.1
Long-term debt	**175.9**	–	**303.1**	346.2	**479.0**	346.2
Deferred fees	**92.9**	100.3	**–**	–	**92.9**	100.3
Other liabilities	**238.2**	271.3	**12.7**	5.8	**250.9**	277.1
Total liabilities	**1,122.4**	842.7	**357.5**	436.8	**1,479.9**	1,279.4
Total equity	**266.8**	78.9	**750.5**	803.1	**1,017.2**	882.0
Total liabilities and equity	**1,389.2**	921.6	**1,108.0**	1,239.8	**2,497.2**	2,161.4

The total assets of the co-investment business decreased to $1.1 billion as compared to $1.2 billion at June 30, 2015, primarily due to the realizations across all asset classes and lower CI Europe co-investment amounts, in dollar terms, due to the depreciation in the Euro and Pound Sterling against the US Dollar.

The total assets of the fee business increased to $1.4 billion, primarily driven by a higher level of underwriting and liquidity carried on the balance sheet as at June 30, 2016.

INVESTMENT ACTIVITY

NEW ACQUISITIONS: CORPORATE INVESTMENT

Investcorp targets the acquisition of attractive corporate investment opportunities in North America, Europe, the Gulf region, and Turkey. In addition, it continues to support its existing portfolio companies to increase their market share and expand their operational footprint through selected add-on acquisitions. The Firm seeks corporate investments that it believes offer its investors an attractive return profile, driven by proactive value creation initiatives, including revenue growth through expansion in new territories, business efficiency improvements and the strengthening of management teams.

The aggregate capital deployed in corporate investments during FY16 was $691 million. $648 million was deployed across seven new corporate investments and $43 million was invested through the Investcorp Technology Fund III, principally into one existing portfolio company. One of the new corporate investments, which is not listed below, is based in the Gulf and details of the deal will be more fully announced in H1FY17.

POC

A leading Swedish manufacturer of premium skiing and cycling helmets, apparel and accessories.

Date of Investment: October 2015

Industry Sector: Consumer products

Headquarters: Stockholm, Sweden

BINDAWOOD

A leading chain of supermarkets and hypermarkets.

Date of Investment: December 2015

Industry Sector: Consumer products – grocery retail

Headquarters: Jeddah, Saudi Arabia

SECURELINK

A leading provider of integrated cyber security products and services.

Date of Investment: December 2015

Industry Sector: Technology – IT security services

Headquarters: Wommelgem, Belgium/ Sliedrecht, Netherlands

THE WRENCH GROUP

National leader in home maintenance and repair services specializing in heating, ventilation and air conditioning, plumbing and electrical services.

Date of Investment: March 2016

Industry Sector: Business services

Headquarters: Georgia, USA

CORESEC

One of Scandinavia's largest managed cyber security service providers.

Date of Investment: June 2016

Industry Sector: Technology – IT security services

Headquarters: Malmö, Sweden

CORNELIANI

A leading Italian luxury menswear brand.

Date of Investment: June 2016

Industry Sector: Consumer products

Headquarters: Mantua, Italy

OTHER CORPORATE INVESTMENT ACTIVITIES

A number of Investcorp's corporate investment portfolio companies made add-on acquisitions to increase value as part of their business plans. Such add-on acquisitions enable the companies to increase revenues, for example by developing market share, by entering new markets and geographies, or by extending services or product ranges.

October 2015: In October, Investcorp Technology Fund III increased its share ownership in **OpSec Security Group**, to become majority shareholders of the Company. Investcorp Technology Fund III launched a take-private offer for OpSec, by offering to buy shares held by independent shareholders, through a court-sanctioned scheme of arrangement. The scheme was approved and the transaction subsequently closed in December.

Other add-on investments are summarized below. No significant additional equity from Investcorp or its investors was required for these investments.

August 2015: **Tyrrells** acquired Yarra Valley Snack Foods, a fast-growing premium snacks business making natural, organic and gluten-free products. Based in Australia, Yarra Valley Snack Foods employs approximately 85 people and generated sales of approximately AUS$17 million in FY15. This acquisition is a natural progression for Tyrrells, allowing it to build local manufacturing capacity to develop further opportunities throughout Asia, and act as a stepping stone for Tyrrells to build its international presence.

August 2015: **totes>>ISOTONER** signed an exclusive license agreement with Pistil, a US designer, manufacturer and distributor of headwear products.

August 2015: **Randall-Reilly** acquired JiggyJobs.com, expanding its already robust portfolio of driver recruiting services. The website brings with it a well-rounded online presence through its social media and blog, as well as a database of drivers to provide leads for Randall-Reilly clients.

March 2016: **TelePacific** signed a definitive agreement to acquire DSCI, a leading provider of managed services in the Northeast of the United States. With the addition of DSCI, TelePacific will have more than 50% of its business in the fast-growing managed services segment and a complete set of products. The acquisition, which is subject to regulatory approval, was financed through a new debt facility under an existing credit agreement.

March 2016: **Tyrrells** completed the acquisition of Lisa's Crisps; a German organic hand-cooked potato crisps brand and manufacturer.

April 2016: **Optiv Security** completed its acquisition of Advancive LLC, a provider of identity and access management ('IAM') services and solutions. The transaction and resulting combination of people, know-how and best practices, allows Optiv to continue to expand its IAM expertise and offerings, and provide new and innovative IAM services and solutions.

April 2016: **OpSec** completed the acquisition of API Holographics' security division located in Salford, UK.

May 2016: **Nobel Learning** closed on its third add-on acquisition since being acquired by Investcorp: Xplor Early Learning Centers, an operator of 16 preschools based in Texas.

May 2016: **Optiv Security** completed the purchase of substantially all of the assets of Evantix GRC, LLC, a California-based provider of a software-as-a-service application for managing third-party risk. Optiv will combine the Evantix technology platform with Optiv's existing third-party risk services to develop the industry's first holistic, cloud-based third-party risk cyber security solution.

June 2016: **Optiv Security** also announced its acquisition of Adaptive Communications LLC, a New England-based provider of robust and flexible information security solutions. The transaction further strengthens Optiv's presence across New England while increasing its cyber security capabilities and expertise in the region.

NEW ACQUISITIONS: REAL ESTATE

Investcorp focuses on the acquisition of existing core and core-plus commercial and residential real estate assets situated in many of the largest and most diversified markets in the US. The firm seeks properties that can offer investors an attractive current return and the potential for capital appreciation through hands-on asset management, revenue improvements, expense rationalization and value-added capital improvements. The majority of real estate investments are structured in a Shari'ah compliant manner.

The aggregate equity deployed in new real estate investments in FY16 was $763 million.

2015 RESIDENTIAL PROPERTIES II PORTFOLIO

Shari'ah compliant equity ownership interests in apartment complexes in the Las Vegas, Nevada metro area (Solis at Flamingo*), the Chicago, Illinois metro area (The Reserve at Hoffman Estates*), the Atlanta, Georgia metro area (Rosemont Vinings Ridge), the Denver, Colorado metro area (Cherry Creek Club) and the Dallas/Fort Worth, Texas metro area (American Communities Portfolio of four apartment complexes).

*signed and purchased in FY15.

Number of properties: 8

2015 OFFICE & INDUSTRIAL PROPERTIES PORTFOLIO

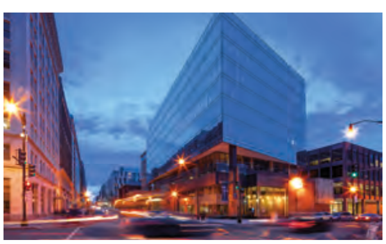
Shari'ah compliant equity ownership interests in five office buildings in the San Francisco, California metro area (Tower Plaza), three office buildings in the Boston, Massachusetts metro area (Ballardvale Office Portfolio), and two multi-tenant office buildings (Paces West) and sixty-nine industrial buildings (Stone Mountain Portfolio) both in the Atlanta, Georgia metro area.

Number of properties: 79

BOCA RATON AND MINNEAPOLIS RESIDENTIAL PORTFOLIO

Shari'ah compliant equity ownership interests in three student housing properties in Boca Raton, Florida (University Park, University View and University Square), an apartment complex in Bloomington, Minnesota (Hampshire Hill) and an apartment complex in Burnsville, Minnesota (Southwind Village).

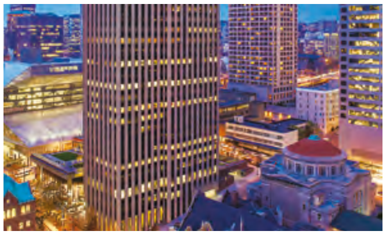
Number of properties: 5



733 TENTH STREET

Shari'ah compliant equity ownership interests in a Class A, 170,813 sq. ft. luxury office building in the heart of Washington, D.C.'s East End office submarket.

Number of properties: 1



901 FIFTH AVENUE

Shari'ah compliant equity ownership interests in a Class A, multi-tenant, high-rise office building in downtown Seattle, Washington.

Number of properties: 1

In addition to the above properties, 11 multifamily, office and student housing properties were acquired during the second half of FY16. These properties will form part of two new portfolios to be placed in FY17. The 901 Fifth Avenue investment will also be placed in FY17 as Investcorp's second club offering.

ALTERNATIVE INVESTMENT SOLUTIONS ACTIVITIES

In November 2015, Investcorp acquired the Hedge Funds of Funds business unit of **SSARIS Advisors, LLC** ('SSARIS') an investment manager of absolute return hedge fund strategies and hedge funds of funds strategies. Four key members of the SSARIS hedge funds of funds investment team joined AIS in New York. With $810 million in discretionary and advisory assets, and clients across the US, Europe and Asia, this acquisition is expected to further strengthen Investcorp's existing AIS platform.

In December 2015, Investcorp also announced a strategic relationship with **Kinneret Group** ('Kinneret'), a New York-based quantitative equity long/short asset manager. Kinneret was founded in 2011 by Mony Rueven, a 33-year industry veteran who previously spent 12 years at global investment and technology development firm, the D.E.Shaw Group. Kinneret seeks to identify long/short securities within the S&P 500 using a differentiated systematic approach that aims for consistent alpha, low net market exposure and minimal correlation to market and peer-group benchmarks. Kinneret's leadership is comprised of a recognized senior team with deep experience in building and managing systematic, computer-driven, model-based trading organizations around paradigm shifts in global financial markets.

In February 2016, Investcorp seeded **Nut Tree Capital Management** ('Nut Tree'). Nut Tree was founded by Jed Nussbaum, a former Partner at Redwood Capital Management and a 16-year investment industry veteran. Nut Tree pursues a fundamental credit strategy, focusing, on mid-market stressed and distressed credit and value equities across North America.

During the second half of the fiscal year 2016, Investcorp launched two new **Special Opportunities Portfolios**.

REALIZATIONS & DISTRIBUTIONS

CORPORATE INVESTMENT REALIZATIONS

Total realization proceeds and other distributions to Investcorp and its clients were $1,037 million in FY16.

AUTODISTRIBUTION

The leading independent distributor of auto, truck and industrial spare parts in France.

Date of Investment: March 2006

Date of Realization: October 2015

Investors: Deal-by-deal

Industry Sector: Distribution

VERITEXT

A leading national provider of deposition and litigation support services.

Date of Investment: July 2010

Date of Realization: December 2015

Investors: Deal-by-deal

Industry Sector: Industrial services – business services

N&W

A leading manufacturer of food and beverage vending machines.

Date of Investment: November 2008

Date of Realization: December 2015

Investors: Deal-by-deal

Industry Sector: Industrial products

ICOPAL

The world's leading producer of roofing and waterproofing membranes and market leader in Nordic countries for roof installation services.

Date of Investment: July 2007

Date of Realization: January 2016

Investors: Deal-by-deal

Industry Sector: Industrial products

CSIDENTITY

The technology leader in providing identity theft and fraud protection services to businesses and consumers.

Date of Investment: December 2009

Date of Realization: April 2016*

Investors: Technology Fund III

Industry Sector: Technology – enterprise software

**Proceeds are expected to be paid in FY17.*

GL EDUCATION GROUP

The UK's leading independent provider of pupil assessments and school improvement solutions.

Date of Investment: March 2012

Date of Realization: May 2016

Investors: Deal-by-deal

Industry Sector: Industrial services – education

L'AZURDE

The leading designer, manufacturer and wholesale distributor of gold jewelry.

Date of Investment: March 2009

Date of Partial Realization: June 2016*

Investors: Gulf Opportunity Fund I

Industry Sector: Consumer products

**In June 2016, L'azurde successfully priced its IPO on the Saudi Stock Exchange (Tawadul) at SR37 per share. Investcorp, through its Gulf Opportunity Fund I, will continue to retain a 38.85% stake in the company and representatives of the Investcorp Gulf Opportunity Fund I will remain on the board.*

OTHER TRANSACTIONAL ACTIVITIES

In September 2015, **PRO Unlimited** completed a $19 million dividend distribution. The dividend was used to pay accumulated interest and redeem a portion of the PIK notes held by investors.

In November 2015, Investcorp executed a block trade to sell its remaining minority stake in **Asiakastieto**. This transaction successfully concludes a multiple step exit process for the investment in Asiakastieto which started with a debt recapitalization in December 2014 and was followed by an IPO in March 2015. Asiakastieto was originally acquired in May 2008.

In December 2015, Investcorp executed a block trade to sell its remaining minority stake in **Skrill** following the sale of the company to Optimal Payments plc for €1.1 billion in July 2015. Skrill was originally acquired in March 2007.

In March 2016, Investcorp's Gulf Opportunity Fund I sold part of its minority equity stake in **Gulf Cryo**.

In FY16, **L'azurde**, **Leejam**, **Theeb** and **AYTB** made dividend distributions of $21.9 million in aggregate.

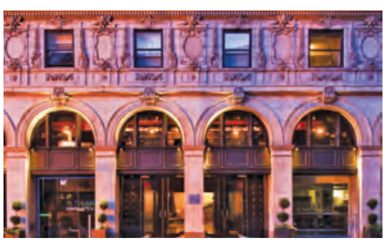
In June 2016, Investcorp completed the sale of Investcorp Technology Partners III Fund's remaining shares in **Sophos**. The Fund originally acquired its stake in Sophos in June 2008. In June 2015, Sophos successfully priced its IPO on the London Stock Exchange, and the shares held by the Fund were progressively sold throughout FY16 until the final sale in June. Proceeds are expected to be paid out in FY17.

In June 2016, Investcorp, through its Investcorp Technology Ventures II Fund, closed the sale of **Magnum Semiconductor** to GigPeak, Inc. (formerly GigOptix). Magnum is a leading provider of silicon, modules, software and IP for the professional broadcast infrastructure market.

In July 2016, Investcorp signed a definitive agreement to sell **Polyconcept** to Charlesbank Capital Partners. Polyconcept is the world's largest supplier of promotional products. The sale is subject to regulatory approvals and is expected to close in H1 FY17.

In August 2016, Investcorp signed a definitive agreement to sell **Tyrrells** to Amplify Snacks. Tyrrells, based in Herefordshire, UK, is a premium manufacturer of hand-cooked potato and vegetable crisps as well as other snacks including popcorn. The sale is subject to regulatory approval and is expected to close in H1 FY17.

REAL ESTATE REALIZATIONS



PARAMOUNT HOTEL MEZZANINE LOAN

Secured by a 597-room hotel property.

Date of Investment: November 2011

Date of Realization: July 2015

Portfolio Name: Investcorp Real Estate Credit Fund III

Location: New York, New York

VILLAGES OF MEYERLAND

A 714-unit multifamily property.

Date of Investment: November 2012

Date of Realization: July 2015

Portfolio Name: Texas Apartment Portfolio II

Location: Houston, Texas metro area

BRISTOL SQUARE

A 330-unit multifamily property.

Date of Investment: November 2012

Date of Realization: July 2015

Portfolio Name: Texas Apartment Portfolio II

Location: Austin, Texas metro area

AIRPORT TECHNOLOGY PARK

A six-building multi-tenant office park totaling 295,426 square feet.

Date of Investment: November 2007

Date of Realization: July 2015

Portfolio Name: Diversified Properties VIII

Location: Santa Clara, California

RESIDENCE INN MANHATTAN BEACH

A 176-room extended stay hotel.

Date of Investment: April 2011

Date of Realization: July 2015

Portfolio Name: Diversified Properties IX

Location: Manhattan Beach, California

DOUBLETREE WESTBOROUGH

A 223-room hotel.

Date of Investment: August 2006

Date of Realization: July 2015

Portfolio Name: Investcorp Real Estate Credit Fund (‘IRECF’)

Location: Westborough, Massachusetts

DOUBLETREE COMMERCE

A 201-room hotel.

Date of Investment: August 2006

Date of Realization: October 2015

Portfolio Name: Investcorp Real Estate Credit Fund (‘IRECF’)

Location: Commerce, California

DOUBLETREE MINNEAPOLIS

A 229-room hotel.

Date of Investment: August 2006

Date of Realization: October 2015

Portfolio Name: Investcorp Real Estate Credit Fund (‘IRECF’)

Location: Minneapolis, Minnesota metro area

BROADREACH MEZZANINE LOAN

Secured by two office buildings totaling 467,000 square feet.

Date of Investment: September 2015

Date of Realization: November 2015

Portfolio Name: 2012 Office Properties

Location: Denver, Colorado metro area

BROADWAY-WEBSTER MEDICAL PLAZA

A 98,585-square foot medical office building.

Date of Investment: September 2012

Date of Realization: November 2015

Portfolio Name: Diversified Properties IX

Location: Oakland, California

CORAL PALM PLAZA

A 135,672-square foot retail center.

Date of Investment: February 2011

Date of Realization: December 2015

Portfolio Name: Commercial Properties VI

Location: Coral Springs, Florida

PENN CENTER EAST

A mixed-use complex comprising 953,204 square feet.

Date of Investment: April 2007

Date of Realization: December 2015

Portfolio Name: Diversified Properties VII

Location: Pittsburgh, Pennsylvania metro area

TEXAS RETAIL PORTFOLIO

A 2.4 million-square foot, 22-asset retail portfolio.

Date of Investment: September 2006

Date of Realization: December 2015

Portfolio Name: Retail Properties IV (80%)

Diversified Properties VI (20%)

Location: Houston, Dallas & San Antonio, Texas metro areas

WOODLANDS AT CREST HILL

A 730-unit multifamily property.

Date of Investment: November 2013

Date of Realization: January 2016

Portfolio Name: 2013 Residential Properties

Location: Crest Hill, Illinois

LAKES AT FOUNTAIN SQUARE

A 384-unit multifamily property.

Date of Investment: November 2013

Date of Realization: January 2016

Portfolio Name: 2013 Residential Properties

Location: Waukegan, Illinois

FOUNTAINS AT STONE CREST

A 400-unit multifamily property.

Date of Investment: November 2013

Date of Realization: January 2016

Portfolio Name: 2013 Residential Properties

Location: Westmont, Illinois

DOUBLETREE SYRACUSE

A 250-room full-service hotel.

Date of Investment: August 2006

Date of Realization: February 2016

Portfolio Name: Investcorp Real Estate Credit Fund

Location: Syracuse, New York

ARIUM PINEVILLE

A 240-unit multifamily property.

Date of Investment: November 2013

Date of Realization: April 2016

Portfolio Name: Southeast Multifamily Portfolio

Location: Charlotte, North Carolina

ARIUM CITRUS PARK

A 247-unit multifamily property.

Date of Investment: November 2013

Date of Realization: April 2016

Portfolio Name: Southeast Multifamily Portfolio

Location: Tampa, Florida

OTHER REAL ESTATE TRANSACTIONAL ACTIVITIES

In January 2016, Investcorp closed the successful refinancing of the **Princeton Forrestal Village** first mortgage, a US Commercial Properties VI Portfolio investment. As part of the refinancing, approximately $20 million was distributed.

In May 2016, Investcorp sold one of two land parcels at **Meridian Corporate Center**, a 2014 Office & Industrial Properties Portfolio investment.

OTHER ACTIVITIES

Investcorp's **Special Opportunities Portfolio I** successfully exited its two remaining positions in FY16 concluding the full monetization of the portfolio with final distributions made in May 2016. **Special Opportunities Portfolio III** completed the monetization program started in 2015 and final distributions were made in January 2016. **Special Opportunities Portfolio IV** made distributions in September 2015 and January and March 2016.

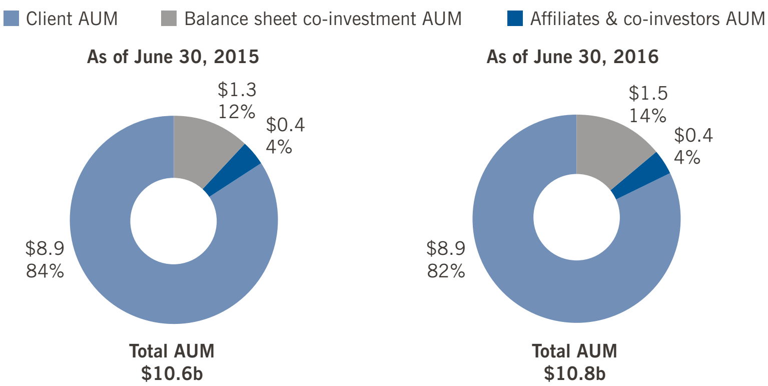
AUM & FUNDRAISING

ASSETS UNDER MANAGEMENT ('AUM')[1]

Please refer to the table in Note 2 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes total assets under management in each of the reporting segments.

Total assets under management

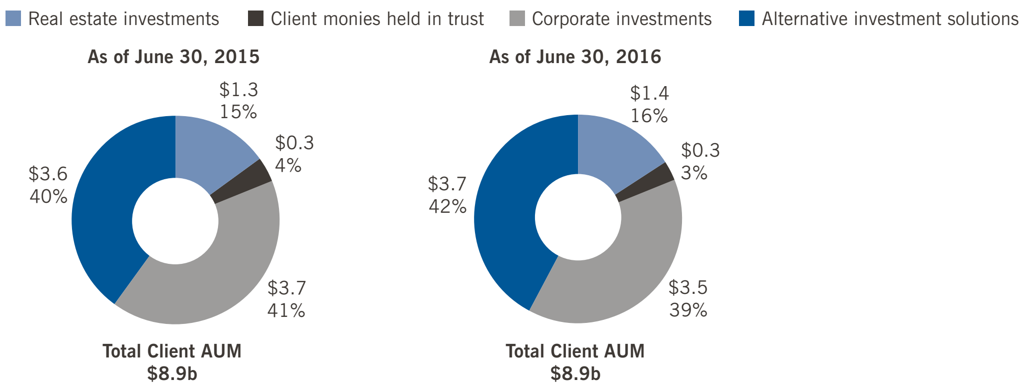
($b)



Total AUM increased slightly to $10.8 billion at June 30, 2016 from $10.6 billion at June 30, 2015.

Total client assets under management

($b)



Total client AUM remained flat at $8.9 billion at June 30, 2016, the same level as at June 30, 2015. Real estate AUM increased by 9% and AIS AUM increased by 3%. This was offset by a 5% decrease in corporate investments AUM.

The two most dominant asset classes in client AUM continue to be AIS (42%) and corporate investments (39%). Corporate investment client AUM in deal-by-deal products increased by 4%, to $2.7 billion (June 30, 2015: $2.6 billion). This increase reflected strong new deal placement activity offset by distributions from exits during the year, which included Icopal, N&W, Veritext and GL Education. Overall, corporate investment AUM decreased due to the reduction in AUM from older vintage closed-end invested funds which are in the exit phase of their life cycles. Client AUM in AIS increased by 3% due to a combination of new subscriptions and the acquisition of the SSARIS Advisors LLC funds of hedge funds business during the year.

1 Includes $2.5 billion (June 30, 2015: $2.4 billion) of hedge fund partnerships (including exposure in 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.

KEY AUM METRICS (BY ASSET CLASS)

Corporate investment ($m)	**Jun-16**	Jun-15	% Change B/(W)
Client AUM			
Closed-end invested funds	**821**	1,098	(25%)
Deal-by-deal investments	**2,671**	2,576	4%
Total client AUM – at period end	**3,492**	3,674	(5%)
Average client AUM	**3,583**	3,625	(1%)

Real estate investment ($m)	**Jun-16**	Jun-15	% Change B/(W)
Client AUM			
Closed-end funds (Mezzanine/debt)	**33**	97	(66%)
Deal-by-deal investments	**1,373**	1,190	15%
Total client AUM – at period end	**1,406**	1,287	9%
Average client AUM	**1,347**	1,227	10%

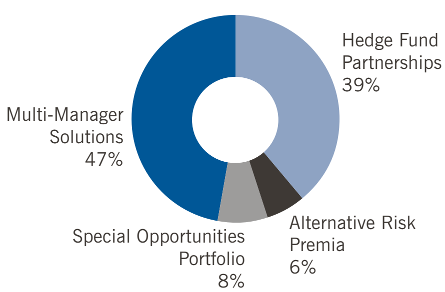
Alternative investment solutions ($m)	**Jun-16**	Jun-15	% Change B/(W)
Client AUM			
Multi-manager solutions	**1,739**	1,389	25%
Hedge funds partnerships	**1,450**	2,094	(31%)
Special opportunities portfolios	**296**	109	>100%
Alternative Risk Premia	**200**	–	>100%
Total client AUM – at period end	**3,685**	3,592	3%
Average total client AUM	**3,639**	4,053	(10%)

At June 30, 2016, AIS AUM in total was $4.0 billion, of which $3.7 billion represented client assets and $0.3 billion represented Investcorp's balance sheet co-investment.

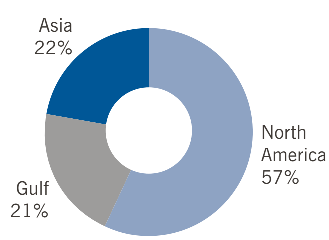
Alternative investment solutions client assets under management

($b)

By product type



By geography



As at June 30, 2016, 79% of client assets in AIS were from US and Asian institutional investors with the balance held by Gulf private and institutional investors. During the fiscal year, multi-manger solutions, special opportunities portfolios and alternative risk premia all experienced net inflows while hedge fund partnerships AUM declined. At June 30, 2016, substantially all of AIS client assets under management were managed for a range of institutional clients including pension funds, insurance companies, endowments and foundations, and funds of hedge funds.

FUNDRAISING

Investcorp's history, commitment and track record in the GCC region means it is trusted by Gulf investors to provide them with unique and non-traditional investment opportunities and services that are suitable for their risk return preferences. Investcorp is committed to ensuring its clients receive a 'best in class' service both regionally and internationally as it continues to strive to deliver strong, optimal and well-balanced investment returns.

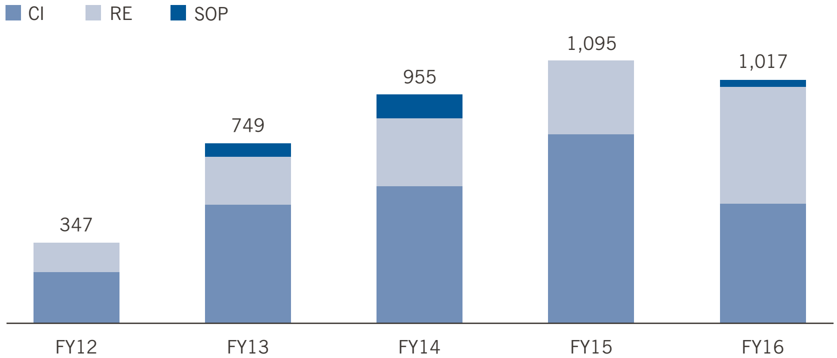
During FY16, strong fundraising momentum in Investcorp's core Gulf markets continued, driven by continued client appetite for attractive alternative investments. Total deal-by-deal fundraising in the Gulf was $1,017 million, marking the second year in a row that Investcorp has crossed the significant threshold of $1.0 billion raised from Gulf investors.

Corporate investment placement was $498 million. This included an additional offering in Dainese, relating to the acquisition of POC in October 2015 (placed with existing investors in Dainese and new investors); Bindawood Group, a new deal acquired in December 2015; SecureLink, another new deal acquired in December 2015; The Wrench Group, a new deal acquired in March 2016; and Corneliani, a new deal acquired in June 2016.

Real estate placement, across three new portfolios and one single-property club deal, was $488 million, a 59% increase over $307 million placed in FY15 and an all-time record for Investcorp.

Total deal by deal placement*

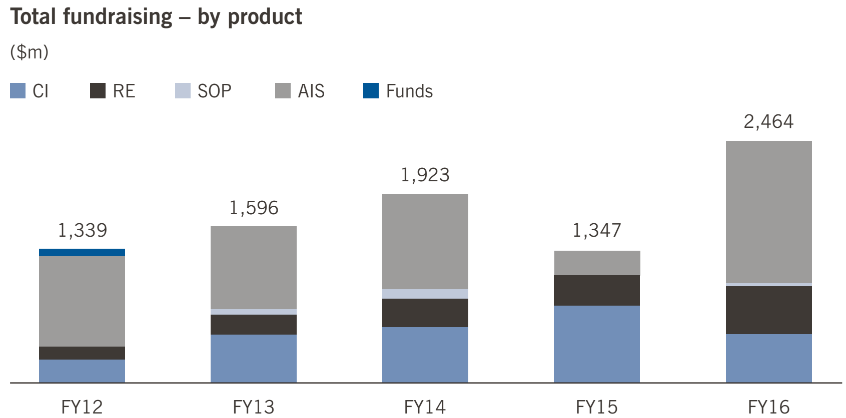
($m)



* Excludes monies raised via capital calls for Gulf Opportunity Fund I and Investcorp Real Esate Credit Fund III.

The pace of new fundraising activity for AIS was slow during the first three quarters of the year due to a more challenging and volatile investment environment for the asset class, particularly in August-September 2015 and January 2016. However, the pace picked up in the last quarter of the year and included the first client mandate, a $200 million investment, into Alternative Risk Premia. Launched in 2015, Investcorp's Alternative Risk Premia platform (formerly known as Alt Beta) provides a suite of diversified risk premia products designed to harvest the benefits of a new class of investment and to provide a total return above a cash benchmark. Alternative Risk Premia is considered an attractive investment opportunity as it generally offers an uncorrelated source of returns, better liquidity, full transparency and lower fees compared to traditional hedge fund investments.

Total new subscriptions for AIS products during the year amounted to $667 million, including $30 million raised from Gulf clients for a new special opportunities portfolio offering of a diversified portfolio of non-performing loans collateralized by residential properties in the US. In addition, $810 million of discretionary and advisory assets were added to the AIS AUM on the acquisition of the hedge funds of funds business of SSARIS Advisors LLC. Redemptions net of performance over the same period were $1,384 million resulting in a net increase in client AUM of $93 million.



Investcorp continued to provide its hallmark high touch service to its Gulf clients by providing broad coverage and ongoing communication across the markets in the Gulf.

In November 2015, a two-day investors' conference was hosted by Investcorp in Bahrain. The conference, with over 300 investors present from across the six GCC countries, was attended by, among others, His Royal Highness Prince Salman bin Hamad bin Isa Al-Khalifa, the Crown Prince of Bahrain. Investcorp's Executive Chairman, Mohammed Alardhi, unveiled the Company's objectives to double its AUM over the medium term and expand its product set whilst remaining focused on delivering the highest client service levels. The conference also hosted senior management members from various Investcorp portfolio companies who shared information and updates on their businesses and their markets. Investcorp's senior leadership team also gave presentations and chaired panel discussions discussing the Firm's activities from a Middle East, North American and European perspective. Sir John Sawers, the former Chief of MI6, spoke to the audience on 'Order and Disorder in the World'.

In February 2016, Investcorp hosted Omani families and institutional investors at 'Investing in Family Businesses in the Gulf' at the Grand Hyatt Muscat. As well as investment professionals sharing their insights, the conference, attended by over 100 guests, also saw a number of family business executives discuss their experiences of growing alongside a private equity partner. Executive Chairman, Mohammed Alardhi discussed how a strategic partner can bring not only capital but also industry and operational expertise to help accelerate the growth of a family business. Co-CEO, Mohammed Al-Shroogi, spoke about Investcorp in the MENA region and how, as a partner, it can support regional family businesses in the next stages of their development. The event concluded with a panel discussion on the opportunities and challenges facing family businesses, followed by a networking lunch for the guests and speakers. The conference was the first major Investcorp event in Oman in its 34-year history.

Also in February, Investcorp hosted a United Nations Investments Committee ('UNIC') meeting at its Bahrain office. The Chairman of the Board of Investcorp, Nemir Kirdar, is a member of the Committee. The UNIC delegation, His Excellency Amr Moussa, the former Egyptian Foreign Minister and Secretary-General of The Arab League, and Mr. Kirdar were welcomed by both His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa, and His Royal Highness Prince Salman bin Hamad bin Isa Al Khalifa, the Crown Prince of Bahrain. With the leaders, they discussed regional and global developments, the banking and financial sector and how Bahrain can continue on its path to becoming a leading regional financial hub.

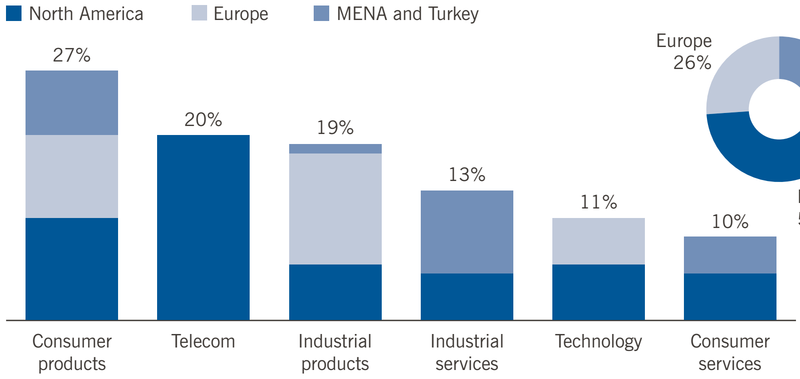
The annual Investcorp Leadership Program was held at the end of March 2016 at Oxford Saïd Business School, Oxford University. The three-day event saw 41 young Gulf business leaders attend an extensive variety of lectures, seminars and interactive classes led by industry-leading experts and Oxford Saïd Business School faculty members.

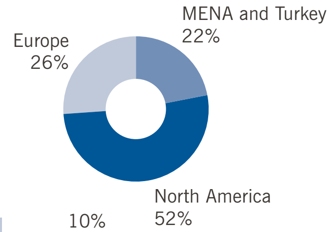
PORTFOLIO PERFORMANCE

CORPORATE INVESTMENT

At June 30, 2016, the carrying value of Investcorp's balance sheet co-investment in CI, excluding strategic investments and underwriting, was $554.3 million (36 companies) compared with $618.3 million at June 30, 2015 (42 companies). This represents 54% of total balance sheet co-investments at June 30, 2016 (FY15: 50% at June 30, 2015). CI underwriting at June 30, 2016 was $167.1 million (FY15: $34.9 million at June 30, 2015).

The corporate investment portfolio is diversified by sector and geography across North America, Europe and the MENA region.





Please refer to the table in Note 9 (A) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2016 and June 30, 2015 carrying values of CI co-investments by region and investment sector.

At June 30, 2016, Investcorp's aggregate CI North America co-investments were $286.4 million with 13 active portfolio companies (FY15: $267.5 million at June 30, 2015 across 16 active portfolio companies). Aggregate CI Europe co-investments were $146.2 million with 9 active portfolio companies (FY15: $278.0 million at June 30, 2015 across 14 portfolio companies). Aggregate CI MENA co-investments were $121.7 million with 14 active portfolio companies (FY15: $72.9 million at June 30, 2015 across 12 active portfolio companies).

For investments in the technology sector, clients participate on a portfolio basis through dedicated technology funds, in which Investcorp is a co-investor, as well as through direct investments on a deal-by-deal basis. Investcorp has raised three technology funds to date.

For CI MENA investments, clients participate on a portfolio basis through a dedicated fund, the Gulf Opportunity Fund I, in which Investcorp is a co-investor, as well as through direct investments on a deal-by-deal basis.

Please refer to the Corporate Investment Portfolio Listing section in this Business Review which describes each of the CI North America, CI Europe and CI MENA portfolio companies. Please refer to the Investments and Realizations section for portfolio company activities during FY16.

On average, Investcorp's direct investments in mid-market companies in the US, Europe and MENA increased their aggregate EBITDA by approximately 9% year-on-year, benefitting from the steady improvement in the overall economic environment as well as from Investcorp's post-acquisition efforts to grow value. Aggregate EBITDA for these companies was approximately $1.4 billion and the average debt across the portfolio is relatively modest at 3.0x aggregate EBITDA.

The add-on investments and realizations in FY16, discussed below, reflect Investcorp's strong post-acquisition focus during its period of ownership.

ADD-ON INVESTMENTS

In October 2015, Investcorp and portfolio company **Dainese**, a global leading brand in the protective gear market for motorcycling and other dynamic sports, acquired **POC Sweden AB**, another global leader in the protective gear market for premium skiing and cycling helmets, apparel and accessories. The transaction was a stepping stone for Dainese to become the world leader in protective gear, transformative to its multi-sports offering and added a meaningful US presence to the business.

In March 2016, portfolio company **TelePacific**, the managed services and business communications solutions provider, announced the acquisition of DSCI, a Waltham, MA-headquartered managed services provider. TelePacific, which currently serves small- and medium-sized businesses in the California, Nevada, and Texas regions, will increase its exposure to the Northeastern portion of the US and improve its unified communications, managed IT and connectivity services through the acquisition. The transaction is currently undergoing regulatory approvals. This acquisition is a significant milestone in TelePacific's successful transformation from a market-leading regional business telecommunications provider to a major player in the rapidly consolidating and evolving managed services universe.

In June 2016, Investcorp and portfolio company **SecureLink**, announced the acquisition of **CoreSec**, one of Scandinavia's largest managed cyber security service providers. As part of its initial investment thesis in SecureLink, Investcorp identified the cyber security market as a fragmented space with attractive acquisition targets for the SecureLink platform. CoreSec increases exposure into the Scandinavian region and the Netherlands. The transaction enables the companies to optimize their service offering to customers and deepen relationships with vendor partners.

REALIZATIONS

Investcorp initially acquired an equity investment in **Autodistribution** in 2006. The deteriorating economic environment in France from early summer 2008 led to a sharp decline in demand in the automotive market, impacting Autodistribution severely and all other stakeholders operating in the market. This resulted in the need for rescue capital and a restructuring of the company's balance sheet. As a result, in March 2009, both TowerBrook Capital and Investcorp invested additional new equity into Autodistribution. TowerBrook became the majority shareholder and Investcorp retained a 16% equity stake. While there was no recovery of value for Investcorp and its clients from the initial equity investment, in May 2009, existing investors were offered participation alongside Investcorp in the additional equity, with the aim of providing an opportunity for existing investors to recover a substantial part of their initial investment. Under the guidance of Investcorp and TowerBrook, Autodistribution has been turned around successfully through a number of organic and inorganic growth initiatives and operational improvements. In October 2015, an agreement was reached to sell Autodistribution to Bain Capital and the transaction was closed in December 2015.

In July 2010, Investcorp acquired **Veritext**. Founded in 1997, Veritext is the leading provider of deposition services and litigation support solutions in the US. After an initial period of strengthening the platform and supplementing the management team, the Company focused on delivering shareholder value through a combination of growth and debt reduction in a softening litigation environment. Since Investcorp named Nancy Josephs as CEO in January 2014, Veritext has been able to accelerate its strategy of driving organic and inorganic growth. Over the period of her tenure, the business grew organically at 2x the industry rate and completed 13 tuck-in acquisitions. In February 2016, Investcorp announced it had completed the sale of Veritext to Pamplona Capital Management.

A stewardship focus is particularly important when a portfolio company faces strong headwinds. This was the case with **N&W Vending SpA** ('N&W'), which was acquired by Investcorp in November 2008 jointly with Barclays Capital. In the months following the closing of the acquisition, as a result of the severe recessionary environment brought on by the financial crisis, N&W's business was affected by a severe market contraction with EBITDA dropping significantly, pushing up leverage multiples. Investcorp injected additional equity in the form of mezzanine debt to support the company and despite a challenging market worked tirelessly with N&W's management team to grow the business, improve profitability and maintain best in industry margins. After seven difficult years of ownership Investcorp signed a definitive agreement in December 2015 to sell N&W to a US investment firm at an enterprise valuation of €690 million.

Investcorp sold **Icopal** in January 2016. Icopal is recognized in Europe as the leader in modified bitumen membranes. Since Investcorp acquiring the company in 2007, Icopal has become a true multi-material provider of roofing and waterproofing solutions and services, with leading expertise in bitumen, synthetics, liquids and metal technologies. During its period of ownership, Investcorp supported Icopal's transformation and growth with several strategic add-on acquisitions and brownfield investments in Western and Eastern Europe, strengthening Icopal's reach and operational capabilities.

Investcorp oversaw an extensive transformation in **GL Education**, a leading provider of educational assessments globally. In the period since acquiring the company in 2012 until its sale in May 2016, Investcorp helped redefine GL Education's market by moving the company from a mainly paper-based product business to a digital, bundled solutions business model and driving international growth across the Middle East and Asia Pacific. Significant organic growth was complemented by a successful acquisition strategy. GL Education acquired the international rights to the Cognitive Abilities Test in 2013, allowing it to expand its most popular assessment series into a global offering. In 2014 it acquired The Test Factory to significantly enhance its digital capabilities and in 2015 it acquired Lucid Research to expand its product offering in the area of special educational needs.

ALTERNATIVE INVESTMENT SOLUTIONS

At June 30, 2016, the balance sheet carrying value of Investcorp's co-investment in AIS solutions was $315.8 million compared with $421.1 million at June 30, 2015. The amount represents 31% of total balance sheet co-investments at June 30, 2016.

Please refer to the table in Note 10 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2016 and June 30, 2015 carrying values.

Exposure Profile

Investcorp has consistently maintained a co-investment in the AIS business, in line with its philosophy of co-investing alongside its clients.

The balance sheet co-investment in AIS consists of investments with managers on the multi-manager solutions platform, seed investments with managers on the hedge funds partnerships platform, alternative risk premia investments and co-investments in special opportunities portfolios.

As of June 30, 2016, Investcorp's balance sheet co-investment in hedge fund partnerships was $111.1 million, compared to $96.7 as of June 30, 2015. This reflects the seeding of two new managers and the redemption from two other managers based on Investcorp's outlook for their specific strategies.

Investcorp allocated an additional $20 million to alternative risk premia investments in August 2015, bringing the total co-investment in this suite of liquid, transparent, and uncorrelated products to $60 million.

Investcorp also has $14.8 million of co-investment exposure (compared to $13.3 million as of June 30, 2015) invested in special opportunities portfolios.

Most of the reduction in Investcorp's balance sheet co-investment relates to discretionary investments with managers on the multi-manager solutions platform, which were reduced to $129.1 million at June 30, 2016 from $271.1 million at June 30, 2015. The decision to significantly reduce discretionary co-investments was taken to remove some of the volatility on asset-based income. The firm continues to focus on managing and growing third party AUM.

Investcorp's AIS exposure is primarily held through customized accounts, similar to the structures created for Investcorp's large institutional clients.

Performance

During FY16, Investcorp's AIS co-investment portfolio delivered returns of -6.2%. During the same period, the industry benchmark, HFRI Fund of Funds Composite Index, returned -5.4%.

The market environment for Investcorp's invested managers has been very challenging during this financial year. The investments with managers on the multi-manager solutions platform can be broken down between a liquid and an illiquid portfolio. The liquid manager portfolio outperformed its respective benchmark but with a negative return of approximately -4.5% over the full fiscal year. In the illiquid portfolio, certain positions performed poorly in FY16 and hence detracted from performance. The managers on the hedge funds partnerships platform underperformed the benchmark. Three managers, in particular, had negative performance in FY16 that was partially offset by a strong performance from Nut Tree Capital, the latest seeded manager. Nut Tree Capital returned +9.3% for the period from February 1, 2016, the seeding date, through June 30, 2016. The alternative risk premia investments generated a positive performance during the fiscal year.

Liquidity

Investcorp's AIS co-investment portfolio is constructed so that a significant portion of it is available for monetization within a three to 12-month window. As of June 30, 2016, approximately 50% of Investcorp's AIS co-investment was contractually available for monetization within a three-month window and 69% was available within a 12-month window.

Strategy Outlook

Strategy	Positive	Moderately Positive	Neutral	Modestly Negative
Hedge Equities				■
Special Situations/Event Driven			■	
Equity Market Neutral	■			
Macro Discretionary		■		
Macro Systematic		■		
Fixed Income Relative Value	■			
Corporate Credit			■	
Corporate Distressed			■	
Structured Credit			■	
Convertible Arbitrage		■		
Volatility Arbitrage	■			

Investcorp has a 'moderately negative' rating on **Hedge Equities**, reflecting Investcorp's more defensive stance at current market valuations and given the ongoing challenges faced by the global economy.

Investcorp is 'neutral' on **Event-Driven** strategies, reflecting Investcorp's bifurcated view of merger arbitrage and special situations.

Investcorp is 'positive' on **Equity Market Neutral** strategies. Statistical arbitrage in particular could do well, with many alpha streams available thanks to the predictable re-balancing of systematic strategies, including ETFs or volatility-targeting vehicles.

Investcorp is 'positive' on the opportunity set available to **Global Macro** and **Fixed Income Relative Value** strategies. These strategies should be able to better navigate the current environment, both through liquidity provision trades and short- to medium-term momentum exposure.

Investcorp is ‘neutral’ on **Credit** strategies, including distressed debt, reflecting the retracement seen across credit spreads in this strategy. In corporate credit, Investcorp analysis suggests that the recent rebound in alpha should likely level off with many dislocations having resolved themselves. In contrast, Investcorp found that structured credit has somewhat lagged the recent recovery and may offer better value at current levels than corporate credit. Investcorp believes that Collateralized Loan Obligations continue to offer the best value in the securitized credit universe.

Alternative Risk Premia

Asset Class	Strategy	Positive	Moderately Positive	Neutral	Modestly Negative	Negative
Equities	Low Beta		■			
	Momentum	■				
	Quality			■		
	Value		■			
Fixed Income	Carry			■		
	Momentum					■
Commodities	Carry			■		
	Momentum		■			
FX	Carry			■		
	Momentum			■		

Equity

After greater research into the flows and positioning dynamics of Low Beta, Investcorp maintains a somewhat positive view towards the strategy. This factor has been the recipient of large investment flows over the past months, naturally raising over-crowding concerns. Despite this, Investcorp believes the momentum in investment flows is likely to persist and the nature of holders suggest less risk of a sharp and violent crash.

Investcorp has upgraded its view on Equity Momentum to positive thanks to stronger signals from Investcorp’s models on macro fundamentals. The global economy is consolidating into an inflationary regime. This environment has historically been conducive to equity momentum performance. Issues surrounding greater overlap across defensive factors and momentum are addressed at the portfolio level.

Investcorp has downgraded Equity Quality to neutral. This reflects lower tailwinds from flows. The strategy is ranked first in the list of crowded trades according to one sell-side survey. In addition, hedge funds, including event driven managers, have largely closed their short exposure to the factor.

Investcorp maintains a positive view on Equity Value. The strategy offers strong diversification benefits in the context of cash equity alternative beta factors. It brings some pro-cyclical exposure with sensitivity to interest rates through financials and commodities through the energy and basic material sectors.

Fixed Income

Investcorp has downgraded its view on Fixed Income Carry as carry metrics in the strategy have deteriorated. Interest rates across G7 countries have converged rapidly thanks to ‘Brexit’ and expectations of a shallower path of rate hikes by the Fed.

Investcorp remains negative on Fixed Income Momentum. The strategy remains largely long fixed income across countries and tenors. The strategy’s carry, which had been a major performance driver in recent years, is less attractive and negative yields present a very asymmetric investment proposition.

Commodity

Investcorp is neutral on Commodity Carry. Seasonally, the summer months and associated weather can be more volatile and riskier for carry strategies in general.

Investcorp maintains a modestly positive outlook for Commodity Momentum. The asset class continues to offer an attractive breadth of signals.

FX

Investcorp is neutral on FX Carry and remains confident in the strategy's outlook, even though recent performance suggests a meaningful share of investors' under-allocation to carry has been closed. Investcorp's skew model also turned less positive.

Investcorp is neutral on FX Momentum, with a focus on emerging markets models. The strategy benefits from a wide breadth and a strong carry given its current positioning.

REAL ESTATE INVESTMENT

At June 30, 2016, Investcorp's RE balance sheet co-investments excluding underwriting totaled $104.4 million compared with $142.9 million at June 30, 2015. The amount represents 10% of total balance sheet co-investments at June 30, 2016.

Please refer to the table in Note 11 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2016 and June 30, 2015 carrying values by portfolio type. For details on RE underwriting, please refer to the table in Note 8 of the Consolidated Financial Statements of Investcorp Bank B.S.C.

RE co-investments were comprised of $94.1 million of marked-to-market equity investments and $10.3 million of debt investments held at net amortized cost inclusive of any provisions for impairment.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect a significant reduction in value for legacy pre-2009 investments, due to the write down this fiscal year, as well as the impact of exits and new acquisitions and placements during the period.

Investcorp currently has 28 active real estate investment portfolios, including its two debt funds. As at June 30, 2016, 12 properties had been acquired and were being warehoused for formation into new portfolios to be offered to clients in FY17. At June 30, 2016, 22 of these portfolios were on or ahead of plan. The remaining 6, which are pre-2009 portfolios that have been written down significantly in value already and are rated behind plan, are generally those holding hotel, condominium developments and offices in regions where the economic environment has been generally subdued. Overall, the strategy for these portfolios is to position them for medium- to long-term ownership in stable capital structures with modest or no additional capital investment.

Investcorp targets existing office, retail, industrial, multifamily, student housing facilities and hospitality properties located in the 30 largest US metropolitan areas. The emphasis is on properties in proven locations with some opportunity for value enhancement over the investment term. Acquisitions are targeted that have strong cash flows, a proven operating history and high initial occupancy. While the majority of investments are in the form of common equity, they may also be structured as preferred equity and high-yield mortgage and mezzanine debt.

Post-acquisition, Investcorp actively manages its real estate investments with a dedicated team of asset managers and real estate financial controls specialists. Local knowledge is essential in any real estate investment. Investcorp's real estate team employs the skills of regional and national associates who may also have minority co-investments in each property. Investcorp builds value in its portfolio through hands-on expense management, revenue enhancement, modest capital improvement and/or property repositioning and creative capital structuring.

Investcorp currently has two funds which have invested in commercial real estate debt. The $176 million Investcorp Real Estate Credit Fund I, created in FY08, and the $100 million Investcorp Real Estate Credit Fund III, created in FY13 are both fully invested.

Investcorp co-investment by year ($m)	Properties # vs. current*	Sector	Geographic location	Carrying value end of Jun-16	Jun-15
Retail III	8/8	Retail	MW		
Retail IV	29/0				
Vintage FY06				**0.0**	2.5
Diversified VI	3/1	Retail	SE		
Diversified VII	4/1	Industrial	E		
Hotel	9/4	Hotel	SE/SW/MW		
Vintage FY07				**10.9**	15.1
Gallivant – Times Square**	1/1	Hotel	E		
Diversified VIII	5/1	Hotel	MW		
Weststate	1/1	Opportunistic	W		
Vintage FY08				**21.2**	41.8
Commercial VI	3/2	Retail/Office	E/SW		
Diversified IX	2/0				
Vintage FY11				**4.9**	14.0
Diversified X	3/1	Office	W		
Southland & Arundel Mill Mezz	n.a.***	Retail/Hotel	SE/E		
Vintage FY12				**0.5**	0.6
2012 Office	4/4	Office	SW/E		
Texas Apartment II	5 / 0				
2013 Office	16/16	Office	SW/MW		
2013 Office II	5/5	Office	SE/W/SW		
Vintage FY13				**4.1**	4.6
2013 US Residential	6/3	Residential	SW/W		
2013 US Commercial/2014 Office	9/9	Office/Retail/Medical	W/MW/E		
Southeast Multifamily	4/2	Residential	SE		
2014 Diversified	4/4	Office/Retail/Residential	SW/SE		
Houston Multifamily	3/3	Residential	SW		
Vintage FY14				**17.3**	18.7
Canal Center	4/4	Office	E		
2014 Office and Industrial	24/24	Office/Industrial	E/SE/W		
2015 Residential Portfolio	4/4	Residential	SE/W/E		
Atlanta Multifamily Portfolio	2/2	Residential	SE		
Vintage FY15				**8.0**	7.6
2015 Residential II Portfolio	8/8	Residential	W/MW/SW/SE		
2015 Office & Industrial Portfolio	79/79	Office/Industrial	SE/W/E		
Boca Raton & Minneapolis Residential	5/5	Residential	SE/MW		
733 Tenth Street	1/1	Office	E		
Vintage FY16				**9.7**	0.3
Others				**19.0**	37.6
Sub-total	251/193			**95.7**	142.9
2016 Commercial Portfolio	5/5	Office	W		
2016 Residential Portfolio	6/6	Residential	SW/MW/E		
901 Fifth Street	1/1	Office	W		
New portfolios under construction	12/12			**8.8**	N.A.
Total including new portfolio under construction	263/205			**104.4**	142.9

* Portfolios which have been realized in this current reporting period, reflecting a current property count of 0 (zero), are retained in this chart as they contribute to the carrying value of the previous period.

** Previously known as Tryp by Wyndham. Includes support funding made after the initial acquisition date.

*** Mezzanine investments.

W=West, E=East, SW =Southwest, SE=Southeast, MW=Midwest

CORPORATE INVESTMENT PORTFOLIO LISTING

As of June 30, 2016, Investcorp's aggregate balance sheet co-investment was $554 million across 37[1] companies. The below sections provide an overview of these portfolio companies.

CI NORTH AMERICA

As of June 30, 2016, Investcorp's aggregate balance sheet co-investment in North America was $286 million across 13 companies.

Portfolio Company Name	Acquired	Industry Sector	Headquarters
The Wrench Group	**March 2016**	**Consumer services – business services**	**Georgia, US**

Wrench is a provider of home equipment and replacement services: heating, ventilation and air conditioning ('HVAC'), plumbing, water quality, electrical and home automation. The company provides services to residential customers across four of the fastest-growing metropolitan areas in the United States (Atlanta, Georgia; Dallas, Texas; Houston, Texas; and Phoenix, Arizona).

www.wrenchgroup.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Nobel Learning Communities	**January 2015**	**Consumer services – business services**	**Pennsylvania, US**

Founded in 1984, Nobel Learning operates a network of schools for private education in the US, from preschool through high school, with a commitment to outstanding education. The company also has an accredited online private school that offers college preparatory programs to students from countries worldwide. Nobel Learning is one of the largest private education operators in the US.

www.nobellearning.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
PRO Unlimited	**October 2014**	**Industrial services – business services**	**Florida, US**

Founded in 1991, PRO Unlimited delivers a full range of services to address procurement, management and compliance issues related to contingent workers, including independent contractors, consultants, temporary workers and freelancers. PRO Unlimited operates in over 50 countries and provides services to some of the world's largest and most prestigious companies through its integrated, vendor-neutral software and services platform.

www.prounlimited.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
totes»ISOTONER	**April 2014**	**Consumer products – specialty retail**	**Ohio, US**

Founded in 1923 and headquartered in Cincinnati, Ohio, totes»ISOTONER is the world's leading designer, marketer and distributor of functional accessories in the rain, cold weather and footwear categories. The company's broad product portfolio includes umbrellas, gloves, hats, slippers and sandals. In 1997, Totes and ISOTONER merged to form the totes»ISOTONER Corporation. The company offers quality products from two of the most recognized apparel brand names in the US and has a growing international presence in Europe and Asia.

www.totes-isotoner.com

1 Dainese and POC counted as one company; SecureLink and Coresec counted as one company.

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Paper Source	**September 2013**	**Consumer products – specialty retail**	**Illinois, US**

PAPER SOURCE
DO SOMETHING CREATIVE EVERY DAY

Paper Source is a multi-channel retailer offering a premium selection of uniquely designed and curated gifts, stationery and crafting supplies. The company operates 109 stores, which average 2,800 square feet of selling space. The company goes to market through retail stores, direct-to-consumer and wholesale channels. Paper Source offers over 8,300 Stock Keeping Units ('SKUs') across five main categories: gifts and toys, stationery, crafting, fine paper and gift wrap, and single greeting cards.

www.paper-source.com

Optiv Security	November 2012*	Technology – IT services	Colorado, US

OPTIV

Optiv Security ('Optiv') is the largest holistic pure-play cyber security solutions provider in North America focusing exclusively on providing 'best-of-breed' IT Security solutions and services. Optiv has served more than 12,000 clients of various sizes across multiple industries, offering an extensive geographic footprint, and has premium partnerships with more than 300 of the leading security product manufacturers.

Optiv was created in 2015 as a result of a merger between FishNet Security (an Investcorp portfolio company) ('FishNet') and Accuvant.

*Original investment in FishNet.

www.optiv.com

Sur La Table	July 2011	Consumer products – specialty retail	Washington, US

Sur la table
THE ART & SOUL OF COOKING

Sur La Table is a specialty retailer of culinary merchandise and a leading provider of non-degree culinary courses in North America. Offering a broad selection of the best culinary brands and an assortment of innovative kitchenware products, Sur La Table currently operates 127 stores across the US with a widely distributed catalog and a premium online platform. The company provides items for cooking and entertaining and has a knowledgeable staff that provides high level service in its stores. Since acquisition, Sur La Table has almost doubled the number of cooking class locations, serving well over 100,000 customers annually. Sur La Table has built a multi-channel business in which each channel is profitable on a standalone basis.

www.surlatable.com

Wazee Digital	March 2011	Technology – digital content	Colorado, US

WAZEE
DIGITAL

Wazee Digital (formerly T3 Media) is a leading provider of cloud-based video management services to premium video content rights holders. The company operates through two primary lines of business, Licensing and Platform Services. In the Licensing business, Wazee Digital represents major video content rights owners and employs an active sales force to license footage in exchange for a percentage of the royalty payments received. In the Platform Services business, Wazee Digital ingests, digitizes and hosts video content on behalf of content rights owners. Wazee Digital provides content rights owners with virtual access and distribution capabilities in exchange for an annual subscription fee. The two business lines are complementary with many customers utilizing both offerings.

www.wazeedigital.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
OpSec Security Group	**March 2010**	**Technology – enterprise software**	**Colorado, US**

OpSec Security Group is the global leader in providing anti-counterfeiting technologies, as well as solutions and services for physical and online brand protection, to over 300 brand owners and over 50 governments worldwide. The company operates manufacturing facilities and laboratories in the US and the UK, and has sales operations in the Americas, Europe and Asia.

www.opsecsecurity.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Randall-Reilly	**February 2008**	**Industrial services – business services**	**Alabama, US**

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the US. Its products include B2B trade publications, live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates ('EDA') business is an industry-leading collector and aggregator of industrial equipment purchase data that provides subscription-based sales lead generation and market intelligence products to the industrial equipment markets.

www.randallreilly.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
kgb	**April 2006**	**Technology – enterprise software**	**New York, US**

kgb (formerly InfoNXX) is the world's largest independent provider of directory assistance and enhanced information services. kgb delivers solutions to wireless and landline carriers, corporations and educational institutions in North America, handling the majority of the '411' calls in the US that are delivered through a mobile phone. Furthermore, in the UK, kgb's 'The Number' 118 has become Britain's leading directory assistance service for consumers and businesses. The company also has operations in France, Germany, Ireland, Switzerland, Austria and Italy.

www.kgb.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Polyconcept	**June 2005**	**Industrial products**	**Pennsylvania, US**

Polyconcept is the world's largest supplier of promotional products, created by the combination of Polyconcept, Europe's leading generalist supplier of wearable and non-wearable promotional products, and Global Promo Group Inc., the number two non-wearable promotional product supplier in the US. In April 2011, Polyconcept North America acquired Trimark Sportswear Group, a leading Canadian apparel supplier, marking the fourth acquisition since the acquisition of Polyconcept in 2005 and its first move into the promotional apparel category. With the addition of Trimark, Polyconcept became Canada's largest supplier of both apparel and hard promotional goods under four industry leading brands (Leed's, Bullet Line, JournalBooks, and Trimark).

A definitive agreement was signed in July 2016 to sell Polyconcept to Charlesbank Capital Partners. The sale is subject to regulatory approvals and is expected to close in H1 FY17.

www.polyconcept.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
TelePacific	**April 2000**	**Telecom**	**California, US**

TelePacific is a leading provider of network and communications services headquartered in Los Angeles. In business since 1998, the Company provides services on TelePacific owned switches and network infrastructure, including local and long distance voice, dedicated internet access, private networking, and data transport services as well as bundled voice and internet solutions. Since its acquisition of TelWest, the company has continued its growth plan for the Texas business through implementation of its product suite and operating practices.

In March, TelePacific signed a purchase agreement to acquire DSCI, a hosted communications provider in the United States, subject to regulatory approval. The transaction will result in TelePacific having more than 50% of its business in the fast-growing managed services segment and a complete set of products.

www.telepacific.com

CI EUROPE

As of June 30, 2016, Investcorp's aggregate balance sheet co-investment in Europe was $144 million across 11[1] companies.

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Coresec	**June 2016**	**Technology – IT security services**	**Malmö, Sweden**

Established in 2003, Coresec offers integrated cyber security solutions and managed services to corporates and institutions. Acquired by Investcorp together with SecureLink in June 2016, Coresec's security experts provide relevant security advice and hands-on assistance to its diverse client base across Scandinavia and the Netherlands. Coresec employs more than 250 employees across seven offices and multiple 24/7 manned Network & Security Operation Centres.

www.coresecsystems.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Corneliani	**June 2016**	**Consumer products – specialty retail**	**Mantova, Italy**

Founded in 1958, Corneliani is a luxury clothing brand. Best known for its men's suits and chic casualwear, it is one of the oldest independent Italian luxury brands. Corneliani employs approximately 1,100 people and benefits from a global sales presence in 68 countries through 10 directly operated stores, approximately 850 multi-brand stores, more than 75 franchise stores and 50 store-in-stores, including Harrods, Harvey Nichols, Saks Fifth Avenue and Bloomingdale's.

www.corneliani.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
SecureLink	**December 2015**	**Technology – IT security services**	**Wommelgem, Belgium Sliedrecht, Netherlands**

Founded in 2003, SecureLink is a leading cyber security infrastructure and managed services provider, offering integrated security solutions for corporates and institutions in the upper mid-market. The Company provides advanced security solutions as well as managed security services ('MSS'), helping its customers to handle complex security challenges and requirements, mitigating risk exposure and delivering a reliable, secure infrastructure that offers peace of mind to customers.

www.securelink.be/www.securelink.nl

Portfolio Company Name	Acquired	Industry Sector	Headquarters
POC	**October 2015**	**Consumer products**	**Stockholm, Sweden**

Established in 2004, POC is the leading manufacturer of premium skiing and cycling helmets, apparel and accessories. Acquired by Dainese in October 2015, POC, like Dainese, is a pioneer in innovative safety concepts for sportswear to provide athletes and consumers with the highest standard of personal protection. POC's line of products includes helmets, body armor, goggles, eyewear, gloves and gear, which are currently sold across 27 countries worldwide. Through technical collaboration with partners such as Volvo and Ericsson, POC is pioneering innovative safety concepts.

www.pocsports.com

1 Dainese and POC counted as one company: SecureLink and Coresec counted as one company.

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Dainese	**December 2014**	**Consumer products**	**Vicenza, Italy**

Founded in 1972, Dainese is the most recognized and respected brand for safety and quality in the motorcycle and other dynamic sports market. Originally known for its competitive motorcycling racing wear, Dainese has subsequently diversified its product range and today provides protective gear for road and racing use alike, as well as for use in winter sports, biking and horse riding. In addition, through the AGV brand name, Dainese is one of the leading protective helmet manufacturers for the motorcycle market. Through its Dainese Technology Centre ('D-Tec'), an R&D technical center for the study of protective technology and the development of innovative products, the Company strives to ensure it remains at the forefront of innovation.

www.dainese.com

SPGPrints	**June 2014**	**Industrial products**	**Boxmeer, The Netherlands**

Based in Holland, SPGPrints is a leading global manufacturer of consumables for printed textiles and labels. The product offering primarily consists of consumables used in the printing process (rotary screens, lacquers, digital inks and digital engraving) complemented by a full range of printing systems/equipment and after sales spare-parts, installation and maintenance services. SPGPrints is represented in more than 100 countries worldwide and commands a leading market position in each of its segments.

www.spgprints.com

Tyrrells	**August 2013**	**Consumer products – retail**	**Herefordshire, UK**

Founded in 2002, Tyrrells has established itself as a leading crisps brand in the UK. The company offers high quality products and a distinctive brand, quintessentially English and entertaining, distinguishing it from the competition. Through continued innovation, new product launches, strong penetration of the retail channel and geographic expansion, Tyrrells has achieved market leading positions in the UK but also has expanded internationally through acquisitions in Australia and recently with Lisa's Crisps in Germany as well as organic expansions in France, Germany, the Netherlands, Switzerland and the US. Moreover, Tyrrells is one of the very few large scale European producers of vegetable crisps. The key drivers of growth and resilience of the premium hand-cooked crisps market are convenience, 'premiumization' and health consciousness.

In August 2016, Investcorp signed a definitive agreement to sell Tyrrells to Amplify Snacks. The sale is subject to regulatory approval and is expected to close in H1 FY17.

www.tyrrellscrisps.co.uk

Georg Jensen	**November 2012**	**Consumer products – specialty retail**	**Copenhagen, Denmark**

Georg Jensen designs, manufactures and distributes luxury products ranging from high-end silverware to jewelry, watches and high-end homeware. The company, headquartered in Copenhagen, Denmark, and founded in 1904, has expanded internationally and now derives the majority of its revenue outside of Scandinavia. With a history that spans more than 110 years, the Georg Jensen brand has a deep heritage in silversmithing and represents quality craftsmanship and timeless designs. The brand is also endorsed by the Queen of Denmark.

www.georgjensen.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Esmalglass	**July 2012**	**Industrial products**	**Villarreal, Spain**

Esmalglass Itaca ('Esmalglass') is one of the leading global producers serving the global ceramics intermediate products industry. Established in 1978 in Villarreal, Spain, Esmalglass produces ceramic glazes, ceramic colors and inkjet inks (an innovative and rapidly growing technology to decorate tile surfaces). The company has a strong market position in all segments of its target markets and services more than 1,000 customers in 50 countries worldwide. The company generates more than half of its sales from emerging market economies including Brazil, the Middle East and China. Its global activities are supported by four manufacturing plants in Spain, Vietnam and Brazil and mixing plants in Portugal, Italy, Russia and Indonesia.

www.esmalglass-itaca.com

eviivo	**March 2011**	**Technology – enterprise software**	**London, UK**

eviivo is the UK's leading software provider for small and medium-sized accommodation businesses to manage their online and offline bookings, allocate rooms, and allow for flexible pricing, and invoicing and processing payments. The company partners with approximately 6,000 independent businesses in the UK and the Mediterranean region (France, Italy, Spain, Greece, Tunisia and Turkey), and includes B&Bs, guest accommodations, inns, farmhouses, cottages, restaurants with rooms and smaller boutique hotels.

www.eviivo.com

CEME	**July 2008**	**Industrial products**	**Milan, Italy**

CEME is a leading manufacturer of fluid control components for consumer applications such as espresso machines and steam ironing systems. CEME's product range includes solenoid pumps and valves, as well as electromechanical pumps for a broad range of industrial applications. The company's primary client base consists of well-established western European manufacturers including Nespresso, Saeco, De'Longhi, Philips and SEB. At the same time, CEME is diversifying its customer base by focusing on developing its distribution network in China and the Far East. CEME products are the global industry 'reference' in coffee machines (solenoid pumps) and steam ironing systems (solenoid valves).

www.ceme.com

CI MENA

As of June 30, 2016, Investcorp's aggregate balance sheet co-investment in MENA was $124 million across 13 companies.

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Bindawood Holding	**December 2015**	**Consumer products – grocery retail**	**Jeddah, Saudi Arabia**

Established in 1984, with 30 years of operations and a network of 40 stores across Saudi Arabia, the Bindawood group is one of the largest chains of supermarkets and hypermarkets in Saudi Arabia. The company is predominately focused in the Western regions of Jeddah, Makkah and Madinah, with a growing presence in the Central and Eastern regions.

www.bindawood.com/www.danubeco.com

NDTCCS	**July 2015**	**Industrial services**	**Dammam, Saudi Arabia**

Established in 1975, NDT Corrosion Control Services Co. LLC ('NDTCCS') is the largest non-destructive testing ('NDT') service provider in Saudi Arabia employing over 770 technicians in Saudi Arabia and the UAE. NDT is an essential service which involves the evaluation and testing of pipes, pressure vessels, oil platforms and other key industrial components to identify faults, cracks or defects without causing damage. NDTCCS provides conventional and advanced NDT services for a range of industrial sectors including oil and gas, petrochemicals, mining, nuclear and utilities.

www.ndtcorrosion.com

Arvento	**March 2015**	**Technology – infrastructure and others**	**Istanbul, Turkey**

Established in 2005, Arvento Mobile Systems ('Arvento') is a provider of telematics solutions, delivered as a software-as-a-service, which provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage and other insights into their mobile workforce, enabling them to reduce their operating costs and increase their revenues. The company designs, develops and sells its own range of hardware products and software applications. The business has established itself as the market leader in Turkey as well as one of the leading players in the Kingdom of Saudi Arabia and the UAE. It is a multiple award winner for its technology and its rapid growth. According to independent research published by ABI Research, Arvento is recognized as the world's fifth biggest telematics business.

www.arvento.com

Namet	**December 2013**	**Consumer products**	**Istanbul, Turkey**

Established in 1998 and acquired in 2005 by the Kayar family, Namet Gida Sanayi ve Ticaret A.S. ('Namet') is the largest integrated producer of fresh cut and packaged processed red meat products in Turkey. The company operates two farms in Urfa and Samsun with 30,000 livestock capacity supplying nearly 30% of the company's production needs; an important competitive advantage in quality and inventory management. The company processes and sells unpacked and packed fresh cut meat (e.g. cut, diced and minced meat), delicatessen products (e.g. sujuk, pastrami, salami, sausages), frozen products (e.g. burger patties) and further processed products (e.g. meatballs, burgers, doner/shawarma and other marinated products). Products are sold under the Namet and Maret (acquired in September 2014) brands or as private label products to the retail and B2B (hotels/restaurants/catering) channels.

www.namet.com.tr

Portfolio Company Name	Acquired	Industry Sector	Headquarters
AYTB	**October 2013**	**Industrial services**	**Jubail, Saudi Arabia**

AYTB Al Yusr Industrial Contracting Company W.L.L. ('AYTB') was founded in 1979 in Jubail and over its 36 year history has made a significant contribution to the industrial growth of Saudi Arabia. The company supports the petrochemical and oil and gas sectors and supplies technical and logistical support, in addition to maintenance, construction, industrial cleaning as well as facility management, catering and accommodation services. AYTB's clients include many of the region's leading petrochemical and oil and gas companies, including SABIC and Saudi Aramco. The company employs over 6,000 people across its operations in Saudi Arabia and Qatar.

www.aytb.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Leejam	**July 2013**	**Consumer services**	**Riyadh, Saudi Arabia**

Leejam is the leading fitness chain operator in Saudi Arabia, operating under the 'Fitness Time' brand. Established in 2007 and headquartered in Riyadh, Leejam operates over 96 fitness clubs and has over 160,000 active members. Employing over 2,700 personnel, Leejam offers fitness clubs across three main segments targeting affluent (Fitness Time Plus), regular (Fitness Time) and budget (Fitness Time Pro) customers. The company offers a wide range of facilities, including cardiovascular and weight training activities, in addition to swimming pools, and sports facilities catering for football, basketball, volleyball, tennis, squash and billiards, positioning Fitness Time as a 'social club' rather than simply a 'fitness gym'.

www.fitnesstime.com.sa

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Theeb Rent a Car Co.	**June 2013**	**Consumer services**	**Riyadh, Saudi Arabia**

Theeb Rent a Car Co. ('Theeb') is the leading car rental company in Saudi Arabia primarily serving the 'individual' customer segment with short-term rental services. Established in 1991 and headquartered in Riyadh, Theeb operates a fleet size of over 15,000 vehicles with a wide network of 49 branches, including 15 at international and regional airports across Saudi Arabia. Over the years Theeb has built a strong local brand and membership program with over 130,000 members.

www.theeb.com.sa

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Hydrasun	**March 2013**	**Industrial services**	**Aberdeen, Scotland**

Founded in 1976 in Aberdeen, Scotland, Hydrasun Group Holdings Ltd. ('Hydrasun') has international operational bases in the UK, the Middle East, the Netherlands, the Caspian Sea, West Africa and the Gulf Coast of the US. Hydrasun is engaged in the integration, manufacture and testing of hydraulic equipment and fluid connectors for the offshore oil and gas sector. Its products and services are mainly used across the offshore oil and gas sector with further application in the petrochemical sector. The company employs around 475 personnel and has state-of-the-art engineering, production, manufacturing, training and warehousing facilities. Clients include British Petroleum, Emerson Group, General Electric and Hyundai.

www.hydrasun.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Automak	**October 2012**	**Industrial services**	**Kuwait**

Founded in 2002 by Al Kharafi Projects Co. W.L.L. and Mr. Ghazi Omar, Automak Automotive Company ('Automak') is one of the few major players in the vehicles rental and fleet leasing business in Kuwait. Automak operates a fleet of in excess of 7,800 vehicles leased on a long-term basis (24-36 months) primarily to key companies in the oil, public and corporate sectors in Kuwait and on a short-term basis in the spot rental market. Automak also provides a wide spectrum of services and products including quick service and distribution of spare parts, tires and lube oil.

www.automak.com

Orka	**September 2012**	**Consumer products – specialty retail**	**Istanbul, Turkey**

ORKA Holding ('Orka') is one of the largest menswear retailers in Turkey with 175 directly operated stores (157 in Turkey & 18 around the world). Founded in 1986 by Süleyman Orakçıoglu, Orka has become a respected provider of menswear in Turkey and in the region through its brands Damat, Tween and D'S Damat. All three of the Orka brands operate in menswear, presenting a sophisticated fit range – suited to a broad customer base. The strength of each brand lies in its ability to meet the needs of its particular market, with differences in their offerings. Orka targets the Classic/High End segment with the Damat brand as well as the contemporary/mid to high-end segment with the Tween brand. Orka also has a more affordable brand (D'S Damat) targeting the Classic and Contemporary mid Segment. Damat is the #1 apparel brand in Turkey with an estimated 97% brand awareness.

www.orkagroup.com

Tiryaki	**September 2010**	**Consumer products – trading and logistics**	**Istanbul, Turkey**

Tiryaki Agro ('Tiryaki') is the leading trader and supply chain manager of agro commodities in Turkey. Founded in Gaziantep, Turkey, in 1965 by the Tiryakioglu family, the company has expanded over two generations to become one of the most successful family businesses in Turkey with sales operations across the globe. Tiryaki's business is in the sourcing, processing, storage and trading of conventional and organic grains (wheat, corn and barley), pulses (lentils, chickpeas, peas, beans, rice and bulgur), oil seeds (sunflower, sesame, canola and soybean), feed stuff and nuts (pistachios, almonds, walnuts and peanuts) across Europe, Africa, the Middle East, the CIS, America and Asia. The company has a team of approximately 625 professionals, has processing and storage facilities in Turkey and serves a broad customer base including food processors, retailers, governmental agencies and other agro wholesalers.

www.tiryaki.net

Portfolio Company Name	Acquired	Industry Sector	Headquarters
Gulf Cryo	**November 2009**	**Industrial products**	**Kuwait and UAE**

Established in 1953, Gulf Cryo is a leading manufacturer, distributor and service provider of industrial gases in the Middle East. Gulf Cryo manufactures industrial, medical and specialty gases for a wide range of industries and applications such as metal fabrication, welding, cutting, oil and gas, healthcare, and food and beverage. Gases include oxygen, nitrogen, argon, and CO2, and are delivered by pipeline, in bulk or in cylinders. Gulf Cryo is dual-headquartered in the UAE and Kuwait with operations in Kuwait, the UAE, Saudi Arabia, Qatar, Oman, Jordan, Egypt, Turkey and Iraq.

www.gulfcryo.com

Portfolio Company Name	Acquired	Industry Sector	Headquarters
L'azurde	**March 2009**	**Consumer products**	**Riyadh, Saudi Arabia**

L'azurde is a family owned business established in 1980 in Saudi Arabia and currently has two large state-of-the-art industrial plants in Riyadh and Cairo. L'azurde is the Arab world's leading designer, manufacturer and distributor of gold jewelry for the premium mass market, and one of the largest gold jewelry manufacturers globally. The company has high quality products and designs, a diversified regional distribution network, strong manufacturing capabilities, and significant economies of scale advantages with approximately 1,000 wholesale relationships that span the MENA region. The MENA region is one of the largest jewelry markets in the world, in part due to a strong cultural attraction to gold jewelry.

In June 2016, L'azurde successfully priced its IPO on the Saudi Stock Exchange (Tawadul) at SR37 per share. Investcorp, through its Gulf Opportunity Fund I, will continue to retain a 38.85% stake in the company and representatives of the Investcorp Gulf Opportunity Fund I will remain on the Board.

www.lazurde.com

OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

Investcorp Bank B.S.C. ('Investcorp Bank') is domiciled in Bahrain as a wholesale bank, under the regulatory oversight of the Central Bank of Bahrain ('CBB'), with shares listed on the Bahrain Bourse. Within the Investcorp Group of companies, Investcorp Bank is the principal parent entity and owns a 100% economic interest in Investcorp Holdings Limited ('IHL'), its Cayman Islands-based subsidiary. In turn, IHL has two subsidiaries, the principal subsidiary being Investcorp S.A. ('ISA'), domiciled in the Cayman Islands as a holding company. The significant subsidiaries of Investcorp Bank are discussed in Note 1 (iv) to the consolidated financial statements of Investcorp Bank. Investcorp Bank and its consolidated subsidiaries are referred to interchangeably as 'Investcorp' and the 'Investcorp Group'.

OWNERSHIP STRUCTURE

Overview

Investcorp Bank's ownership and subsidiary structure is designed to ensure that:

- the interests of Investcorp Bank's strategic shareholder group, comprised of Investcorp Bank directors, prominent Gulf individuals and institutional shareholders, together with public shareholders, are closely aligned with those of management; and
- Investcorp Bank effectively operates as a management controlled entity.

Substantially all of the Investcorp Group's assets and operations are owned and controlled by ISA. As a result, substantially all of the Investcorp Group's commercial risks are held outside of the Middle East.

Shareholding structure

The shareholding structure of Investcorp Bank is outlined in Note 1 (iii) to the consolidated financial statements of Investcorp Bank. At June 30, 2016, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 40.3% of the Ordinary Shares of Investcorp Bank which are tradable on the Bahrain Bourse and are held predominantly by Gulf-based nationals and institutions, including a stake of 9.99% held by Konoz Securities Company SPC and a stake of 9.99% held indirectly by Mubadala Development Company PJSC. International shareholders hold 0.7% of the Ordinary Shares, represented by unlisted Global Depositary Receipts. SIPCO Limited ('SIPCO') directly and indirectly owns 21.7% of Investcorp Bank's ordinary shares.

The 21.7% of Investcorp Bank's ordinary shares owned directly and indirectly by SIPCO represents:

- management and other current and former Investcorp Group employees' (105 current and former employees in the aggregate) ownership of beneficial interests in 14.1% of Investcorp Bank's Ordinary Shares through Investcorp Employee Share Ownership Plans (each such plan an 'ISOP'), which includes 4.2% acquired but unvested shares under an ISOP;
- treasury shares, amounting to 0.8% of Investcorp Bank's Ordinary Shares that are held for potential grant pursuant to an ISOP; and
- treasury shares, amounting to 6.8% of Investcorp Bank's Ordinary Shares, available for future sale to strategic shareholders or for Investcorp Group employees to acquire beneficial interests in Investcorp Bank's Ordinary Shares through an ISOP.

The ownership of beneficial interests in Investcorp Bank by management and other employees is implemented through the ISOPs. The ISOPs are deferred remuneration programs pursuant to which management and other employees buy their allocated beneficial interests in Investcorp Bank utilizing variable (incentive) remuneration. These plans are intended to promote stakeholder alignment, encouraging management to focus on long-term value creation and prudent control of balance sheet risks. Investcorp Bank has approval from the CBB to hold up to 40% of Investcorp Bank's Ordinary Shares for the ISOPs.

Cayman Islands country risk/Control of the Investcorp Group: creditor protection mechanisms

As at June 30, 2016, assets comprising 98.0% of the book value of the Investcorp Group's consolidated assets were owned directly or indirectly by ISA, which is wholly-owned by IHL.

In order to separate voting control from economic ownership, IHL has issued both voting shares and non-voting shares. As at June 30, 2016, Investcorp Bank holds 21.0% of the voting shares of IHL (through its ownership of IHL Series A Preference Shares) and it holds 100% of the non-voting shares of IHL (through its ownership of IHL Series B Preference Shares). The IHL Series A Preference Shares owned by Investcorp Bank give it 100% of the economic ownership of IHL and, therefore, 100% ownership of the 98.0% of the book value of the Investcorp Group's consolidated assets owned directly or indirectly by ISA.

Under the Articles of Association of IHL, in the event of an adverse change in the business or political climate in Bahrain that is reasonably likely to materially impair Investcorp Bank's ability to perform its obligations, prevent it from continuing normal business activities or result in a change of control, the Designated Representatives, who are certain of Investcorp Bank's senior executive officers and certain of Investcorp Bank's Directors, have the power to declare that an 'investment protection event' has occurred. Examples of circumstances that would constitute an 'investment protection event' include the hostile invasion of Bahrain by the forces of a foreign state, the nationalization of Investcorp Bank or interference in the conduct of business that is reasonably likely to result in a material adverse change in the business, operations, assets or financial condition of Investcorp Bank. Should the Designated Representatives declare that an investment protection event has occurred, the IHL Series A Preference Shares and Series B Preference Shares held by Investcorp Bank will be automatically redeemed for nominal consideration. If the investment protection event is not temporary, IHL will issue shares and cause them to be delivered to the shareholders of Investcorp Bank so that each shareholder will own shares directly in IHL that are economically equivalent in all respects to the shares that they own in Investcorp Bank.

Further, pursuant to an agreement between Investcorp Bank and ISA, following the declaration of an investment protection event, all inter-company indebtedness owed to Investcorp Bank is automatically forgiven, except to the extent that Investcorp Bank is required to pay, and has paid, deposit liabilities. As a result, ISA is protected against any claims for the repayment of any indebtedness owed to Investcorp Bank, except to the extent that the cash proceeds of the repayment of that indebtedness are applied to satisfy the claims of Investcorp Bank's depositors.

As at June 30, 2016, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 58.6% of Investcorp Bank's Ordinary Shares directly and through CP Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is controlled by OHL which, in turn, is majority owned by SIPCO. Strategic shareholders own the balance of CPHL and OHL. SIPCO also holds 0.4% of Investcorp Bank's Ordinary Shares directly.

As a result of Investcorp Bank's ownership structure, the directors of SIPCO, comprised of certain Investcorp Bank Directors and senior executive officers, has the ability to control the voting of 59.0%[1] of the Ordinary Shares of Investcorp Bank.

Investcorp's senior management (Investcorp's Managing Directors) hold beneficial interests in Investcorp Bank's Ordinary Shares through the ISOPs. No current member of senior management of Investcorp directly holds Investcorp Ordinary Shares. Certain members of senior management hold Investcorp Bank Preference Shares.

Information regarding the ownership and trading of Investcorp Bank's Ordinary Shares and Preference Shares by Investcorp Bank's Directors and the ownership and trading of Investcorp Bank Preference Shares by certain members of senior management is provided in the Investcorp Bank Fiscal Year 2016 Corporate Governance Report ('Fiscal Year 2016 Corporate Governance Report') which is a supplement to this Annual Report. The Fiscal Year 2016 Corporate Governance Report also is available on Investcorp's website (www.investcorp.com).

As reported above, an aggregate of 59.0%[1] of Investcorp Bank's Ordinary Shares are held by SIPCO, OHL and CPHL, each of which is a Cayman Islands company.

1 Numbers may not add up due to rounding.

The table below shows the distribution by nationality of the holders of the 41.0% of Investcorp Bank's Ordinary Shares that are held by public shareholders and tradable on the Bahrain Bourse.

Nationality	Number of Shares	Ownership
American	531,513	0.7%
Bahraini	11,879,103	14.8%
British	211,300	0.3%
Cayman Islander	884,800	1.1%
Channel Islander	123,800	0.2%
Emirati	9,472,400	11.8%
Kuwaiti	1,842,800	2.3%
Lebanese	47,300	0.1%
Omani	439,500	0.5%
Pakistani	10,000	0.0%
Qatari	1,491,200	1.9%
Saudi	5,615,000	7.0%
Spaniard	10,000	0.0%
Swazi	100,000	0.1%
Swiss	64,000	0.1%
Virgin Islands, British	65,400	0.1%
Total	**32,788,116**	**41.0%**

The table below shows the distribution by nationality of the holders of Investcorp Bank's Preference Shares.

Nationality	Number of Shares	Ownership
Bahraini	21,173	9.5%
British	1,550	0.7%
Canadian	664	0.3%
Cayman Islander	89,880	40.3%
Emirati	2,585	1.2%
French	646	0.3%
Indian	322	0.1%
Jordanian	520	0.2%
Kuwaiti	78,735	35.3%
Lebanese	323	0.1%
New Zealander	97	0.0%
Omani	11,722	5.3%
Qatari	2,228	1.0%
Saudi Arabian	8,213	3.7%
Swiss	3,935	1.8%
Syrian	646	0.3%
Total	**223,239**	**100.0%**

The tables below show the distribution of ownership of Investcorp Bank's Ordinary Shares and Preference Shares by size of shareholding.

	June 30, 2016		
Ordinary shares	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**
Less than <1%	17,106,116	285	21.4%
1% up to less than 5%	–	–	0.0%
5% up to less than 10%	29,763,584	4	37.2%
10% up to less than 20%	–	–	0.0%
More than 20%	33,130,300	1	41.4%
	80,000,000	290	100%

	June 30, 2016		
Preference shares	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**
Less than 1%	27,408	50	12.3%
1% up to less than 5%	29,836	6	13.4%
5% up to less than 10%	16,155	1	7.2%
10% up to less than 20%	36,459	1	16.3%
More than 20%	113,381	2	50.8%
	223,239	60	100%

CORPORATE GOVERNANCE

Overview

Investcorp views corporate governance as the manner in which members of the Board of Directors, shareholders, investors, management and employees of Investcorp are organized and how they operate in practice. Good corporate governance involves keeping business practice above reproach and thus retaining the trust and confidence of all the stakeholders who enable Investcorp to operate, thrive and prosper.

Investcorp makes large investments in mostly illiquid asset classes such as corporate and real estate investments. It places a large proportion of these investments with clients and retains a portion for its own balance sheet. These investment activities operate with above-average risk levels and have led to the development of a comprehensive risk management infrastructure and strong corporate governance over the past 34 years. Investcorp's corporate governance practices have been structured around the following three principles:

i. alignment of interests among shareholders, clients and management combined with protection of lenders' interests;

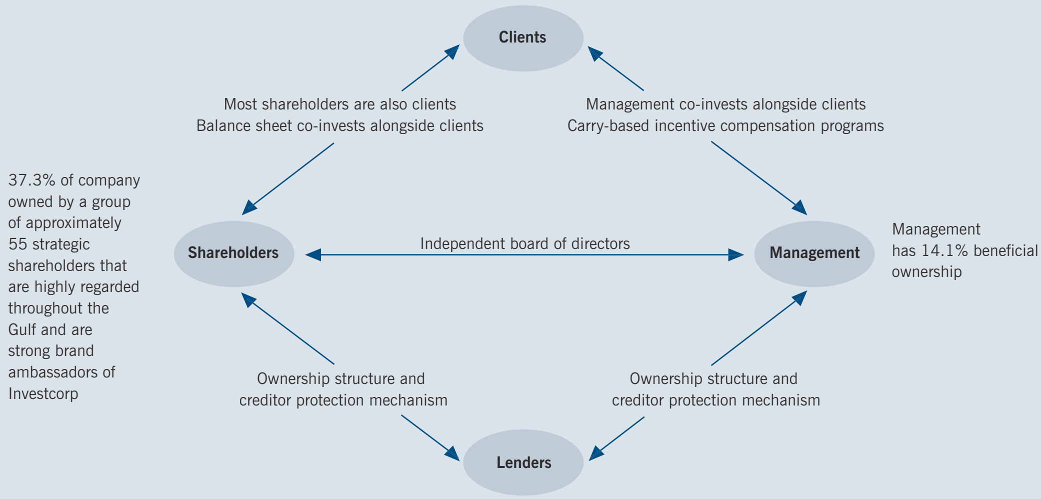
ii. transparency of reporting and actions plus proactive risk control; and

iii. collective decision-making.

Investcorp Bank's corporate governance is subject to the CBB's High Level Controls Module, ('Module HC') which incorporates the Corporate Governance Code of the Kingdom of Bahrain. Please see the Fiscal Year 2016 Corporate Governance Report for disclosure regarding Investcorp's compliance with Module HC.

i. Alignment of interests. A central tenet of Investcorp's philosophy is to ensure that interests among shareholders, clients and management are optimally aligned and that lender interests are well protected. The diagram below summarizes the key factors that drive this alignment.

Good alignment of interest between key stakeholders



The alignment of interest is ensured by the following mechanisms:

Co-investments: Clients, shareholders and management all participate in each of Investcorp's investment products. Investcorp retains a stake in each corporate or real estate investment transaction, placing the balance with clients. Investcorp also invests a portion of its assets in its alternative investment solutions (formerly known as hedge funds) products. Hence, through ownership of Investcorp, shareholders indirectly participate in each of the investment products.

In addition, Investcorp's employees co-invest alongside clients and Investcorp in these investment products. As a result, all three groups are collectively exposed to the same risks and share the same outcomes. This emphasis on co-investment ensures that all stakeholders are motivated to grow Investcorp and enhance its value through the generation of superior risk-adjusted returns in each of Investcorp's products.

Performance-based incentive compensation: In addition, consistent with industry practice, Investcorp's investment professionals participate in performance-based investment carried interest programs whereby a certain variable portion of exit proceeds due to investors from the realization of their investments is shared with the investment professionals, provided that a certain pre-established minimum client investment performance objective is satisfied on the underlying investment.

In addition, the overall compensation paid to members of senior management and other Investcorp executives is highly correlated with Investcorp's net income. Investcorp's net income is driven by its ability to acquire, place, manage and realize investments and realize gains from investments on its balance sheet (franchise value). The franchise value, in turn, depends on management's ability to provide long-term value to Investcorp's clients and shareholders and protection for its creditors.

Furthermore, all of Investcorp's employees at the level of Principal and Managing Director who are above designated levels of remuneration are required to defer a percentage of their variable (incentive) remuneration and utilize a portion of that deferred remuneration to purchase beneficial interests in Investcorp Bank's Ordinary Shares through the ISOPs. These beneficial interests are subject to vesting requirements.

In this manner, Investcorp's executive compensation programs play a critical role in aligning management's interests with the interests of shareholders, clients and lenders.

The aggregate amount of compensation paid to senior management in respect of FY16, including variable remuneration that is required to be deferred and utilized to purchase beneficial interests in Investcorp Bank's Ordinary Shares that are subject to vesting requirements, is disclosed in Note 28 of the consolidated financial statements of Investcorp Bank.

The names of the members of senior management and Information regarding their roles within Investcorp and their professional backgrounds is included in the Managing Directors, Principals and Professional Staff section of this Annual Report.

Further information regarding the Investcorp Group's remuneration policies and practices is provided in the Fiscal Year 2015 Corporate Governance Report.

ii. Transparency and risk control. Transparency at Investcorp involves the open and proactive discussion of issues and problems with all stakeholders. The role and nature of the Board of Directors and its committees and Investcorp's management structure are vital elements of an Investcorp Group-wide framework for mitigating risks, allocating resources and making decisions with full accountability based on all relevant information.

Board of Directors

Under the Articles of Association of Investcorp Bank, the Board of Directors consists of not less than five and not more than 20 Directors, and the number of Directors is determined by shareholder resolution.

The size of the Board of Directors was set at 14 by action of the shareholders at the Ordinary General Meeting of Shareholders held on October 1, 2013 (the '2013 OGM') when the shareholders elected 14 Directors for a three year term expiring at the 2016 OGM.

One of the current Directors, Dr. Yousef Hamad Al-Ebraheem, was appointed by the Board of Directors to fill the vacancy on the Board of Directors arising from the death of Mr. Mustafa J. Boodai, which occurred after the 2013 OGM was held. At the 2014 OGM, Investcorp Bank's shareholders elected Dr. Al-Ebraheem for the remainder of Mr. Boodai's Board term.

Since the 2015 OGM, two further vacancies have been filled by action of the Board of Directors.

Mr. Hisham Saleh Ahmed Al Saie was appointed by the Board of Directors to fill the vacancy arising from the retirement of the former Chairman of the Board of Directors, H.E. Abdul-Rahman Salim Al-Ateeqi. Mr. Waleed Ahmed Salem Al Mokarrab Al Muhairi was appointed by the Board of Directors to fill the vacancy arising from Mr. Abdul Aziz Jassim Kanoo's retirement. The Board of Directors expressed its deep appreciation to H.E. Al-Ateeqi for his many years of devoted service to the Board of Directors. The Board of Directors was very saddened by the recent deaths of Mr. Kanoo and Mr. Abdul Rahman Ali Al-Turki, two of the most notable figures among Gulf merchant families and dedicated supporters of Investcorp over many years.

The terms of all of the Directors will terminate at the 2016 OGM. There is no cumulative voting in Director elections.

Each Director has signed a formal written appointment letter agreement which addresses a number of matters, including the Director's duties and responsibilities in serving on the Board of Directors, the fact that annual remuneration for service as a Director is subject to the approval of the shareholders of Investcorp Bank, his entitlement to expense reimbursement and access to independent professional advice when needed. There are no arrangements in effect relating to the termination of any Director.

The Corporate Governance Committee of the Board of Directors has developed and the Board of Directors has approved a formal induction program for new Directors that includes briefings on (i) the duties and responsibilities of Directors; (ii) Investcorp's investing lines of business; (iii) Investcorp's financial position; and (iv) key strategic issues.

The Board of Directors is ultimately accountable and responsible for the strategy and business performance of Investcorp and its subsidiaries. The specific responsibilities of the Board of Directors are as follows:

- ensuring that financial statements are prepared which accurately disclose Investcorp's financial position;
- monitoring the implementation of strategy by management;
- the adoption and annual review of Investcorp's strategy, with responsibility as part of the strategy review process, for:
  - reviewing Investcorp's business plans and the inherent level of risk in these plans;
  - assessing the adequacy of capital to support the business risks of Investcorp;
  - setting performance and other business objectives; and
  - overseeing major capital expenditures, divestitures and acquisitions;
- monitoring management performance and determining whether to approve recommendations by the Executive Committee for Administrative Policy (acting as a remuneration committee) for the remuneration of Approved Persons (i.e., persons approved by the CBB to perform their functions within Investcorp Bank) and executives who are classified as Material Risk Takers and other members of senior management;
- adopting and reviewing management structure and responsibilities;
- adopting and reviewing the systems and controls framework of Investcorp to ensure that this framework, including Investcorp's Board structure and organizational structure, is appropriate for Investcorp's business and associated risks;
- establishing corporate standards for itself, senior management and all other employees, including policies and procedures for the identification, disclosure, prevention or strict limitation of conflicts of interest;
- convening and preparing the agenda for shareholders meetings;
- monitoring conflicts of interest and preventing abusive related party transactions;
- assuring equitable treatment of shareholders, including minority shareholders;
- putting in place effective policies and procedures for approving budgets and reviewing performance against those budgets and key performance indicators, and the management of Investcorp's compliance risk; and
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

The Directors' names, years of service on the Board of Directors, other directorships held by them, attendance of Board of Directors meetings held during Fiscal Year 2016 and the aggregate remuneration proposed to be paid to the Directors in respect of Fiscal Year 2016 are reported in the Fiscal Year 2016 Corporate Governance Report.

The approval of the Board of Directors is required for material matters, including the business plan and budget for each fiscal year, capital raising, capital markets and other financing transactions, Investcorp Group-wide risk limits and employee remuneration plans.

During Fiscal Year 2016, all of the Directors of Investcorp Bank other than H.E. Mohammed Bin Mahfoodh Bin Saad Alardhi, who was appointed as the Executive Chairman of Investcorp Bank effective July 1, 2015, were non-executive Directors. In line with the requirements of Module HC, the Board of Directors determines the independence of the Directors each year. The most recent determination of the independence of the Directors made by the Board of Directors, which was made in April 2016, is reported in the Fiscal Year 2016 Corporate Governance Report.

The Board of Directors has established four standing Executive Committees as follows: the Audit Committee, the Corporate Governance Committee, the Executive Committee for Administrative Policy and the Executive Committee for Investment Policy, each of which is described below.

The **Audit Committee** is responsible for the oversight of Investcorp Bank's internal audit, external audit, risk management and compliance functions. Investcorp Bank's external auditor and the head of the Internal Audit department, the head of the Legal and Compliance department and the head of the Risk Management department report to the Audit Committee.

The members of the Audit Committee are appointed by the Board of Directors, and the Committee currently has three members. Consistent with Module HC, none of the members of the Audit Committee has any other Board responsibilities that could conflict with his obligations as a member of the Audit Committee. The Audit Committee is required to meet at least four times each fiscal year.

The responsibilities of the Audit Committee include:

- the appointment and termination, where appropriate, of the external auditor;
- determining the independence of the external auditor once a year;
- reviewing and discussing with the external auditor the scope and results of the annual audit of Investcorp Bank's financial statements and the half-year financial statements reviewed by the external auditors;
- the appointment and termination, where appropriate, of the head of the Internal Audit department and reviewing the budget allocated to the Internal Audit department;
- the appointment and termination, where appropriate, of the head of Compliance and reviewing the budget allocated to the Compliance function;
- reviewing the activities, performance and adequacy of Investcorp Bank's internal audit and compliance personnel and procedures;
- reviewing the adequacy of Investcorp Bank's internal controls and risk management systems;
- reviewing the risk management function, including the independence and authority of its reporting obligations and reviewing with the head of Risk Management the adequacy and effectiveness of Investcorp Bank's risk management policies and methodologies;
- overseeing Investcorp Bank's compliance with legal and regulatory requirements and ensuring that Investcorp Bank communicates with shareholders and relevant stakeholders (internal and external) openly and properly; and
- overseeing any special investigations the Committee deems necessary to meet its responsibilities, including any investigation required to be conducted by Investcorp Bank's Whistleblowing Procedures.

The **Corporate Governance Committee** is responsible for overseeing Investcorp Bank's corporate governance. The members of the Corporate Governance Committee are appointed by the Board of Directors, and the Committee currently has three members. The Corporate Governance Committee is required to meet at least twice each fiscal year.

The Corporate Governance Committee's responsibilities include:

- developing for consideration and approval by the Board of Directors, and recommending changes to the Board of Directors from time to time in, Investcorp Bank's corporate governance guidelines, which constitute Investcorp Bank's corporate governance policy framework;
- overseeing Investcorp Bank's implementation of the Corporate Governance Code of the Kingdom of Bahrain;
- overseeing a formal and tailored induction program for newly appointed Directors, to which current Directors may be invited; and
- overseeing Directors' corporate governance educational activities.

In addition, as required by Investcorp's Conflicts of Interest Policies and Procedures for Members of the Board of Directors, Senior Management and Central Bank of Bahrain Approved Persons (the 'Conflicts of Interest Policies and Procedures'), the Corporate Governance Committee is responsible for considering any report of an actual or potential conflict of interest involving any Director, any member of senior management or any less senior executive approved by the CBB to perform his or her function (collectively, 'Covered Persons') and making a recommendation to the Board of Directors regarding such actual or potential conflict of interest.

The **Executive Committee for Administrative Policy** functions as (i) a nominating committee; (ii) a remuneration committee; and (iii) an administrative policy committee. The members of the Executive Committee for Administrative Policy are appointed by the Board of Directors, and the Committee currently has four members. The Committee is required to meet at least two times a year.

When acting as a nominating committee, its responsibilities include:

- making recommendations from time to time regarding changes to the size of the Board of Directors or any Executive Committee that the Committee believes to be desirable;
- when a vacancy on the Board of Directors arises, identifying persons qualified to become members of the Board of Directors and recommending a person to fill such vacancy, either through appointment by the Board of Directors (if a current Director ceases to serve on the Board of Directors) or by the shareholders (if a vacancy arises due to the shareholders approving an increase in the size of the Board of Directors);
- identifying Directors qualified to fill any vacancy on any Committee of the Board of Directors;
- identifying persons qualified to become the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of Investcorp Bank considered appropriate by the Board of Directors except for the head of Internal Audit, which is the responsibility of the Audit Committee; and
- overseeing succession planning and designing a plan for orderly succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy.

When acting as a remuneration committee, its responsibilities include:

- considering and making recommendations to the Board of Directors regarding remuneration policies and individual remuneration packages for Approved Persons, Material Risk Takers and other members of senior management;
- considering and making recommendations to the Board of Directors regarding the remuneration to be paid to Directors based on their attendance of Board meetings and performance;
- considering and approving remuneration amounts for each Approved Person and Material Risk Taker, as well as the total variable remuneration to be distributed, taking into account all forms of remuneration and ensuring that such remuneration is consistent with Investcorp's corporate values and reflects an evaluation of performance in implementing agreed corporate goals and objectives;
- considering and approving remuneration amounts for all other Managing Directors and Principals taking into account all forms of remuneration and ensuring that such remuneration is consistent with Investcorp's corporate values and reflects an evaluation of performance in implementing agreed corporate goals and objectives;

- approving, monitoring and reviewing the remuneration system to ensure the system operates as intended; and
- retaining and overseeing outside consultants or firms for the purpose of determining CBB Approved Persons' and Material Risk Takers' remuneration, administering remuneration plans or related matters.

When acting as an administrative policy committee, its responsibilities include:

- reviewing and approving the Executive Chairman's recommendations for corporate and administrative policies;
- reviewing and approving the Executive Chairman's recommendations for capital expenditures; and
- overseeing charitable contributions by Investcorp.

The **Executive Committee for Investment Policy** is responsible for overseeing Investcorp's budget, funding plans and investment policy. The members of the Committee are appointed by the Board of Directors, and the Committee currently has three members. The Committee is required to meet at least twice each fiscal year.

The Committee's responsibilities include:

- reviewing and approving Investcorp's corporate funding plan for each fiscal year;
- reviewing and approving Investcorp's budget for each fiscal year;
- evaluating Investcorp's investment processes and recommending enhancements to those processes;
- taking action with respect to any other matter relating to the oversight of Investcorp's investment processes; and
- reviewing and approving recommendations for Investcorp's investment strategies, products and services.

The names of the members of each of the Executive Committees, their attendance at their relevant Executive Committee meetings during Fiscal Year 2016 and the remuneration proposed to be paid to Directors for their Executive Committee service during Fiscal Year 2016 is reported in the Fiscal Year 2016 Corporate Governance Report.

During Fiscal Year 2016, the Board of Directors evaluated the performance of the Board of Directors as a whole, each Executive Committee and each Director and the Board will continue such evaluations each year going forward. Information regarding the evaluation conducted during Fiscal Year 2016 is presented in the Fiscal Year 2016 Corporate Governance Report.

A report regarding the evaluations conducted each year also is provided at each OGM.

For information regarding related party transactions, please see Note 28 to the consolidated financial statements of Investcorp Bank.

The Board of Directors has adopted the Conflicts of Interest Policies and Procedures that apply to all Directors, members of senior management and less senior executives who have been approved by the CBB to perform his or her function (collectively, 'Covered Persons'). A conflict of interest exists when any activity, interest or relationship of a Covered Person interferes with or could reasonably be expected to interfere with the Covered Person's ability to act in the best interests of Investcorp, including if a Covered Person has a personal interest in a transaction to which Investcorp is or may become a party.

The Conflicts of Interest Policies and Procedures prohibit Covered Persons from engaging in certain activities, including participating in any discussion or decision-making or vote that involves a subject in which a conflict of interest exists, and requires the disclosure of any existing or potential conflict of interest to the Corporate Governance Committee. The Corporate Governance Committee is required to consider the matter and report to the Board of Directors, which ultimately must determine how to proceed and whether to approve any transaction in which a conflict of interest exists. If a conflict of interest involves a Director, that Director should not participate in any Board of Directors discussion regarding, or vote on, that transaction.

However, the Conflicts of Interest Policies and Procedures specifically provide that a Covered Person's investment in Investcorp securities, Investcorp transactions and/or Investcorp products on the same terms as are extended to other similarly situated persons, which includes non-Covered Persons, will not be considered to give rise to a conflict of interest. Accordingly, these transactions are not specially considered by the Board of Directors and they are instead approved by Investcorp's management.

To ensure that any existing or potential conflict of interest is identified, Directors and members of senior management are required to periodically complete a questionnaire. The questionnaire requires disclosure of the companies in which directorships are held and interests held in other entities (whether as a shareholder of 5% or more of the voting shares, a manager or some other form of significant participation).

The Board of Directors has adopted the Investcorp Group Code of Conduct, which applies to the Directors of Investcorp Bank and all Investcorp employees. On an annual basis, all Investcorp employees are required to certify in writing their compliance with the Code of Conduct. A copy of the Code of Conduct is printed as an Annex to the Fiscal Year 2016 Corporate Governance Code.

Transparency for other stakeholders

It is the policy of Investcorp Bank to provide to its shareholders, clients, creditors and other stakeholders public disclosure that is fair, transparent, comprehensive and timely, and the Board of Directors has adopted a Public Disclosure Policy and Procedures Statement which includes internal review procedures to ensure that the standards of this policy are satisfied. In accordance with this Policy and Procedures Statement, all information relating to Investcorp that is publicly disclosed is made available on Investcorp's website promptly after such disclosure is made and Investcorp Bank's financial statements for at least the last five years are maintained on the Investcorp website at all times. A copy of the Public Disclosure Policy and Procedures also is available on Investcorp's website.

In addition to publishing its annual audited financial statements, Investcorp Bank publishes its unaudited financial statements for the first six months of its financial year (July-December) and shareholder updates for the first three (July-September) and nine months of its financial year (July-March). An annual shareholders meeting, in addition to the OGM, provides further information and an opportunity for an exchange of opinions and ideas. The Placement and Relationship Management ('PRM') team and several senior members of the management team also periodically meet with shareholders in one-to-one meetings. Clients have direct, ongoing access to the PRM team and investment professionals. Clients are provided with a detailed written review of each investment in their portfolio every six months, and they regularly meet with PRM team members to discuss their current portfolio and new investment opportunities. Periodically, clients have the opportunity to meet the management teams of their portfolio companies. Lenders receive semi-annual updates on the health of the business and have direct, ongoing access to the members of the finance team, usually through one-to-one communications.

iii. Investcorp's management structure and collective decision-making. Investcorp's senior management team adopts a collective decision-making style, which is reflected by the committees described below.

The Executive Chairman and the two Co-Chief Executive Officers of Investcorp Bank comprise an Executive Committee which meets frequently to discuss Investcorp's business and performance on a high level basis.

The members of the Executive Committee, together with the Chief Administrative Officer, the Chief Financial Officer, the senior executives in charge of Investcorp's investing lines of business (the 'Investing LOBs'), the Head of PRM, the Head of Risk Management and the General Counsel comprise the Operating Committee. The Operating Committee meets monthly to discuss Investcorp's business and performance on a more granular level.

Each Investing LOB has an Investment Committee. Each Investment Committee will meet to consider a proposed investment or disposition up to three times.

The Investment Committee for an LOB within Corporate Investment is initially comprised primarily of senior executives within that LOB, but the membership of the Investment Committee is expanded for any interim or final meeting to include all Corporate Investment Managing Directors from the region in which the potential investment has originated, a Co-Chief Executive Officer and the head of Risk Management.

The Investment Committee for Real Estate Investments is comprised of senior Real Estate executives, a Co-Chief Executive Officer and the head of Risk Management.

The role of each Investment Committee is to evaluate each proposed investment and disposition based on its risk-return profile as well as its overall suitability to Investcorp's franchise and balance sheet and to determine whether to recommend to the Investment Council that it approve the investment or the disposition.

Potential investments that are proposed to be placed with Investcorp's clients in the Gulf are reviewed at an early stage by the Placement Committee, which is comprised of senior PRM executives. The role of the Placement Committee is to assess the attractiveness of a potential investment to Investcorp's Gulf clients, which is relevant to Investcorp's underwriting risk.

All investments and dispositions are subject to the final approval of the Investment Council, which is comprised of Bahrain-based senior executives including the Executive Chairman, the Co-Chief Executive Officers and the Chief Financial Officer.

The Financial and Risk Management Committee guides and assists with the overall management of Investcorp's risk profile on an enterprise-wide basis subject to the approval of the Audit Committee and the Board of Directors. This Committee also evaluates new hedge fund seeding proposals and potential Special Opportunities Portfolio investments. The Committee is comprised of senior management drawn from key areas of Investcorp and includes the head of Treasury and the head of Risk Management.

REGULATION

As a Bahrain-based bank, Investcorp is licensed by the CBB, and all of Investcorp's activities are subject to comprehensive regulation by the CBB. In addition, a portion of Investcorp's Ordinary Shares are listed on the Bahrain Bourse and Investcorp is subject to the regulations of the Bahrain Bourse.

Investcorp Bank has a UK subsidiary that acts as an arranger of corporate finance transactions. This subsidiary is registered with and regulated by the UK Financial Conduct Authority (the 'FCA').

ISA has issued bonds that are listed on the London Stock Exchange and is therefore subject to certain FCA Disclosure and Transparency and Listing Rules. ISA has also issued bonds that are listed on the SIX Swiss Exchange and accordingly ISA is subject to certain SIX Swiss Exchange rules and regulations, including ongoing reporting requirements.

Investcorp Bank has one subsidiary that is registered with and regulated by the US Securities and Exchange Commission (the 'SEC') and the US Financial Industry Regulatory Authority as a broker-dealer. Investcorp also has two subsidiaries that are registered with and regulated by the SEC as investment advisers. These two subsidiaries are also registered as commodity pool operators and are regulated by the US Commodities Futures Trading Commission and the US National Futures Association. One of these subsidiaries is also registered with and regulated by the Cayman Islands Monetary Authority ('CIMA'). One other Investcorp Bank subsidiary is registered with and regulated by CIMA in connection with the performance of investment-related services. In addition, the Gulf Opportunity Funds are registered with the CBB and certain other Investcorp investment funds are registered with and regulated by CIMA, the CBB and the Capital Market Authority of Saudi Arabia (the 'CMA').

Investcorp Bank's Saudi Arabian subsidiary Investcorp Saudi Arabia Financial Investments Co. is licensed by the CMA to market Investcorp's investment products in Saudi Arabia.

ISA's Qatar subsidiary Investcorp Investments LLC is licensed by the Qatar Financial Centre Regulatory Authority to market Investcorp's investment products in and from the Qatar Financial Centre.

Investcorp also has a representative office in Abu Dhabi which is licensed by the Central Bank of the United Arab Emirates.

BALANCE SHEET

Investcorp's overall philosophy is to maintain a conservative balance sheet, based on an adequate level of liquidity with access to medium-term funding, modest leverage and capital adequacy well in excess of minimum requirement levels. Investcorp's Finance group has oversight and responsibility for management of the balance sheet structure and implements strategy and policies within a framework set by the Financial and Risk Management Committee (FRMC), under the oversight of the Board of Directors' Audit Committee and the Board of Directors.

This conservative approach to balance sheet management is a deliberate strategy to mitigate the impact of refinancing and liquidity risk on Investcorp's business model of originating and syndicating alternative asset investments, and its ongoing commitment to stakeholder alignment by way of co-investing its balance sheet alongside investors in all its products. It also seeks to mitigate the impact on the business from market liquidity stresses or forced refinancing of debt facilities during sustained periods of economic difficulty. It therefore targets to finance its entire portfolio of illiquid co-investments with permanent capital, long dated debt and also debt secured by such co-investments.

Investcorp's capital adequacy ratio under Basel requirements is targeted to remain well above regulatory minimums and is intended to keep it in the tier of the best-capitalized banks globally.

Ratings

Investcorp aims for an investment-grade BBB equivalent rating over the medium-term. Rating agencies and lenders profile Investcorp as non-Gulf based credit risk, given that almost all of the Group's assets are held under Investcorp S.A., a non-Gulf entity. As a matter of course, certain loan covenants require that Investcorp S.A. owns at least 95% of Investcorp's consolidated group assets.

Some of the key themes referred to by the rating agencies in their reports are:

- strong client franchise with a high degree of brand name recognition and respect in the Gulf region;
- diversification benefits inherent to the business model from the establishment and growth of new business lines;
- the strength and longevity of tenure of the management team; and
- the conservative balance sheet management approach for liquidity, funding and capital.

The global markets crisis in FY09 impacted Investcorp's investment business and its balance sheet capitalization. Taking this into account and consistent with the broad wave of actions across the financial services industry, the rating agencies downgraded Investcorp's ratings to reflect the tough environment faced by the alternative investments sector at that time and the uncertain macroeconomic outlook. Investcorp recognized these challenges by deleveraging and strengthening its balance sheet through risk reduction and capital raising measures in order to support an eventual return to an investment grade credit rating in the future.

Liquidity management

Investcorp targets an adequate level of accessible liquidity to meet peak levels of underwriting activity, operational cash to cover near term operating expenses and interest payments; and contractual debt repayments. This is achieved by a combination of on-balance sheet liquidity, held in the form of invested short tenor liquid assets and off-balance sheet liquidity in the form of committed medium-term revolving credit facilities provided by close relationship banks. Such facilities are mainly used in the normal course of business for acquisition underwriting of new corporate investment or real estate investment deals prior to placement with clients, which can take up to six months after the deal is closed. Bank revolvers, therefore, supplement core liquidity, and together they provide a pool of accessible liquidity to underwrite multiple acquisitions, without having to redeem a portion of balance sheet hedge fund co-investments in order to meet short-term working capital requirements.

The credit environment, lender preferences and the reliability of interbank markets will dictate the actual mix between off-balance sheet and on-balance sheet liquidity that Investcorp chooses to hold at any particular time.

Investcorp stress tests its liquidity on a regular basis to ensure that it has sufficient cash in the near-term to meet unforeseen obligations. This worst-case stress scenario assumes: (i) the disappearance of almost all short-term funding sources; (ii) accelerated repayment of client balances; and (iii) a need to provide additional capital support to portfolio companies.

Funding structure

The conservative approach to balance sheet structure is also applied to Investcorp's funding activity. Investcorp's strategy is to maintain strong lender relationships, provide lenders with regular dialogue on business developments and financial results, and to be responsive on issues and questions that arise. A prudent approach to financial management has led to a deliberate strategy to secure long- and medium-term funding from a geographically diverse lender base. Investcorp has a positive structural funding gap where the average maturity of liabilities has consistently been longer than the average maturity of its assets. This has been achieved from the traditional global medium-term club and syndicated bank loan markets, together with capital markets transactions such as public bonds and private placements with institutional investors.

Refinancing requirements are managed to avoid maturity concentration in any given period, and the Company continually reviews opportunities to access new financing markets or sources with new funding products.

As a result of the changes to capital and liquidity requirements under Basel III and the possible impact on relationship bank lending activity, Investcorp diversified its balance sheet financing with the completion of a US$250 million five-year public bond transaction in 2012 and a CHF 125 million five-year public bond transaction in 2014.

Investcorp's medium-term funding therefore comprises committed bank facilities (drawn and revolving), capital markets notes and bonds and a portion of committed client balances that are not at call. When the financing environment permits, this pool is targeted to have staggered maturities to reduce repayment or refinancing concentration and to match the medium-term nature of Investcorp's working capital cycle. Investcorp's long-term funding comprises private placements with international insurers with residual maturities of approximately 15 years.

A combination of high liquidity and committed term funding with actively managed maturities aims to provide adequate coverage, in a worst-case scenario, for all near- and medium-term debt repayments.

Leverage

Consistent with its overall conservative approach to balance sheet management, Investcorp aims to maintain a moderate leverage ratio, using debt where appropriate and ensuring a sufficient amount of accessible liquidity for peak underwriting of new acquisitions. Although Investcorp has operated in the past with a leverage ratio of between 2.0x equity and 3.0x equity, the de-leveraging initiatives since 2009 have reduced leverage to below 1.5x equity.

Investcorp's debt covenants contain a 'leverage' and a 'net leverage' calculation.

> Leverage is calculated as total liabilities (excluding temporary liabilities that are generally transient in nature with expected maturities of less than three months) divided by the equity capital base. Two event-specific activities temporarily inflate total liabilities. The first is the drawdown of revolving credit facilities to fund the underwriting of corporate investments and real estate investments before they are placed with clients. These are self-liquidating on receipt of client funds. The second is the receipt of transitory client funds relating to proceeds from deal exits, prior to distribution to clients. These are also self-liquidating. Investcorp does not count these two temporary liabilities in its leverage calculations unless they remain on the balance sheet for more than three months.
>
> The leverage calculation above reflects a very basic measure of financial risk. It does not give any benefit to the fact that a proportion of borrowed money may be retained in the form of cash. Net leverage however calculates leverage as total liabilities less the sum of balance sheet cash, other liquid assets and funded underwriting.

Investcorp is comfortable with its leverage levels, given that a continuous and thorough analysis of risks on the balance sheet is used to determine and ensure capital adequacy under severely stressed scenarios.

While Investcorp does manage its balance sheet with the leverage ratio in mind, it also focuses on risk capital, which is, in Investcorp's opinion, a more holistic measure of the risks on the balance sheet and is described in the following section on Risk Management. Investcorp aims to size its capital base so it can withstand a prolonged stressed environment as well as event risks, while maintaining cash flow and liquidity, sufficient to cover interest and debt repayment obligations.

RISK MANAGEMENT

Investcorp takes an enterprise-wide approach to risk management, and the proactive identification and mitigation of all embedded risks is an integral part of the corporate decision-making process.

The Asset and Liability Council ('ALCO') which is chaired by the Chief Financial Officer and includes the head of Risk Management, head of Treasury and other senior members of the Finance group, assesses and reviews various balance sheet risks arising from treasury activities on an ongoing basis and decides on mitigation strategies for these risks. The ALCO, in turn, is overseen by the Financial and Risk Management Committee, which is the risk management oversight committee that evaluates all tactical actions proposed and undertaken to manage the balance sheet and attendant risks from the standpoint of Investcorp's business model, funding profile, liquidity position, capital base and ongoing operations in line with the Audit Committee and Board-approved risk management policies manual. In addition, separate risk review forums are used for each line of business (e.g., Investment Committees for corporate investments and real estate investments) to determine specific risks surrounding each new investment and actions to be taken in an effort to mitigate these risks.

TYPES OF RISK[1]

Investcorp groups its predominant risks under the following categories:

- counterparty credit risk Note 25(i)*;
- funding liquidity risk Note 25(ii)*;
- concentration risk Note 25(iii)*;
- foreign currency risk Note 25(iv)(a)*;
- interest rate risk Note 25(iv)(b)*;
- equity price risk Note 25(iv)(c)*; and
- operational risk Note 25(v)*.

Investcorp has developed tools in conjunction with leading risk management consultants to perform detailed risk analyses, specifically addressing the investment and concentration risks of each individual line of business.

Interest rate/currency risk management

Assets and liabilities give rise to interest rate risk if changes to the level of interest rates impact the value of future cash flows generated from assets or the value of future cash flows paid in respect of liabilities. The exposure of Investcorp's balance sheet to interest rate risk is frequently measured and monitored using risk management tools that provide in-depth analysis across all investment and funding sources. The amount of interest rate sensitivity of the balance sheet at June 30, 2016 is shown in Note 25(iv)(b)* of the financial statements of Investcorp Bank B.S.C.

Investcorp's management team maintains a strategic position, unchanged from prior years, that shareholders' equity is best protected from interest rate risk in the long run by maintaining a floating rate funding strategy. This strategy is supported by research of both practitioners and academics. Overlaying this strategy, Investcorp uses a combination of interest rate derivatives in order to protect against large movements in interest rates, while at the same time preserving the benefit of potential lower rates.

Investcorp does not take any material foreign exchange positions on its assets and liabilities denominated in currencies other than US dollars. Investcorp systematically hedges significant non-dollar asset and liability exposures in the forward foreign exchange market or by using currency derivatives. The small amount of residual net foreign currency exposure is shown in Note 25(iv)(a)[1] of the consolidated financial statements of Investcorp Bank B.S.C.

1 References are to footnotes in the fiscal 2016 Investcorp Bank B.S.C. consolidated financial statements.

Line of business investment risks

Corporate investment. Corporate investment risk is a significant component of the balance sheet and is, therefore, a key focus of analysis for the risk management team. The investment risk that is particular to the mid-cap corporate investment – North America & Europe business is mitigated by a set of tools that are used at all stages of the investment process. At pre-acquisition, the risk management team works alongside the deal team to implement risk analyses based on the target company's business plan. This enables identification of how the target company might perform under various scenarios, focusing, where appropriate, on specific characteristics of the deal. Sensitivity analysis and risk contribution of identified drivers to the main outcomes (EBITDA, IRR) are essential elements of the risk assessment. The analysis is performed in addition to the extensive due diligence undertaken by the corporate investment team and enables the measurement of the target company's risk compared to previous deals undertaken by Investcorp, as well as the fit of the target company from a portfolio and balance sheet retention perspective.

All investment proposals are scrutinized rigorously by the relevant Investment Committee prior to final approval by the Investment Council.

Once a company is acquired, Investcorp takes a portfolio approach to evaluate the risk impact of the investment on the balance sheet. The risk management team regularly performs such risk analyses to ascertain how the risks of the portfolio change over time and how it relates to internal limits and guidelines. Individual underwriting and sector exposure limits are imposed in order to manage any concentration risks. Finally, when exiting a portfolio company, hedging strategies may be used to mitigate risks associated with the exit process and to protect the expected realization proceeds from downside risks.

As in Investcorp's corporate investment – North America & Europe business, the goal in MENA investing is to seek returns that justify the risk being taken. The higher risks of MENA investing are alleviated through taking board level representation with appropriate minority protections.

Throughout the investment cycle, there is a strong emphasis on due diligence and proactive post-investment management.

Alternative investment solutions (formerly known as hedge funds) investment. Investcorp manages its alternative investment solutions portfolio risk both from a market strategy and manager selection perspective. The most prevalent market risks emanate from an unfavorable market environment or from strategy specific risks such as illiquidity. Manager risks include style drift, underperformance, excessive risk taking, fraud/valuation errors and legal/documentation errors. Investcorp mitigates these risks through manager due diligence and selection, diversification, use of separate accounts, monitoring, stress testing, transparency and control of leverage. The availability of portfolio detail, including through pre-negotiated transparency with hedge funds managers, enables a more complete risk analysis, as well as meaningful strategy-specific exposure and profit attribution analyses.

The various risks related to the alternative investment solutions portfolio are monitored and managed through a well-developed process and infrastructure that provides significant mitigants. Investcorp's risk management philosophy is to diversify the alternative investment solutions portfolio across managers and strategies. Allocations to individual managers are capped at a certain percentage of the portfolio to protect against manager concentration risks. Manager selection is based on extensive due diligence with an emphasis on investment style, philosophy and risk management discipline. Each manager's track record is analyzed, focusing on performance in periods of market volatility, while the manager's operating infrastructure is also reviewed regularly to ensure the presence of appropriate controls and procedures. Investcorp maintains a 'watch list' for those managers whose risk profiles or performance levels deviate from targeted guidelines, with a view to redeeming the investment with such managers if the deviations are not corrected.

While investment in alternative investment solutions is designed to have a low level of correlation to various markets, liquidity can temporarily decrease during periods of extreme stress, and correlations between previously uncorrelated strategies may increase, as occurred during the last quarter of calendar year 2008 and occurred to a lesser extent during 2011. The alternative investment solutions team is mindful of these risks and has incorporated specific actions in its asset allocation, monitoring guidelines and separate accounts in an effort to cushion or mitigate these risks during periods of extreme market volatility and stress.

Real estate investment. Risk management strategies used for corporate investment are also employed to mitigate risks associated with the acquisition and retention of real estate investments. The real estate investment team further mitigates specific risk in three ways:

- concentration on high quality, income producing properties with high occupancy rates;
- establishment of partnerships with regional professionals, providing access to local knowledge and reputation; and
- use of capital structures aimed at protecting properties against the negative impact of interest rate and/or occupancy fluctuations.

To this end, the team monitors interest rate and occupancy sensitivities on each property, both prior to acquisition and during the ownership phase. This process serves to identify and assess conditions and levels that may cause the property to incur cash flow difficulties.

The team is proactive in managing properties that show signs of potential difficulties. Risk management tools are used at all stages of the real estate investment process from pre-acquisition through to realization. During pre-acquisition, the risk management team works alongside the real estate investment team to implement a detailed risk analysis based on the target property's financial projections. This allows identification of how the property might perform under various scenarios, focusing, where appropriate, on specific characteristics of the investment. In addition to this analysis, the extensive due diligence undertaken by the real estate team allows Investcorp to gauge the target property's risk compared to previous deals undertaken, as well as to gauge the fit of the target property from both client portfolio and balance sheet retention perspectives.

Once an investment is made, Investcorp takes a portfolio approach to evaluate the risk impact of the investment on the balance sheet. The risk management team regularly performs such risk analyses to ascertain how the risks of the portfolio change over time and how they relate to internal investment exposure limits and guidelines.

Operational risk

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

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

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

ADEQUACY OF ECONOMIC CAPITAL

Investcorp uses an enterprise VaR-like approach to determine economic capital adequacy for the combination of all balance sheet risks, while maintaining sufficient flexibility to facilitate future growth plans and protect against periods of prolonged and extreme stress in Investcorp's operating environment, execution or performance.

Investcorp uses a risk-based capital allocation approach as the main tool to manage internal economic capital. Over the years, Investcorp has been continuously assessing its economic capital methodology to take into account any increased risk premium, volatility and correlation for all asset classes. In designing the risk capital methodology, Investcorp strives to maintain a risk capital allocation that is independent of any specific market recovery expectations, accounting rule changes and correlation assumptions. Investcorp continues to use the conservative assumption of 100% correlation between asset classes to provide an embedded cushion for protection against model risk inherent in model choice, model parameters estimation and model errors. Most importantly, the correlation constraint allows for an embedded cushion that will be counter-cyclical, since it is set for crisis like situations when asset correlation goes to one. Investcorp also applies the requirement to establish an explicit equity capital surplus (equal to total book equity capital including deferred fees minus total economic capital charges) that is set and monitored by ALCO. The equity capital surplus covers new business initiatives, residual non-legal operational risk and market tail-risk stress events and provides for a buffer against potential exposures, as opposed to already capitalized existing exposures, under normal and stressed market conditions. Reviews of these risks and the adequacy of the economic capital allocation model and equity capital surplus are conducted on a regular basis. The risk management team applies back-testing and stress-testing methodologies to continually assess the adequacy of the economic capital allocation model for each business line and applies the Long Range Plan (LRP), which is based on a 5-year Monte Carlo simulation, to insure the robustness of the capital base under stressed conditions.

This conservative approach to economic capital takes into account the illiquid nature of the underlying portfolios of corporate and real estate co-investments and, where possible, models other non-investment assets using a collateral based VaR like model. The economic capital allocation is the linear sum of independently assessed risk capital charges for each investment asset, non-investment assets (loans, advances etc.) and the positive impact of any tail risk hedging strategies executed for the Investcorp balance sheet.

INVESTCORP BANK B.S.C.

Consolidated Financial Statements: June 30, 2016
Fiscal Year 2016

Contents

Notes to the Consolidated Financial Statements

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ('the Bank') and its subsidiaries (together 'the Group'), which comprise the consolidated balance sheet as at 30 June 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including an assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 30 June 2016 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner's Registration No. 145
August 10 2016
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

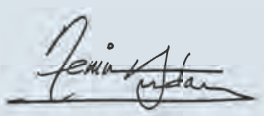
For the year ended June 30, 2016

CONSOLIDATED STATEMENT OF INCOME

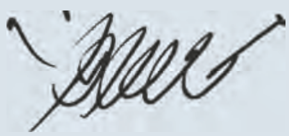
$000s	2016	2015	Notes	Page
FEE INCOME				
AUM fees	**97,370**	111,504		
Deal fees	**210,097**	196,648		
Fee income (a)	**307,467**	308,152	3	112
ASSET BASED INCOME				
Corporate investment	**100,773**	49,839		
Alternative investment solutions	**(27,664)**	9,128		
Real estate investment	**(1,513)**	11,450		
Treasury and other asset-based income	**4,415**	2,557		
Asset based income (b)	**76,011**	72,974	3	113
Gross operating income (a) + (b)	**383,478**	381,126	3	111
Provisions for impairment	**(8,216)**	(2,814)	12	123
Interest expense	**(60,947)**	(58,048)	3	113
Operating expenses	**(224,262)**	(203,553)	5	119
NET INCOME	**90,053**	116,711		
Basic earnings per ordinary share ($)	**0.97**	1.31	21	128
Fully diluted earnings per ordinary share ($)	**0.94**	1.29	21	128

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$000s	2016	2015	Notes	Page
NET INCOME (AS ABOVE)	**90,053**	116,711		
Other comprehensive income that could be recycled to statement of income				
Fair value movements – available-for-sale investments	**(101)**	670	20	127
Fair value movements – cash flow hedges	**8,415**	(10,280)	20	127
Other comprehensive income/(loss)	**8,314**	(9,610)		
TOTAL COMPREHENSIVE INCOME	**98,367**	107,101		



NEMIR A. KIRDAR
Chairman



MOHAMMED BIN MAHFOODH
BIN SAAD ALARDHI
Executive Chairman

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

INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET

June 30, 2016

$000s	June 30, 2016	June 30, 2015	Notes	Page
ASSETS				
Cash and short-term funds	**292,214**	82,665		
Placements with financial institutions and other liquid assets	**133,234**	256,646		
Positive fair value of derivatives	**90,210**	74,226	22	129
Receivables and prepayments	**320,612**	274,905	6	119
Advances	**105,243**	111,521	7	120
Underwritten investments	**493,484**	87,505	8	120
Co-investments				
Corporate investment	**602,640**	667,239	9	121
Alternative investment solutions	**315,827**	421,056	10	122
Real estate investment	**104,412**	142,897	11	123
Total co-investments	**1,022,879**	1,231,192		
Premises, equipment and other assets	**39,277**	42,758		
TOTAL ASSETS	**2,497,153**	2,161,418		
LIABILITIES AND EQUITY				
LIABILITIES				
Call accounts	**129,987**	101,027	13	124
Term and institutional accounts	**124,113**	37,679	14	124
Payables and accrued expenses	**201,390**	240,363	15	124
Negative fair value of derivatives	**49,480**	36,743	22	130
Medium-term debt	**403,081**	417,081	16	125
Long-term debt	**478,981**	346,235	17	125
Deferred fees	**92,878**	100,290	18	126
TOTAL LIABILITIES	**1,479,910**	1,279,418		
EQUITY				
Preference share capital	**223,239**	225,000	19	127
Ordinary shares at par value	**200,000**	200,000	19	126
Reserves	**282,250**	259,166		
Treasury shares	**(45,449)**	(103,566)		
Retained earnings	**313,482**	268,086		
Ordinary shareholders' equity excluding proposed appropriations and unrealized fair value changes and revaluation reserve recognized directly in equity	**750,283**	623,686		
Proposed appropriations	**44,611**	42,288	21	128
Unrealized fair value changes and revaluation reserve recognized directly in equity	**(890)**	(8,974)	20	127
TOTAL EQUITY	**1,017,243**	882,000		
TOTAL LIABILITIES AND EQUITY	**2,497,153**	2,161,418		

NEMIR A. KIRDAR
Chairman

MOHAMMED BIN MAHFOODH
BIN SAAD ALARDHI
Executive Chairman

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

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2016

			Reserves		
$000	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	Total
Balance at July 1, 2014	391,222	200,000	121,907	100,000	221,907
Total comprehensive income	–	–	–	–	–
Preference shares redeemed during the year	(166,222)	–	–	–	–
Depreciation on revaluation reserve transferred to retained earnings	–	–	–	–	–
Treasury shares sold/vested during the year – net of purchases	–	–	–	–	–
Gain on sale of treasury shares – net of loss on vesting	–	–	37,259	–	37,259
Dividends on forfeited shares	–	–	–	–	–
Approved appropriations for fiscal 2014 paid:					
Ordinary share dividend	–	–	–	–	–
Preference share dividend	–	–	–	–	–
Charitable contribution by shareholders	–	–	–	–	–
Proposed appropriations for fiscal 2015:					
Ordinary share dividend	–	–	–	–	–
Preference share dividend	–	–	–	–	–
Charitable contributions by shareholders	–	–	–	–	–
Balance at June 30, 2015	225,000	200,000	159,166	100,000	259,166
Total comprehensive income	**–**	**–**	**–**	**–**	**–**
Preference shares redeemed during the year	**(1,761)**	**–**	**–**	**–**	**–**
Depreciation on revaluation reserve transferred to retained earnings	**–**	**–**	**–**	**–**	**–**
Treasury shares sold/vested during the year – net of purchases	**–**	**–**	**–**	**–**	**–**
Gain on sale of treasury shares – net of loss on vesting	**–**	**–**	**23,084**	**–**	**23,084**
Approved appropriations for fiscal 2015 paid:					
Ordinary share dividend	**–**	**–**	**–**	**–**	**–**
Preference share dividend	**–**	**–**	**–**	**–**	**–**
Charitable contribution by shareholders	**–**	**–**	**–**	**–**	**–**
Proposed appropriations for fiscal 2016:					
Ordinary share dividend	**–**	**–**	**–**	**–**	**–**
Preference share dividend	**–**	**–**	**–**	**–**	**–**
Charitable contributions by shareholders	**–**	**–**	**–**	**–**	**–**
Balance at June 30, 2016	**223,239**	**200,000**	**182,250**	**100,000**	**282,250**

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

	Treasury shares	Retained earnings	Proposed appropriations	Unrealized fair value changes and revaluation reserve recognised directly in equity: Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	Total equity
	(158,212)	199,288	63,289	1,485	(5,983)	5,364	866	918,360
	–	116,711	–	670	(10,280)	–	(9,610)	107,101
	–	(6,087)	–	–	–	–	–	(172,309)
	–	230	–	–	–	(230)	(230)	–
	91,905	–	–	–	–	–	–	91,905
	(37,259)	–	–	–	–	–	–	–
	–	232	–	–	–	–	–	232
	–	–	(9,413)	–	–	–	–	(9,413)
	–	–	(49,376)	–	–	–	–	(49,376)
	–	–	(4,500)	–	–	–	–	(4,500)
	–	(10,394)	10,394	–	–	–	–	–
	–	(29,394)	29,394	–	–	–	–	–
	–	(2,500)	2,500	–	–	–	–	–
	(103,566)	268,086	42,288	2,155	(16,263)	5,134	(8,974)	882,000
	–	**90,053**	**–**	**(101)**	**8,415**	**–**	**8,314**	**98,367**
	–	**(276)**	**–**	**–**	**–**	**–**	**–**	**(2,037)**
	–	**230**	**–**	**–**	**–**	**(230)**	**(230)**	**–**
	81,201	**–**	**–**	**–**	**–**	**–**	**–**	**81,201**
	(23,084)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**(10,394)**	**–**	**–**	**–**	**–**	**(10,394)**
	–	**–**	**(29,394)**	**–**	**–**	**–**	**–**	**(29,394)**
	–	**–**	**(2,500)**	**–**	**–**	**–**	**–**	**(2,500)**
	–	**(17,740)**	**17,740**	**–**	**–**	**–**	**–**	**–**
	–	**(23,901)**	**23,901**	**–**	**–**	**–**	**–**	**–**
	–	**(2,970)**	**2,970**	**–**	**–**	**–**	**–**	**–**
	(45,449)	**313,482**	**44,611**	**2,054**	**(7,848)**	**4,904**	**(890)**	**1,017,243**

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

$000	2016	2015	Notes	Page
OPERATING ACTIVITIES				
Net income	**90,053**	116,711		
Adjustments for non-cash items in net income				
Depreciation	**4,927**	6,854	5	119
Provisions for impairment	**8,216**	2,814	12	123
Amortization of transaction costs of borrowings	**5,914**	6,183		
Employee deferred awards	**22,183**	9,176	27	148
Net income adjusted for non-cash items	**131,293**	141,738		
Changes in:				
Operating capital				
Placements with financial institutions and other liquid assets (non-cash equivalent)	**(24,474)**	–		
Receivables and prepayments	**(59,097)**	22,497	6	119
Advances	**3,682**	14,940	7	120
Underwritten investments	**(405,979)**	24,867	8	120
Call accounts	**28,960**	5,196	13	124
Payables and accrued expenses	**(37,780)**	(27,620)	15	124
Deferred fees	**(7,412)**	17,556	18	126
Co-investments				
Corporate investment	**64,498**	244,238	9	121
Alternative investment solutions	**105,229**	35,564	10	122
Real estate investment	**38,485**	(12,880)	11	123
Fair value of derivatives	**132,021**	(71,407)		
Other assets	**(84)**	222		
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**(30,658)**	394,911		
FINANCING ACTIVITIES				
Term and institutional accounts	**86,434**	(98,004)	14	124
Medium-term debt repaid – net of transaction costs	**(14,021)**	(40,312)	16	125
Treasury shares sold (purchased) – net	**65,595**	(8,807)		
Preference shares purchased	**(2,037)**	(68,151)	19	127
Dividends paid	**(39,788)**	(58,789)		
Charitable contributions paid	**(2,500)**	(4,500)		
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**93,683**	(278,563)		
INVESTING ACTIVITY				
Investment in premises and equipment	**(1,362)**	(4,243)		
NET CASH USED IN INVESTING ACTIVITY	**(1,362)**	(4,243)		
Net increase in cash and cash equivalents	**61,663**	112,105		
Cash and cash equivalents at beginning of the year	**339,311**	227,206		
Cash and cash equivalents at end of the year	**400,974**	339,311		
Cash and cash equivalents comprise of:				
Cash and short-term funds	**292,214**	82,665		
Placements with financial institutions and other liquid assets	**108,760**	256,646		
	400,974	339,311		

In addition to the above, the Group has undrawn and available balance of $428.3 million (June 30, 2015: $524.8 million) from its revolving medium-term facilities.

Additional cash flow information $000s	2016	2015
Interest paid	**(61,882)**	(58,259)
Interest received	**12,439**	10,347

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

1. ORGANIZATION

(i) Incorporation

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

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

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

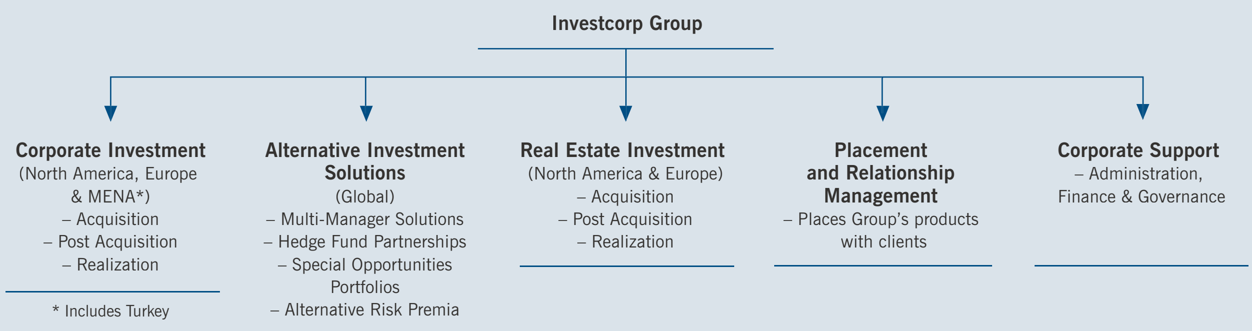
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411-1 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2016 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 10, 2016.

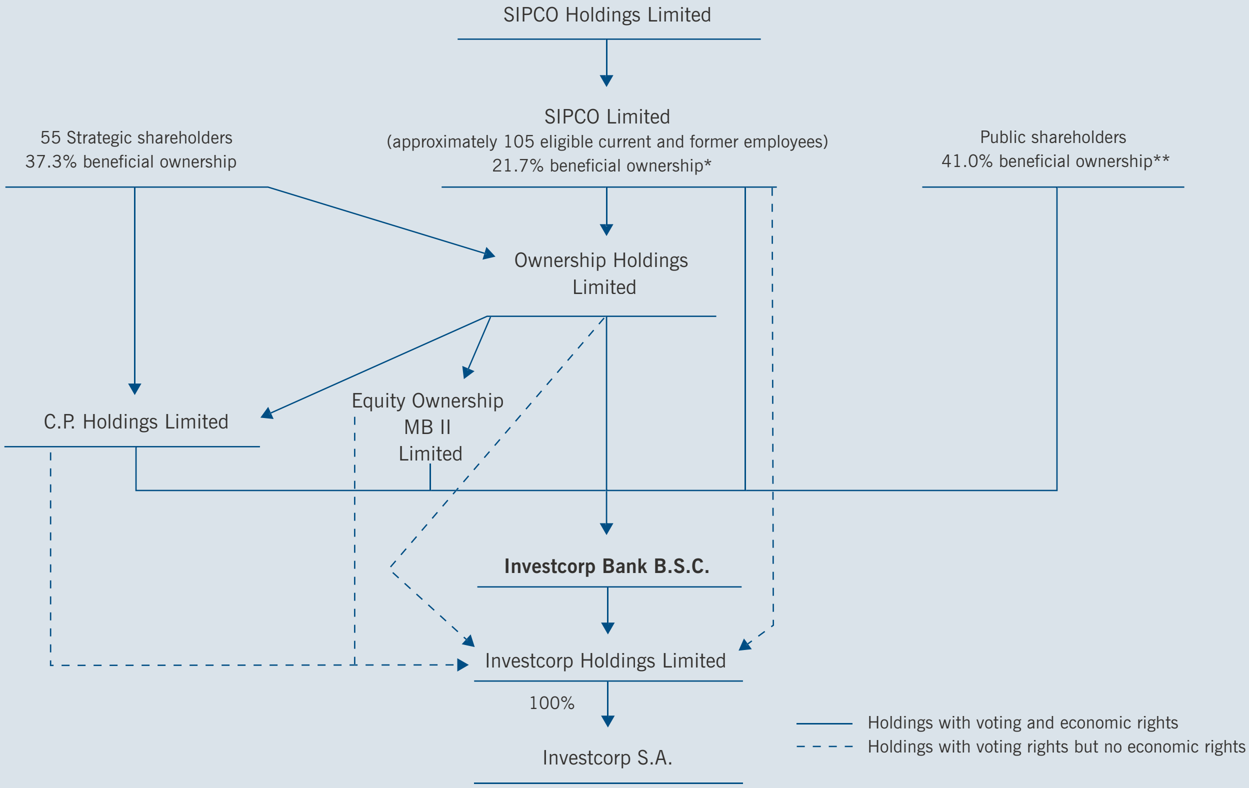
(ii) Activities

The Group performs two principal roles: (a) to act as an intermediary by bringing global investment opportunities to its clients; and (b) to act as a principal investor by co-investing with its clients in each of its investment products.

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



(iii) Ownership



* Includes 6.8% in shares that are held for future grant to management and 0.8% shares granted but not acquired under the various Employee Share Ownership Plans. The Bank has approval from the Central Bank of Bahrain ('CBB') to hold up to 40% of its shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

** Includes 0.7% beneficial ownership held in the form of unlisted Global Depositary Receipts.

The Bank is controlled by Ownership Holdings Limited ('OHL'), through its shareholding directly, and its shareholding indirectly through C.P. Holdings Limited ('CPHL'), of the issued ordinary shares of the Bank. OHL is, in turn, controlled by SIPCO Limited ('SIPCO'), a subsidiary of SHL. SIPCO is the entity through which employees own beneficial interests in the Bank's ordinary shares. As a result of the Bank's ownership structure, the directors of SIPCO, comprised of certain of the Bank's directors and senior executive officers, have the ability to control the voting of 59% of the Bank's ordinary shares.

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

(iv) Subsidiary companies

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

The Bank has a 100% economic interest in Investcorp Holdings Limited ('IHL'), incorporated in the Cayman Islands, through its ownership of Series A and Series B preference shares issued by IHL. These preference shares have the right to 100% of all dividends declared by IHL and 100% of IHL's net assets in the event of liquidation subject to the payment of a nominal amount in respect of IHL's ordinary shares. CPHL, OHL and SIPCO Limited own ordinary shares of IHL and this ownership is adjusted periodically to result in their owning ordinary shares in IHL in the same proportion as their shareholding of the Bank's ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

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

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

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

2. ASSETS UNDER MANAGEMENT

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

	June 30, 2016				June 30, 2015			
$ millions	**Clients**	**Investcorp**	**Affiliates and co-investors**	**Total**	Clients	Investcorp	Affiliates and co-investors	Total
Corporate investment								
Closed-end invested funds								
CI – NA & Europe	**237**	**81**	**19**	**337**	514	168	39	721
CI – MENA	**584**	**67**	**7**	**658**	584	61	7	652
Sub total	**821**	**148**	**26**	**995**	1,098	229	46	1,373
Deal-by-deal	**2,671**	**406**	**315**	**3,392**	2,576	389	350	3,315
Deal-by-deal underwriting	**–**	**167**	**27**	**194**	–	35	–	35
Strategic and other	**–**	**48**	**–**	**48**	–	49	–	49
Total corporate investment	**3,492**	**769**	**368**	**4,629**	3,674	702	396	4,772
Alternative investment solutions*								
Multi-manager solutions	**1,739**	**129**	**1**	**1,869**	1,389	271	1	1,661
Hedge funds partnerships	**1,450**	**111**	**–**	**1,561**	2,094	97	–	2,191
Special opportunities portfolios	**296**	**15**	**–**	**311**	109	13	2	124
Alternative risk premia	**200**	**60**	**–**	**260**	–	40	–	40
Special opportunities portfolios underwriting	**–**	**30**	**–**	**30**	–	–	–	–
Total Alternative investment solutions	**3,685**	**345**	**1**	**4,031**	3,592	421	3	4,016
Real estate investment								
Closed-end committed funds	**–**	**–**	**–**	**–**	75	25	–	100
Closed-end invested funds	**33**	**11**	**–**	**44**	22	18	–	40
Deal-by-deal	**1,373**	**87**	**16**	**1,476**	1,190	107	16	1,313
Deal-by-deal underwriting	**–**	**297**	**–**	**297**	–	53	–	53
Strategic and other investments	**–**	**7**	**–**	**7**	–	7	–	7
Total real estate investment	**1,406**	**402**	**16**	**1,824**	1,287	210	16	1,513
Client call accounts held in trust	**298**	**–**	**–**	**298**	324	–	–	324
Total	**8,881**	**1,516**	**385**	**10,782**	8,877	1,333	415	10,625
Summary by products:								
Closed-end committed funds	**–**	**–**	**–**	**–**	75	25	–	100
Closed-end invested funds	**854**	**159**	**26**	**1,039**	1,120	247	46	1,413
Alternative investment solutions	**3,685**	**315**	**1**	**4,001**	3,592	421	3	4,016
Deal-by-deal	**4,044**	**493**	**331**	**4,868**	3,766	496	366	4,684
Underwriting	**–**	**494**	**27**	**521**	–	88	–	88
Client monies held in trust	**298**	**–**	**–**	**298**	324	–	–	324
Strategic and other investments	**–**	**55**	**–**	**55**	–	56	–	56
Total	**8,881**	**1,516**	**385**	**10,782**	8,877	1,333	415	10,625
Summary by asset classes:								
Corporate investment	**3,492**	**721**	**368**	**4,581**	3,674	653	396	4,723
Alternative investment solutions	**3,685**	**345**	**1**	**4,031**	3,592	421	3	4,016
Real estate investment	**1,406**	**395**	**16**	**1,817**	1,287	203	16	1,506
Client call accounts held in trust	**298**	**–**	**–**	**298**	324	–	–	324
Strategic and other investments	**–**	**55**	**–**	**55**	–	56	–	56
Total	**8,881**	**1,516**	**385**	**10,782**	8,877	1,333	415	10,625

* Stated at gross value of the underlying exposure. Also, includes $2.5 billion (June 30, 2015: $2.4 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 balance sheet co-investment amounts for corporate investment and real estate investment are stated at current fair values while the other categories are stated at their carrying cost.

Certain of the Group's clients entered into a trust arrangement whereby their balances maintained with the Bank were transferred into individual trust fund accounts held by a common trustee. These trust funds are invested in highly liquid assets, which have a credit rating no lower than that of Investcorp, or placed with Investcorp. Client assets held in trust earn the return generated from the investment of such assets, with a guaranteed minimum return equivalent to inter-bank based market rates.

All of these clients' assets, including affiliates and co-investors, are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn a majority of the rewards on their investments, subject to normal management and performance fee arrangements. Accordingly, these assets are not included in the Group's consolidated balance sheet.

3. SEGMENT REPORTING

A. REPORTING SEGMENTS

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

(i) Fee Business

The Group acts as an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The Group operates through centers in the Arabian Gulf, the US and Europe. The Group's clients are primarily based in the Arabian Gulf states. International clients primarily include institutional investors in the United States and Europe. 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 all of the investment asset products it offers to clients. Income from these co-investments in corporate investment deals, alternative investment solutions and real estate investment deals are classified as asset based income.

B. ASSET CLASSES AND PRODUCTS

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

Asset Classes	Products
(1) Corporate investment	Deal-by-deal offerings Closed-end fund(s)
(2) Alternative investment solutions (formerly known as Hedge Funds)	Multi-manager solutions (formerly known as Customized fund of hedge funds) Hedge fund partnerships (formerly known as Single managers) Alternative risk premia (formerly known as Alternative beta funds) Special opportunities portfolios
(3) Real estate investment	Deal-by-deal offerings Closed-end fund(s)

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

(i) Corporate Investment 'CI'

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

(ii) Alternative Investment Solutions 'AIS' (Formerly known as Hedge Funds)

During the year the Group renamed the Hedge Funds line of business to Alternative Investment Solutions.

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 partnerships 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.

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

C. REVENUE GENERATION

(i) Fee income

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

AUM fees

AUM fees consist of:

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

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 ('FVPTL'), cash or pay-in-kind interest from various CI and RE debt investments and rental income distributions from real estate co-investments.

All other income that is common to the Group (such as income arising from the deployment of the Group's excess liquidity, income generated on the Group's strategic investments 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. Call accounts, term and institutional accounts, 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.

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 balance sheet co-investments, excluding underwriting, at the beginning and middle of the year. There is an additional potential expense for the co-investment business in the form of incentive payments if the ex-post net asset based income from the Co-investment Business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business.

G. STATEMENT OF INCOME AND BALANCE SHEET BY REPORTING SEGMENT

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

$000s	2016	2015
FEE BUSINESS		
AUM fees		
Corporate investment	75,453	77,611
Alternative investment solutions	9,564	21,436
Real estate investment	12,353	12,457
Total AUM fees	97,370	111,504
Deal fees		
Corporate investment	148,271	164,554
Alternative investment solutions	3,265	–
Real estate investment	58,561	32,094
Total deal fees	210,097	196,648
Treasury and other asset-based income	4,415	2,557
Gross income attributable to fee business (a)	311,882	310,709
Provisions for impairment	(8,216)	(2,814)
Interest expense (b)	(31,005)	(29,958)
Operating expenses attributable to fee business (c)	(208,118)	(191,814)
NET INCOME FEE BUSINESS (d)	64,543	86,123
CO-INVESTMENT BUSINESS		
Asset-based income		
Corporate investment	100,773	49,839
Alternative investment solutions	(27,664)	9,128
Real estate investment	(1,513)	11,450
Gross income attributable to co-investment business (e)	71,596	70,417
Interest expense (f)	(29,942)	(28,090)
Operating expenses attributable to co-investment business (g)	(16,144)	(11,739)
NET INCOME CO-INVESTMENT BUSINESS (h)	25,510	30,588
NET INCOME (d) + (h)	90,053	116,711
Gross operating income (a) + (e)	383,478	381,126
Gross operating expenses (c) + (g)	(224,262)	(203,553)
Interest expense (b) + (f)	(60,947)	(58,048)

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2015: nil).

$169.5 million (2015: $158.9 million) of deal fees relates to activity fees and $40.6 million (2015: $37.7 million) represents performance fees.

Treasury and other asset based income includes $3.5 million (2015: $4.6 million) of interest income. CI and RE asset-based income includes $3.8 million (2015: $3.5 million) and $0.4 million (2015: $2.3 million) of interest income respectively.

None of the Group's customers have generated 10% 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 and 25(iii) present the geographical split of assets and off-balance sheet items.

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

Consolidated balance sheets by reporting segment are as follows:

	June 30, 2016		
$000s	Co-investment Business	Fee Business	Total
ASSETS			
Cash and short-term funds	–	292,214	292,214
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	235,514	320,612
Advances	–	105,243	105,243
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	–	39,277	39,277
Total assets	1,107,977	1,389,176	2,497,153
LIABILITIES AND EQUITY			
Liabilities			
Call accounts	–	129,987	129,987
Term and institutional accounts	–	124,113	124,113
Payables and accrued expenses	12,717	188,673	201,390
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	1,122,406	1,479,910
Total equity	750,473	266,770	1,017,243
Total liabilities and equity	1,107,977	1,389,176	2,497,153

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

4. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	June 30, 2016				
$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
Financial assets					
Cash and short-term funds	–	292,214	–	–	292,214
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	–	105,243	–	–	105,243
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	841,297	15,015	90,210	2,415,294
Non-financial assets					
Prepayments					42,582
Premises, equipment and other assets					39,277
Total assets					2,497,153
Financial liabilities					
Call accounts	–	129,987	–	–	129,987
Term and institutional accounts	–	124,113	–	–	124,113
Payables and accrued expenses	–	201,390	–	–	201,390
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	–	1,337,552	–	49,480	1,387,032
Non-financial liabilities					
Deferred fees					92,878
Total liabilities					1,479,910

* Adjusted for related fair value hedges.

$000s	Designated as FVTPL	Items at amortized cost	AFS	Derivatives	Total
	June 30, 2015				
Financial assets					
Cash and short-term funds	–	82,665	–	–	82,665
Placements with financial institutions and other liquid assets	–	256,646	–	–	256,646
Positive fair value of derivatives	–	–	–	74,226	74,226
Receivables	–	231,591	–	–	231,591
Advances	–	111,521	–	–	111,521
Underwritten investments	87,505	–	–	–	87,505
Co-investments					
Corporate investment	629,292	22,424	15,523	–	667,239
Alternative investment solutions	421,056	–	–	–	421,056
Real estate investment					
Debt	–	23,374	–	–	23,374
Equity	119,523	–	–	–	119,253
Total financial assets	1,257,376	728,221	15,523	74,226	2,075,346
Non-financial assets					
Prepayments					43,314
Premises, equipment and other assets					42,758
Total assets					2,161,418
Financial liabilities					
Call accounts	–	101,027	–	–	101,027
Term and institutional borrowings	–	37,679	–	–	37,679
Payables and accrued expenses	–	240,363	–	–	240,363
Negative fair value of derivatives	–	–	–	36,743	36,743
Medium-term debt*	–	417,081	–	–	417,081
Long-term debt*	–	346,235	–	–	346,235
Total financial liabilities	–	1,142,385	–	36,743	1,179,128
Non-financial liabilities					
Deferred fees					100,290
Total liabilities					1,279,418

* Adjusted for related fair value hedges.

5. OPERATING EXPENSES

$000s	2016	2015
Staff compensation and benefits	**143,843**	129,138
Other personnel and compensation charges	**8,051**	8,074
Professional fees	**22,612**	20,953
Travel and business development	**11,700**	9,012
Administration and research	**13,474**	13,060
Technology and communication	**4,590**	4,211
Premises	**11,065**	11,175
Depreciation	**4,927**	6,854
Other	**4,000**	1,076
Total	**224,262**	203,553

6. RECEIVABLES AND PREPAYMENTS

$000s	June 30, 2016	June 30, 2015
Subscriptions receivable	**89,881**	34,932
Receivables from investee and holding companies	**109,490**	92,154
Investment disposal proceeds receivable	**74,793**	3,390
AIS related receivables	**4,429**	13,391
Accrued interest receivable	**1,735**	4,654
Prepaid expenses	**42,582**	43,314
Other receivables	**2,759**	93,997
	325,669	285,832
Provisions for impairment (see Note 12)	**(5,057)**	(10,927)
Total	**320,612**	274,905

Receivables arise largely from subscriptions by clients to the Group's investment products, fees earned in respect of the Group's investment management, investment performance and other transactional services, interest accruals on advances and proceeds due from investment disposals.

Subscriptions receivable represent amounts due from clients for participation in the Group's deal-by-deal investment products. These arise in the normal course of the Group's placement activities and are recorded when clients sign a binding agreement confirming their participation in an investment offering. These are typically collected over the short-term, and, in the interim period prior to receipt of cash, are collateralized by clients' other investment assets with Investcorp.

Receivables from investee and holding companies include fees and other receivables, which are due from investee companies and performance fee receivables from holding companies accrued on client assets under management.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of corporate investments and real estate investments. They also include redemption proceeds receivable from underlying 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, from investee companies on investment debt and from investment holding companies on working capital advances.

7. ADVANCES

$000s	June 30, 2016	June 30, 2015
Advances to investment holding companies	**77,120**	78,426
Advances to employee investment programs	**25,829**	42,190
Advances to CI closed-end funds	**10,958**	8,106
Other advances	**2,020**	319
	115,927	129,041
Provisions for impairment (see Note 12)	**(10,684)**	(17,520)
Total	**105,243**	111,521

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.

8. UNDERWRITTEN INVESTMENTS

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

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

	June 30, 2016				June 30, 2015			
$000s	North America	Europe	MENA	Total	North America	Europe	MENA	Total
Corporate investment:								
Consumer Products	**–**	**2,386**	**–**	**2,386**	–	–	–	–
Consumer Services	**25,301**	**–**	**84,248**	**109,549**	1,304	–	–	1,304
Industrial Services	**–**	**–**	**–**	**–**	–	–	33,642	33,642
IT Services	**–**	**55,132**	**–**	**55,132**	–	–	–	–
Total corporate investment	**25,301**	**57,518**	**84,248**	**167,067**	1,304	–	33,642	34,946
Real estate investment:								
Core/Core Plus	**296,627**	**–**	**–**	**296,627**	52,559	–	–	52,559
Total real estate investment	**296,627**	**–**	**–**	**296,627**	52,559	–	–	52,559
Alternative investment solutions:								
Special opportunities portfolio	**29,790**	**–**	**–**	**29,790**	–	–	–	–
Total alternative investment solutions	**29,790**	**–**	**–**	**29,790**	–	–	–	–
Total	**351,718**	**57,518**	**84,248**	**493,484**	53,863	–	33,642	87,505

9. CORPORATE CO-INVESTMENTS

$000s	June 30, 2016	June 30, 2015
CI co-investments [See Note 9 (a)]	**554,336**	618,292
Strategic and other investments [See Note 9 (b)]	**48,304**	48,947
Total	**602,640**	667,239

9. (a) CI CO-INVESTMENTS

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

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

The carrying values of the Group's CI co-investments at June 30, 2016 and June 30, 2015 are:

	June 30, 2016				June 30, 2015			
$000s	**North America**	**Europe**	**MENA***	**Total**	North America	Europe	MENA*	Total
Consumer Products	**59,480**	**50,876**	**41,561**	**151,917**	56,345	37,816	33,154	127,315
Consumer Services	**28,871**	**–**	**24,118**	**52,989**	346	–	13,840	14,186
Distribution	**–**	**–**	**–**	**–**	–	4,742	–	4,742
Industrial Products	**30,800**	**66,745**	**4,946**	**102,491**	30,175	172,660	6,689	209,524
Industrial Services	**26,162**	**2,228**	**48,593**	**76,983**	52,506	24,004	11,140	87,650
Telecom	**108,494**	**–**	**–**	**108,494**	95,981	–	–	95,981
Technology								
Digital Content	**692**	**–**	**–**	**692**	719	32,104	–	32,823
Enterprise Software	**14,818**	**5,648**	**–**	**20,466**	18,548	11,676	–	30,224
IT Services	**17,109**	**20,693**	**–**	**37,802**	12,835	–	–	12,835
Infrastructure & Others	**–**	**–**	**2,502**	**2,502**	–	–	3,012	3,012
Total	**286,426**	**146,190**	**121,720**	**554,336**	267,455	283,002	67,835	618,292

* Including Turkey.

9. (b) STRATEGIC AND OTHER INVESTMENTS

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

1. Investments made for strategic reasons; and

2. Instruments obtained on disposal of exited investments.

Equity instruments are held as Available-For-Sale ('AFS') investments and debt instruments at amortized cost, except for investments amounting to $11.0 million (June 30, 2015: $11.0 million) that are classified as FVTPL.

Valuation techniques for measuring the fair value of strategic and other investments are the same as those used for CI co-investments. However, there may be cases where the information required for the valuation of these investments is not available. For example, financial projections and up-to-date financial information may not be available when an investor holds a minority stake in an investee.

10. ALTERNATIVE INVESTMENT SOLUTIONS CO-INVESTMENTS

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

$000s	June 30, 2016	June 30, 2015
Multi-manager solutions	**130,058**	271,173
Hedge funds partnerships	**111,061**	96,697
Alternative risk premia	**59,952**	39,851
Special opportunities portfolios	**14,756**	13,335
Total	**315,827**	421,056

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 26) 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.

Out of the total AIS co-investment, $29.8 million (June 30, 2015: $51.6 million) comprise funds which are not immediately available for redemption due to the liquidity profile of the instruments held by the underlying managers.

Of the above, co-investments amounting to $57.4 million (June 30, 2015: nil) 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, 2016, $41.7 million was the drawn balance from the bi-lateral revolving facility (June 30, 2015: $50.2 million) (See Note 16).

11. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate are mainly classified as FVTPL investments. Those investments that are developed and leased out are fair valued based on the estimated future cash flows from the underlying real estate assets and using prevailing capitalization rates for similar properties in the same geographical area, or DCF analysis.

Opportunistic investments that involve an element of development are generally valued based on third party led financing events, or DCF analysis.

Certain of the strategic and debt investments in real estate properties are carried at amortised cost amounting to $10.3 million (June 30, 2015: $23.4 million).

The carrying values of the Group's co-investments in real estate portfolios, which as at June 30, 2016 and at June 30, 2015, were all located in the United States are:

$000s Portfolio Type	**June 30, 2016**	June 30, 2015
Core/Core Plus	**92,294**	116,787
Debt	**3,736**	17,400
Opportunistic	**1,831**	2,113
Strategic	**6,551**	6,597
Total	**104,412**	142,897

12. PROVISIONS FOR IMPAIRMENT

Specific impairment provisions for receivables and advances are as follows:

$000s **12 months to June 30, 2016** **Categories**	**At beginning**	**Charge**	**Written-off**	**At end**
Receivables (Note 6)	**10,927**	**5,620**	**(11,490)**	**5,057**
Advances (Note 7)*	**17,520**	**2,596**	**(9,432)**	**10,684**
Total	**28,447**	**8,216**	**(20,922)**	**15,741**

* Includes $2 million of portfolio provision.

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

* Includes $2 million of portfolio provision.

13. CALL ACCOUNTS

$000s	June 30, 2016	June 30, 2015
Investment holding companies accounts	**100,013**	71,186
Other call accounts	**11,291**	13,744
Discretionary and other accounts	**18,683**	16,097
Total	**129,987**	101,027

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

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

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

All these balances bear interest at market rates.

14. TERM AND INSTITUTIONAL ACCOUNTS

$000s	June 30, 2016	June 30, 2015
Institutional accounts on call	**95,873**	616
Term deposits	**28,240**	37,063
Total	**124,113**	37,679

All these balances bear interest at market rates.

15. PAYABLES AND ACCRUED EXPENSES

$000s	June 30, 2016	June 30, 2015
Accrued expenses – employee compensation	**56,188**	65,787
Vendor and other payables	**29,466**	26,829
Unfunded deal acquisitions	**105,000**	32,000
Investment related payables	**2,368**	2,286
Accrued interest payable	**8,368**	9,303
Preference shares redemption payable	**–**	104,158
Total	**201,390**	240,363

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

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

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

In the prior year, the preference shares redemption payable related to the Bank's redemption of 99,259 preference shares at the end of the year which was settled subsequent to the year end.

16. MEDIUM-TERM DEBT

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

		June 30, 2016		June 30, 2015	
$000s	Final Maturity	Size	Current outstanding	Size	Current outstanding
3-year secured bilateral revolving facility	February 2017	**175,000**	**41,694**	175,000	50,216
5-year fixed rate bonds	November 2017	**250,000**	**250,000**	250,000	250,000
4-year syndicated revolving facility	March 2020	**420,000**	**–**	400,000	–
5-year fixed rate bonds	June 2019	**139,249**	**139,249**	139,249	139,249
Total			**430,943**		439,465
Foreign exchange translation adjustments			**(11,391)**		(4,877)
Fair value adjustments relating to interest rate hedges			**713**		(49)
Transaction costs of borrowings			**(17,184)**		(17,458)
Total			**403,081**		417,081

The three-year secured bilateral revolving facility of $175 million is secured, to the extent it is drawn, by an equivalent amount of the Group's AIS co-investments. As of June 30, 2016, based on the amount of eligible collateral, the effective available facility was $50 million.

An amendment to the syndicated revolving facility was signed in March 2016. As a result of the amendment: (i) the facility's maturity date was extended from July 2018 to March 2020 with a further lender option (exercisable in Q1 of calendar year 2017) to extend the maturity to March 2021; and (ii) the facility was changed from a single currency facility to a multi-currency tranche facility and increased in aggregate size from $400 million to $420 million equivalent, consisting of a $308 million tranche and a €100 million tranche.

All medium-term facilities, except for the five-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.

17. LONG-TERM DEBT

$000s	Final Maturity	June 30, 2016	June 30, 2015
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		**27,682**	(30,102)
Fair value adjustments relating to interest rate hedges		**70,889**	(3,932)
Transaction costs of borrowings		**(1,918)**	(2,059)
Total		**478,981**	346,235

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

18. DEFERRED FEES

$000s	June 30, 2016	June 30, 2015
Deferred fees relating to placements	**91,453**	97,890
Deferred fees from investee companies	**1,425**	2,400
Total	**92,878**	100,290

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 $36.2 million (2015: $42.0 million).

19. SHARE CAPITAL AND RESERVES

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

	June 30, 2016			June 30, 2015*		
	No. of shares	**Par value $**	**$000**	No. of shares	Par value $	$000
Authorized share capital						
– Ordinary shares	**400,000,000**	**2.50**	**1,000,000**	400,000,000	2.50	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	**80,000,000**	**2.50**	**200,000**	80,000,000	2.50	200,000
– Preference shares	**223,239**	**1,000**	**223,239**	225,000	1,000	225,000
			423,239			425,000

* Number of shares and par value per ordinary share for June 30, 2015 have been re-aligned to reflect the share split executed in financial year 2016.

Capital management

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

Ordinary share capital

On September 29, 2015 the shareholders of the Bank authorized a share split at an extraordinary general meeting pursuant to which each ordinary share, having a nominal value of US $250 per share, was split into 100 ordinary shares, having a nominal value of US $2.50 per share, resulting in: (i) an increase in the number of the Bank's authorized ordinary shares from 4,000,000 to 400,000,000 ordinary shares; and (ii) an increase in the number of the Bank's issued ordinary shares from 800,000 to 80,000,000 ordinary shares.

Statutory reserve

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

Treasury shares

6,084,183 (June 30 2015: 10,704,100) ordinary shares were held as treasury shares, which includes 615,952 shares (June 30, 2015: 1,439,755 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 2,373,169 shares (June 30, 2015: 2,533,143 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2016, are not counted as treasury shares (see Note 27). During the year, a gain of $23.1 million (2015: $37.3 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 Bank's option, in part or in whole at par plus dividends due up to the call date.

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

1,761 preference shares (2015: 166,222 preference shares) have been retired during the year ended June 30, 2016 for an aggregate purchase price of $2.0 million (2015: $171.9 million), resulting in 223,239 (June 30, 2015: 225,000) issued preference shares outstanding as at June 30, 2016.

20. UNREALIZED FAIR VALUE CHANGES AND REVALUATION RESERVE RECOGNIZED DIRECTLY IN EQUITY

This consists of unrealized fair value changes of AFS investments, cash flow hedges and the revaluation reserve of premises and equipment recognized directly in equity.

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

$000s	Available-for-sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total
Balance at June 30, 2014	1,485	(5,983)	5,364	866
Net realized loss recycled to statement of income	–	2,266	–	2,266
Net unrealized gains/(losses) for the year	670	(12,546)	–	(11,876)
Transfer of depreciation to retained earnings	–	–	(230)	(230)
Balance at June 30, 2015	2,155	(16,263)	5,134	(8,974)
Net realized gain recycled to statement of income	–	(2,656)	–	(2,656)
Net unrealized (losses)/gains for the year	(101)	11,071	–	10,970
Transfer of depreciation to retained earnings	–	–	(230)	(230)
Balance at June 30, 2016	**2,054**	**(7,848)**	**4,904**	**(890)**

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21. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

$000s	2016	2015*
Net income	**90,053**	116,711
Less: Preference shares dividend – proposed	**(23,901)**	(29,394)
Less: Preference shares dividend and premium – paid on redemptions	**(276)**	(6,087)
Net income attributable to ordinary shareholders	**65,876**	81,230
Weighted average ordinary shares for basic earnings per ordinary share	**67,762,620**	61,939,300
Basic earnings per ordinary share – on weighted average shares ($)	**0.97**	1.31
Weighted average ordinary shares for fully diluted earnings per ordinary shares	**70,176,413**	63,035,900
Fully diluted earnings per ordinary share – on weighted average diluted shares ($)	**0.94**	1.29
Proposed appropriations:		
Ordinary shares dividend	**17,740**	10,394
Preference shares dividend	**23,901**	29,394
Charitable contributions by shareholders	**2,970**	2,500
	44,611	42,288

* The weighted average ordinary shares and the resulting earning per share for 2015 have been re-aligned to reflect the share split executed in financial year 2016.

The proposed ordinary share dividend is 24 cents (2015: 15 cents) per share payable only on issued shares (excluding treasury shares), that are held on the record date.

The proposed preference share dividend of $23.9 million (2015: $29.4 million) represents an annual dividend on issued preference shares.

The book value per ordinary share at the balance sheet date is calculated by dividing the ordinary shareholders' equity (excluding unrealized changes relating to AFS co-investments, cash flow hedges, the revaluation reserve and proposed appropriations) by the number of ordinary shares outstanding at year end (taking into account the beneficial interest of management in all acquired unvested shares issued at year end). The fully diluted book value per ordinary share is $10.15 per share (June 30, 2015: $9.00 per share).

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

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- the hedging instrument, the underlying hedged item, the nature of the risk being hedged and the risk management objective and strategy must be formally documented at the inception of the hedge;
- it must be clearly demonstrated that the hedge, through changes in the value of the hedging instrument, is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item;
- the effectiveness of the hedge must be capable of being reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

The Group's management classifies hedges into two categories: (a) fair value hedges that hedge exposure to changes in fair value of a recognized asset or liability; and (b) cash flow hedges that hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognized asset or liability or a forecasted transaction highly probable to occur.

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

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

Other derivatives

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

Valuation of derivatives

The Group values the majority of its derivative financial instruments using internal models. The models use market observable inputs including interest rate curves and both forward and spot prices for currencies. Derivative assets and liabilities included in Level 2 (see Note 26) represent interest rate swaps, cross currency swaps, currency forwards and option contracts. For derivatives that are not valued using internal models, the Group's policy is to rely on third party valuations, whilst benchmarking them against observable market data.

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

$000s	June 30, 2016			June 30, 2015		
Description	Notional value	Positive fair value*	Negative fair value	Notional value	Positive fair value*	Negative fair value
(A) HEDGING DERIVATIVES						
Currency risk being hedged using forward foreign exchange contracts						
(i) Fair value hedges						
On balance sheet exposures	**330,950**	**30,055**	**–**	310,087	–	(7,511)
(ii) Cash flow hedges						
Coupon on long-term debt	**53,571**	**4,973**	**–**	50,327	–	(1,260)
Total forward foreign exchange contracts	**384,521**	**35,028**	**–**	360,414	–	(8,771)
Interest rate risk being hedged using interest rate swaps						
(i) Fair value hedges – fixed rate debt	**768,219**	**1,054**	**(1,083)**	710,598	36,935	(3,078)
(ii) Cash flow hedges – floating rate debt	**325,000**	**–**	**(4,936)**	500,000	–	(3,430)
Total interest rate hedging contracts	**1,093,219**	**1,054**	**(6,019)**	1,210,598	36,935	(6,508)
Total hedging derivatives	**1,447,740**	**36,082**	**(6,019)**	1,571,012	36,935	(15,279)
(B) OTHER DERIVATIVES						
Interest rate swaps	**75,000**	**16,028**	**(16,032)**	331,003	11,553	(11,801)
Total return swaps	**23,313**	**92**	**(175)**	–	–	–
Forward foreign exchange contracts	**989,332**	**17,473**	**(23,093)**	430,185	1,807	(2,231)
Currency options	**–**	**–**	**–**	1,500	–	(1)
Cross currency swaps	**438,832**	**20,535**	**(4,161)**	320,361	23,931	(7,431)
Total other derivatives	**1,526,477**	**54,128**	**(43,461)**	1,083,049	37,291	(21,464)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS	**3,004,217**	**90,210**	**(49,480)**	2,654,061	74,226	(36,743)

* Net collateral received by the Group amounting to $129.6 million has been taken against the fair values above (June 30, 2015: $24.2 million).

Interest rate swaps, classified as hedging derivatives include $41.8 million (June 30, 2015: $27.0 million) of credit contingent swaps, which are cancelable if the Group defaults on its CHF 125 million 4.75% notes due in 2019.

Cross currency swaps, classified as other derivatives, include $123.5 million (June 30, 2015: $57.5 million) of credit contingent swaps, which are cancelable 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 $23.3 million (June 30, 2015: nil), 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.

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

	June 30, 2016				
	Notional amounts by term to maturity				
$000s	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**

	June 30, 2015				
	Notional amounts by term to maturity				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	310,087	–	–	–	310,087
Interest rate swaps	–	–	322,406	388,192	710,598
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	50,327	–	–	–	50,327
Interest rate swaps	50,000	125,000	300,000	25,000	500,000
Other Derivatives:					
Interest rate swaps	–	256,003	25,000	50,000	331,003
Forward foreign exchange contracts	425,185	5,000	–	–	430,185
Currency options	1,500	–	–	–	1,500
Cross currency swaps	–	–	320,361	–	320,361
	837,099	386,003	967,767	463,192	2,654,061

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2016 were $80.4 million (2015: losses of $21.9 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $80.7 million (2015: gains of $24.4 million). These gains and losses are included in interest expense or treasury and other asset-based income, as appropriate, in the consolidated statement of income. Additionally, during the current financial year, there was a loss of $0.5 million (2015: $0.1 million) on derivative instruments classified as other derivatives.

Undiscounted cash flows for forecasted items hedged

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

	June 30, 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)**

	June 30, 2015				
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Currency risk*					
Coupon on long-term debt	(5,289)	(5,289)	(42,312)	(105,779)	(158,669)
Interest rate risk*					
Interest on liabilities	(2,795)	(4,449)	(20,135)	(57,704)	(85,083)
	(8,084)	(9,738)	(62,447)	(163,483)	(243,752)

* These forecasted fixed coupon payments have been hedged using interest rate swap derivative contracts as disclosed earlier in this note.

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2016 was a gain of $2.7 million (June 30, 2015: loss of $2.3 million).

23. COMMITMENTS AND CONTINGENT LIABILITIES

$000s	June 30, 2016	June 30, 2015
Investment commitments	**47,138**	36,744
Non-cancelable operating leases:		
Up to 1 year	**6,062**	6,203
1 year to 5 years	**8,061**	14,233
Total non-cancelable operating leases	**14,123**	20,436
Guarantees and letters of credit issued to third parties	**3,500**	3,616

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. REGULATORY CAPITAL ADEQUACY

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

	June 30, 2016		June 30, 2015		
$000s	Balance as per published financial statements	Consolidated PIR data	Balance as per published financial statements	Consolidated PIR data	*Reference*
Assets					
Cash and short-term funds	**292,214**	**292,214**	82,665	82,665	
Placements with financial institutions and other liquid assets	**133,234**	**133,234**	256,646	256,646	
Positive fair value of derivatives	**90,210**	**90,210**	74,226	74,226	
Receivables	**278,030**	**278,030**	231,591	231,591	
Advances	**105,243**	**105,243**	111,521	111,521	
Underwritten investments	**493,484**	**493,484**	87,505	87,505	
Co-investments – retention					
Corporate investment	**602,640**	**602,640**	667,239	667,239	
Alternative investment solutions	**315,827**	**315,827**	421,056	421,056	
Real estate investment	**104,412**	**104,412**	142,897	142,897	
Prepayments	**42,582**	**42,582**	43,314	43,314	
Premises, equipment and other assets	**39,277**		42,758		
Tangibles	**–**	**29,694**	–	33,143	
Intangibles*	**–**	**9,583**	–	9,615	*(f)*
Total assets	**2,497,153**	**2,497,153**	2,161,418	2,161,418	
Liabilities and Equity					
Liabilities					
Call accounts	**129,987**	**129,987**	101,027	101,027	
Term and institutional accounts	**124,113**	**124,113**	37,679	37,679	
Payables and accrued expenses	**201,390**	**201,390**	240,363	240,363	
Negative fair value of derivatives	**49,480**	**49,480**	36,743	36,743	
Medium-term debt	**403,081**	**403,081**	417,081	417,081	
Long-term debt	**478,981**	**478,981**	346,235	346,235	
Deferred fees	**92,878**	**92,878**	100,290	100,290	
Total liabilities	**1,479,910**	**1,479,910**	1,279,418	1,279,418	
Equity					
Paid-in-share capital					
Of which form part of Common Equity Tier 1 (CET1)					
Ordinary share capital	**200,000**	**200,000**	200,000	200,000	*(a1)*
Treasury shares	**(45,449)**	**(45,449)**	(103,566)	(103,566)	*(a2)*
Reserves and accumulated other comprehensive income					
Of which form part of Common Equity Tier 1 (CET1)					
Statutory reserve	**100,000**	**100,000**	100,000	100,000	*(c1)*
Share premium	**182,250**	**182,250**	159,166	159,166	*(c2)*
Retained earnings	**223,429**	**223,429**	151,375	151,375	*(b1)*
Current cumulative net income	**90,053**	**90,053**	116,711	116,711	*(b2)*
Proposed appropriations	**44,611**	**44,611**	42,288	42,288	*(b3)*
Available-for-sale revaluation reserve	**2,054**	**2,054**	2,155	2,155	*(c3)*
Cash flow hedge reserve	**(7,848)**	**(7,848)**	(16,263)	(16,263)	*(c4)*
Of which form part of Additional Tier 1 (AT1)					
Preference share capital	**223,239**	**223,239**	225,000	225,000	*(d)*
Fixed asset revaluation reserve	**4,904**	**4,904**	5,134	5,134	*(e)*
Total equity	**1,017,243**	**1,017,243**	882,000	882,000	
Total liabilities and equity	**2,497,153**	**2,497,153**	2,161,418	2,161,418	

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

$000s	June 30, 2016 PIR	June 30, 2016 Amounts subject to Pre-2015 Treatment	June 30, 2015 PIR	June 30, 2015 Amounts subject to Pre-2015 Treatment	*Reference*
Common Equity Tier 1 (CET1) capital: instruments and reserves					
Directly issued qualifying common share capital plus related stock surplus	**154,551**		96,434		*(a1)+(a2)*
Retained earnings	**358,093**		310,374		*(b1)+(b2) +(b3)*
Accumulated other comprehensive income (and other reserves)	**276,456**		245,058		*(c1)+(c2) +(c3)+(c4)*
CET1 capital before regulatory adjustments	**789,100**		651,866		
Less regulatory adjustments to CET1					
Intangibles	**(3,833)**	**9,583**	(1,923)	9,615	*(f)*
Cash-flow hedge reserve	**7,848**		(2,000)		*(c4)*
Total regulatory adjustments to Common Equity Tier 1	**4,015**		(3,923)		
Common Equity Tier 1 capital (CET1)	**793,115**		647,943		
Additional Tier 1 capital (AT1): instruments					
Directly issued qualifying Additional Tier 1 instruments	**223,239**		225,000		*(d)*
Additional Tier 1 capital before regulatory adjustments	**223,239**		225,000		
Total regulatory adjustments to Additional Tier 1 capital	**–**		–		
Additional Tier 1 capital (AT1)	**223,239**		225,000		
Tier 1 capital (T1 = CET1 + AT1)	**1,016,354**		872,943		
Tier 2 capital (T2)					
Fixed asset revaluation reserve	**4,904**		5,134		*(e)*
Tier 2 capital before regulatory adjustments	**4,904**		5,134		
Total regulatory adjustments to Tier 2 capital	**–**		–		
Tier 2 capital (T2)	**4,904**		5,134		
Total capital (TC = T1 + T2)	**1,021,258**		878,077		

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

- Standardized approach for credit risk and market risk; and
- Basic indicator approach for operational risk.

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

Asset class segment	Basel III Methodology June 30, 2016	Basel III risk weight June 30, 2016
Corporate investments	Standardized approach ('STA')	150%
Real estate investments	Standardized approach ('STA')	200%
Alternative Investment Solutions	Standardized approach ('STA')	150%
CI and RE underwriting	Standardized approach ('STA')	100%
Operational risk	Basic indicator approach ('BIA')	15%

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

$000s	June 30, 2016	June 30, 2015
Tier 1 capital (refer previous table)	**1,016,354**	872,943
Tier 2 capital (refer previous table)	**4,904**	5,134
Regulatory capital base under Basel III (TC = T1 + T2)	**1,021,258**	878,077

Risk weighted exposure $000s	June 30, 2016 Principal/ Notional amounts	June 30, 2016 Risk-weighted equivalents	June 30, 2015 Principal/ Notional amounts	June 30, 2015 Risk-weighted equivalents
Credit risk				
Claims on sovereigns	**47,812**	**–**	25,000	–
Claims on banks	**354,822**	**182,210**	233,466	114,058
Claims on corporates	**404,236**	**404,236**	330,097	264,250
Co-investments (including underwriting)	**1,516,363**	**2,116,965**	1,318,697	1,962,829
Other assets	**61,466**	**90,357**	157,696	182,500
Off-balance sheet items				
Commitments and contingent liabilities	**64,761**	**19,994**	60,895	22,345
Derivative financial instruments	**102,920**	**57,369**	92,027	53,244
Credit risk-weighted exposure		**2,871,131**		2,599,226
Market risk				
Market risk-weighted exposure		**1,882**		862
Operational risk				
Operational risk-weighted exposure		**500,122**		463,705
Total risk-weighted exposure (RWE)		**3,373,135**		3,063,793
Tier 1 capital ratio (T1)/(RWE)		**30.1%**		**28.5%**
Risk asset ratio (TC)/(RWE)		**30.3%**		**28.7%**
Minimum required as per CBB regulatory guidelines under Basel III		**12.5%**		**12.5%**
Capital cushion over minimum required as per CBB guidelines		**599,616**		**495,103**

Fair value unrealized gains on FVTPL investments amounting to $59.1 million (June 30, 2015: losses of $92.9 million) are reflected in retained earnings, which is part of Tier 1 Capital.

25. RISK MANAGEMENT

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

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

In addition to determining an adequate economic capital allocation for each reporting segment, the risk management team has developed 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 $24.5 million placed as funded credit contingent derivative with a financial counterparty.

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

(i) Counterparty credit risk

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

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

The table below shows the relationship between the internal rating* and the category of the external rating grades:

Internal Rating	External Rating by S & P and Moody's
High	AAA to A
Standard	A– to B–

* The internal rating is used to determine provisions and impairments for financial reporting purposes.

Internal rating categories are summarized as follows:

High – there is a very high likelihood of the asset being recovered in full and collateral may be available.

Standard – whilst there is a high likelihood that the asset will be recovered and therefore, represents low risk to the Group, the asset may not be collateralized.

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received. During the current and previous year, none of the advances (refer Note 7) were restructured.

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

	June 30, 2016						
	Neither past due nor impaired (a)						
	Credit risk rating						
$000s	High	Standard	Past due but not impaired (b)	Impaired (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Short-term funds	**796**	**291,276**	**–**	**–**	**–**	**292,072**	**195,177**
Placements with financial institutions and other liquid assets	**609**	**132,625**	**–**	**–**	**–**	**133,234**	**270,455**
Positive fair value of derivatives	**90,210**	**–**	**–**	**–**	**–**	**90,210**	**52,627**
Receivables	**–**	**188,149**	**89,881**	**5,057**	**(5,057)**	**278,030**	**190,638**
Advances	**–**	**107,243**	**–**	**8,684**	**(10,684)**	**105,243**	**154,598**
Co-investments – debt	**–**	**32,576**	**–**	**–**	**–**	**32,576**	**39,187**
Guarantees	**–**	**3,500**	**–**	**–**	**–**	**3,500**	**3,558**
Total	**91,615**	**755,369**	**89,881**	**13,741**	**(15,741)**	**934,865**	

	June 30, 2015						
	Neither past due nor impaired (a)						
	Credit risk rating						
$000s	High	Standard	Past due but not impaired (b)	Impaired (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average balance
Short-term funds	582	81,959	–	–	–	82,541	97,956
Placements with financial institutions and other liquid assets	222,083	34,563	–	–	–	256,646	247,076
Positive fair value of derivatives	74,226	–	–	–	–	74,226	15,127
Receivables	–	196,659	34,932	10,927	(10,927)	231,591	182,759
Advances	–	113,521	–	15,520	(17,520)	111,521	53,109
Co-investments – debt	–	45,798	–	–	–	45,798	46,699
Guarantees	–	3,616	–	–	–	3,616	3,616
Total	296,891	476,116	34,932	26,447	(28,447)	805,939	

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

$000s	**June 30, 2016**	June 30, 2015
Up to 1 month	**74,190**	27,472
> 1 up to 3 months	**5,556**	5,139
> 3 up to 6 months	**8,960**	2,146
> 6 months	**1,175**	175
Total	**89,881**	34,932

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, 2016 amounts to $776.7 million (June 30, 2015: $229.0 million).

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

$000s	**30 June, 2016**	30 June, 2015
GEOGRAPHICAL REGION		
North America	**15,741**	26,548
Europe	**–**	1,613
Other	**–**	286
Total	**15,741**	28,447

$000s	**30 June, 2016**	30 June, 2015
INDUSTRY SECTOR		
Banking and Finance	**2,014**	2,097
Consumer products	**–**	210
Distribution	**–**	1,686
Industrial products	**–**	92
Industrial services	**–**	2,383
Real estate	**13,727**	19,663
Technology and Telecom	**–**	2,056
Others	**–**	260
Total	**15,741**	28,447

(ii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems and scenario analyses that are incorporated into a contingency funding plan. The framework is consistent with regulatory requirements and is subject to Board and senior management oversight. Liquidity management aims to arrange diversified funding sources and maintain comfortable and laddered debt maturities. The Group manages assets with liquidity in mind, and it monitors liquidity on a daily basis.

The table below summarizes the maturity profile of the Group's assets and liabilities based on expected realizations.

	June 30, 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	**292,214**	–	**292,214**	–	–	–	–	**292,214**
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	**19,814**	**2,927**	**22,741**	**82,502**	–	–	–	**105,243**
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	**1,310,844**	**101,683**	**1,412,527**	**943,522**	**581**	**58,664**	–	**2,415,294**
Non-financial assets								
Prepayments	–	–	–	–	–	–	**42,582**	**42,582**
Premises, equipment and other assets	–	–	–	–	–	–	**39,277**	**39,277**
Total assets	**1,310,844**	**101,683**	**1,412,527**	**943,522**	**581**	**58,664**	**81,859**	**2,497,153**
LIABILITIES								
Financial liabilities								
Call accounts	**11,291**	–	**11,291**	**118,696**	–	–	–	**129,987**
Term and institutional accounts	**30,108**	**44,532**	**74,640**	**49,473**	–	–	–	**124,113**
Payables and accrued expenses	**170,619**	**13,985**	**184,604**	**16,786**	–	–	–	**201,390**
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**	**551,760**	–	**499,791**	–	**1,387,032**
Non-financial liability								
Deferred fees	–	–	–	–	–	–	**92,878**	**92,878**
Total liabilities	**235,024**	**100,457**	**335,481**	**551,760**	–	**499,791**	**92,878**	**1,479,910**
Net gap	**1,075,820**	**1,226**	**1,077,046**	**391,762**	**581**	**(441,127)**	**(11,019)**	**1,017,243**
Cumulative liquidity gap	**1,075,820**	**1,077,046**	**1,077,046**	**1,468,808**	**1,469,389**	**1,028,262**	**1,017,243**	

	June 30, 2015							
$000s	Up to 3 months	>3 months up to 1 year	Sub-Total up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Non-cash Items	Total
ASSETS								
Financial assets								
Cash and short-term funds	82,665	–	82,665	–	–	–	–	82,665
Placement with financial institutions and other liquid assets	256,646	–	256,646	–	–	–	–	256,646
Positive fair value of derivatives	1,362	6	1,368	19,512	675	52,671	–	74,226
Receivables	145,953	12,227	158,180	73,411	–	–	–	231,591
Advances	2,683	8,366	11,049	100,472	–	–	–	111,521
Underwritten investments	87,505	–	87,505	–	–	–	–	87,505
Co-investments								
Corporate investment	32,104	28,714	60,818	606,421	–	–	–	667,239
Alternative investment solutions	239,090	119,866	358,956	62,100	–	–	–	421,056
Real estate investment	–	–	–	142,897	–	–	–	142,897
Total financial assets	848,008	169,179	1,017,187	1,004,813	675	52,671	–	2,075,346
Non-financial assets								
Prepayments	–	–	–	–	–	–	43,314	43,314
Premises, equipment and other assets	–	–	–	–	–	–	42,758	42,758
Total assets	848,008	169,179	1,017,187	1, 004,813	675	52,671	86,072	2,161,418
LIABILITIES								
Financial liabilities								
Call accounts	13,744	–	13,744	87,283	–	–	–	101,027
Term and institutional borrowings	4,867	25,004	29,871	7,808	–	–	–	37,679
Payables and accrued expenses	221,825	5,037	226,862	13,501	–	–	–	240,363
Negative fair value of derivatives	11,694	6	11,700	10,564	–	14,479	–	36,743
Medium-term debt	–	–	–	417,081	–	–	–	417,081
Long-term debt	–	–	–	–	–	346,235	–	346,235
Total financial liabilities	252,130	30,047	282,177	536,237	–	360,714	–	1,179,128
Non-financial liability								
Deferred fees	–	–	–	–	–	–	100,290	100,290
Total liabilities	252,130	30,047	282,177	536,237	–	360,714	100,290	1,279,418
Net gap	595,878	139,132	735,010	468,576	675	(308,043)	(14,218)	882,000
Cumulative liquidity gap	595,878	735,010	735,010	1,203,586	1,204,261	896,218	882,000	

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective earliest contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve to calculate future floating rate cash flows for the relevant periods.

	June 30, 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:						
Call accounts	**134,847**	**–**	**–**	**–**	**–**	**134,847**
Term and institutional borrowings	**30,774**	**46,457**	**50,443**	**–**	**–**	**127,674**
Payables and accrued expenses	**170,620**	**13,985**	**16,785**	**–**	**–**	**201,390**
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**
	347,593	**137,943**	**534,106**	**83,202**	**486,671**	**1,589,515**
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	**329,788**	**165,890**	**487,094**	**43,302**	**454,403**	**1,480,477**

	June 30, 2015					
$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Total
Financial liabilities:						
Call accounts	102,065	–	–	–	–	102,065
Term and institutional borrowings	4,934	25,612	8,283	–	–	38,829
Payables and accrued expenses	221,825	5,037	13,501	–	–	240,363
Medium-term debt	2,438	28,228	485,982	–	–	516,648
Long-term debt	7,309	7,309	58,472	73,090	435,415	581,595
	338,571	66,186	566,238	73,090	435,415	1,479,500
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	786,063	18,069	223,356	–	–	1,027,488
Contractual amounts receivable	(776,576)	(16,934)	(238,098)	–	–	(1,031,608)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	3,187	(8,194)	(26,201)	(19,179)	(6,751)	(57,138)
Commitments	2,219	30,675	24,386	–	–	57,280
Guarantees	–	–	–	3,616	–	3,616
Total undiscounted financial liabilities	353,464	89,802	549,681	57,527	428,664	1,479,138

(iii) Concentration risk

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

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

	June 30, 2016			June 30, 2015		
$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	**730,366**	**3,500**	**733,866**	592,132	3,616	595,748
Europe	**157,207**	**–**	**157,207**	131,560	–	131,560
MENA*	**43,792**	**–**	**43,792**	78,631	–	78,631
Total	**931,365**	**3,500**	**934,865**	802,323	3,616	805,939

* Including Turkey.

	June 30, 2016			June 30, 2015		
$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
INDUSTRY SECTOR						
Banking and Finance	**570,237**	**–**	**570,237**	530,921	116	531,037
Consumer products	**82,969**	**–**	**82,969**	18,587	–	18,587
Consumer services	**47,542**	**–**	**47,542**	44,023	–	44,023
Distribution	**1,065**	**–**	**1,065**	3,565	–	3,565
Industrial products	**85,556**	**–**	**85,556**	99,262	–	99,262
Real estate	**52,560**	**3,500**	**56,060**	70,006	3,500	73,506
Technology and Telecom	**88,844**	**–**	**88,844**	34,138	–	34,138
Others	**2,592**	**–**	**2,592**	1,821	–	1,821
Total	**931,365**	**3,500**	**934,865**	802,323	3,616	805,939

(iv) Market price risk

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

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

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

(iv) (a) Foreign currency risk

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

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

$000s	**June 30, 2016**		June 30, 2015	
Long (Short)	**Net hedged exposure**	**Net unhedged exposure**	Net hedged exposure	Net unhedged exposure
Bahraini Dinar*	**27,030**	**60,599**	–	64,755
Saudi Riyal*	**–**	**(313)**	–	353
Euro	**172,620**	**77**	237,093	(132)
Pounds Sterling	**10,165**	**126**	31,703	206
Swiss Francs	**(134,902)**	**7**	(141,768)	123
Japanese Yen	**(360,772)**	**(1,694)**	(303,751)	533
	(285,859)	**58,802**	(176,723)	65,838

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of those rates. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, the Group's risk management team conducts back testing by comparing the daily VaR with the daily profit and loss to ensure the robustness of the VaR model.

The following table summarizes the 99% confidence level over a one-day holding period VaR for the Group's foreign currency exposures.

$000s	**2016**	2015
Average FX VaR	**9**	7
Year end FX VaR	**31**	9
Maximum FX VaR	**43**	29
Minimum FX VaR	**1**	1

The foreign exchange gain recognized in the income statement as a result of incidental unhedged positions and costs of hedging against foreign exchange risk amounts to a gain of $0.3 million (2015: loss of $1.2 million).

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by the Board of Directors. The Group does not take interest rate trading positions and all of its interest rate risk is typically in the banking book where hedge accounting applies. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $29.1 million (June 30, 2015: $29.6 million), which earn interest at an effective rate approximating 14.8% (June 30, 2015: 14.8%) per annum; and/or
- Term and institutional accounts amounting to $28.2 million (June 30, 2015: $37.1 million) on which interest is paid at an effective rate of 2.53% (June 30, 2015: 2.49%) per annum.

The following table depicts the sensitivity of the Group's net income to a 200 basis points possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

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

$000s	Sensitivity to net income for +200 basis points	Sensitivity to net income for –200 basis points
Currency	June 30, 2015	
Euro	(3,268)	36
Pounds Sterling	(655)	168
Japanese Yen	602	(50)
US Dollar	(901)	1,488
Others	185	(204)
Total	(4,037)	1,438

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

(iv) (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 (see Note 26) to changes in multiples/capitalization rates/quoted bid prices.

June 30, 2016

				Projected Balance sheet exposure		Impact on Income	
$000s	Factor	Change	Balance sheet exposure	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)**

June 30, 2015

				Projected Balance sheet exposure		Impact on Income	
$000s	Factor	Change	Balance sheet exposure	For increase	For decrease	For increase	For decrease
CI co-investments	EBITDA Multiples	+/– 0.5x	600,044	678,269	521,947	78,225	(78,097)
	Revenue Multiples	+/– 0.5x	288	416	160	128	(128)
	Quoted bid price	+/–1%	17,960	18,140	17,780	180	(180)
				For decrease	For increase	For decrease	For increase
RE co-investments	Capitalization Rate	–/+1%	119,523	151,681	94,604	32,158	(24,919)

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	**2016**	2015
Average VaR	**12,213**	15,888
Year end VaR	**10,659**	15,155
Maximum VaR	**13,714**	17,595
Minimum VaR	**10,659**	13,046

(v) Operational risk

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

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

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value adjustments arise from re-measurement of liabilities which are hedged, investments and derivatives. Nonetheless the actual amount that is realized in a future transaction may differ from the current estimate of fair value, given the inherent uncertainty surrounding valuations of unquoted investments.

The fair values of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different from their carrying values except for certain liabilities carried at amortized cost. The fair value of medium and long-term debt amounts to $814.3 million (June 30, 2015: $763.0 million) as compared to the carrying value of $901.2 million (June 30, 2015: $782.8 million). The fair value of medium- and long-term debt is based on inputs from third party banks and falls under Level 3 of the fair value hierarchy described below.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

Level 2: 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 $15.5 million from Level 3 to Level 1 (2015: $13.2 million) under co-investments in corporate investments. This represents the listing on a stock exchange of previously unquoted investments. Further, there was also a transfer of $4.5 million from Level 1 to Level 3 (2015: nil) also under co-investments in corporate investments which represents the de-listing of a previously quoted investment. Additionally, under alternative investment solutions, an exposure of $29.8 million (June 30, 2015: $51.6 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 $6.5 million (June 30, 2015: loss of $6.8 million) and the net redemptions amounts to $15.3 million (June 30, 2015: $21.7 million).

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques which are explained in Notes 9, 10, 11 and 22 to the financial statements.

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

	June 30, 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**

	June 30, 2015			
$000s	Level 1	Level 2	Level 3	Total
Financial assets				
Positive fair-value of derivatives	–	74,226	–	74,226
Co-investments				
Corporate investment	17,960	–	626,855	644,815
Alternative investment solutions	–	369,450	51,606	421,056
Real estate investment	–	–	119,523	119,523
Total financial assets	17,960	443,676	797,984	1,259,620
Financial liabilities				
Negative fair-value of derivatives	–	36,743	–	36,743
Total financial liabilities	–	36,743	–	36,743

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, 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 $0.1 million fair value loss on available-for-sale investments and unrealized fair value gains of $42.9 million.
** Other movements include add-on funding and foreign currency translation adjustments.

	June 30, 2015					
$000s	At beginning	Net new acquisitions	Fair value movements*	Movements relating to realizations	Other movements**	At end
CI co-investments	884,830	29,528	44,241	(244,274)	(87,470)	626,855
RE co-investments	103,288	33,785	(3,030)	(13,702)	(818)	119,523
Total	988,118	63,313	41,211	(257,976)	(88,288)	746,378

* Includes $0.7 million fair value gain on available-for-sale investments and unrealized fair value gains of $16.4 million.
** Other movements include add-on funding and foreign currency translation adjustments.

27. EMPLOYEE COMPENSATION

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

Programs for Investment Profit Participation

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

Programs for Investment Participation

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

Under certain legacy co-investment programs, the Group provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2016 is $25.8 million (June 30, 2015: $42.2 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 income statement charge of $13.0 million (2015: $3.3 million) was taken by the Group based on management's best estimate of the likely vesting of the awards.

Employee Share-Linked Plans

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

SIPCO shares or phantom SIPCO shares or performance-linked SIPCO share based awards are granted to the employees at their fair value on the grant date. The fair value of SIPCO shares for purposes of the plans is estimated considering their non-transferability and the indirect nature of the underlying beneficial ownership. The value of SIPCO shares granted during the year is $15.7 million (2015: $3.6 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.

An income statement charge of $15.6 million (2015: $9.1 million) was taken by the Group based on management's best estimate of the number of shares that are likely to vest. The grant date value of shares vested during the year amounted to $15.5 million (2015: $15.7 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of shares	2016	2015*
Granted during the year	**1,760,177**	482,500
Vested during the year	**2,309,689**	1,559,800
Forfeited during the year	**48,378**	38,700

* Number of shares for 2015 have been re-aligned to reflect the share split executed in financial year 2016.

28. RELATED PARTY TRANSACTIONS

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

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

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

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

$000s		**June 2016**	June 2015
AUM fees	Investee and investment holding companies	**64,741**	76,514
Deal fees	Investee and investment holding companies	**152,835**	122,328
Asset-based income	Investee companies	**22,502**	19,143
Provisions for impairment	Employee investment programs	**(1,560)**	(1,180)
Interest expense	Investment holding companies	**(313)**	(89)
Operating expenses	Directors' remuneration	**(1,320)**	(1,420)
Operating expenses	Professional fees	**(1,680)**	–

Of the staff compensation for the year set out in Note 5, $70.3 million (2015: $59.0 million) is attributable to senior management (including a director who was an employee during the year). Of the above mentioned remuneration of senior management, $47.2 million (2015: $48.9 million) is in the form of salaries and other short term benefits.

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

	June 30, 2016			June 30, 2015		
$000s	**Assets**	**Liabilities**	**Off-balance sheet**	Assets	Liabilities	Off-balance sheet
Outstanding balances						
Strategic shareholders	**–**	**6,272**	**–**	4,825	16,540	–
Investee companies	**56,113**	**–**	**–**	41,186	–	–
Investment holding companies	**137,950**	**100,282**	**19,986**	126,283	71,620	35,082
Fund companies associated with the AIS	**42,817**	**–**	**20,786**	13,279	–	–
Directors and senior management	**–**	**3,088**	**–**	1,148	1,992	–
	236,880	**109,642**	**40,772**	186,721	90,152	35,082

29. SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounting policies adopted are consistent with those of the previous financial year.

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.

- IAS1 Presentation of Financial Statements – Amendments to Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities – Applying the Consolidation Exception
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (January 1, 2016)
- IAS 27 Separate Financial Statements – Amendments relating to Equity Method in Separate Financial Statements (January 1, 2016)
- IFRS 9 Financial Instruments: Classification and Measurement (January 1, 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (January 1, 2016)
- IFRS 11 Joint Arrangements – Amendments relating to Accounting for Interests in Joint Operations (January 1, 2016)
- IFRS 16 Leases (January 1, 2019).

Annual Improvements 2012-2014 cycle (Effective for periods beginning on or after January 1, 2016)

- IFRS 7 Financial Instruments – Disclosure.

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

(i) Accounting convention

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

(ii) Going concern

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

(iii) Use of estimates and judgments

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

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.

(iv) Classification of financial assets

(a) Investments

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

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

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

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

All other investments are classified as AFS.

(b) Other liquid assets

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

(v) Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries. A subsidiary is an entity which 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;

(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 income from the effective date of formation or acquisition. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

(vi) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of income under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of income and gains and losses on fair valuation of AFS investments are taken to the consolidated statement of comprehensive income.

(vii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment. Provisions are made against receivables as soon as they are considered doubtful.

(viii) Advances

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

(ix) Co-investments in alternative investment solutions

The Group's co-investments in alternative investment solutions are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income. Consequently, there are no impairment provisions for such investments.

(x) Co-investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as fair value changes in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at fair value including acquisition charges. These investments are then re-measured to fair value at each balance sheet date and any resulting change in value of these investments is taken to the consolidated statement of comprehensive income and recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

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

(xi) De-recognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

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

(xii) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the 'trade date' accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

(xiii) Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. Judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral, if any. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of AFS equity investments, such impairment is reflected directly as a write down of the financial asset.

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

Impairment is determined as follows:

(a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate; and

(b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.

(xiv) Premises and equipment

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

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

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

Buildings on freehold land	5 years
Leasehold and building improvements	10 – 15 years
Operating assets	3 – 23 years

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

(xv) Payables, accruals and provisions

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

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(xvi) Unfunded deal acquisitions

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

(xvii) Cash and cash equivalents

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

(xviii) Borrowings

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

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

(xix) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a 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.

(xx) Share awards

Share awards to employees are accounted and expense recognized over the vesting period. The determination of the amount to be recognized is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

(xxi) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

(xxii) Offsetting

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

(xxiii) Derivative financial instruments

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

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

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

(xxiv) 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 investments other than FVTPL investments are taken to income at the time of derecognition of the investment.

Revenue from contracts with customers

The Group had early adopted 'IFRS 15 Revenue from Contracts with Customers' in the previous year.

Placement fees are charged by Investcorp when it places an underwritten investment 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.

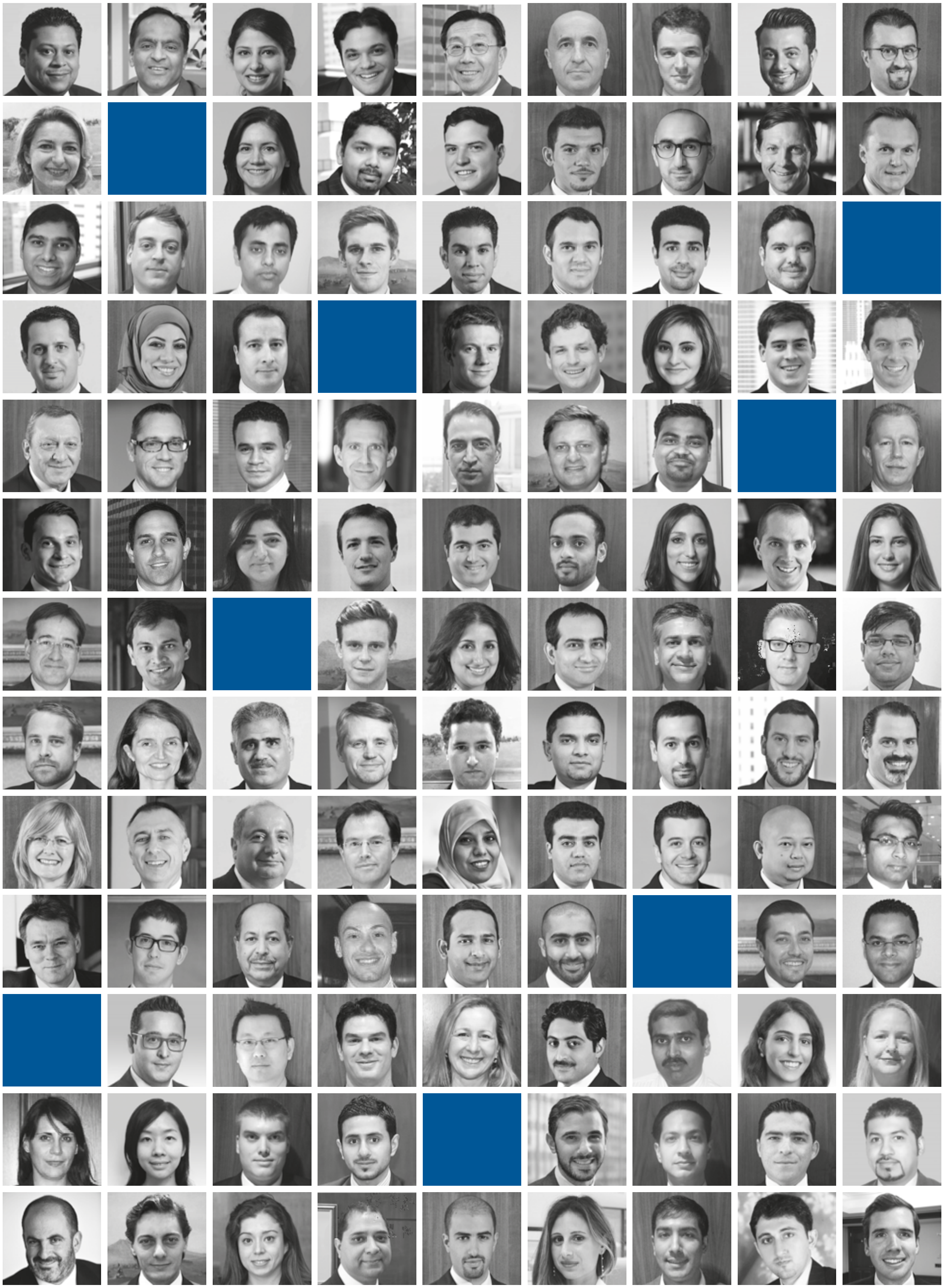
(xxv) Expenses

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.

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.

MANAGING DIRECTORS, PRINCIPALS AND PROFESSIONAL STAFF

MANAGING DIRECTORS, PRINCIPALS AND PROFESSIONAL STAFF



MANAGING DIRECTORS

Ramzi AbdelJaber
Chief Administrative Officer
Joined Investcorp: 2004
Prior experience: The Middle East North Africa Financial Network (4), McKinsey & Co. (2), Integrated Business Solutions (1), Andersen Consulting (1)

Firas El-Amine
Corporate Communications
Joined Investcorp: 2007
Prior experience: Dubai Holding (3), Alsalam Holding (2), Impact & Echo (2)

Mohammed Alardhi
Executive Chairman
Joined Investcorp: 2015
Prior experience: Investcorp Board Member (7), National Bank of Oman S.A.O.G. Board Member (4), National Bank of Oman Chairman S.A.O.G. (2), Rimal Investment Holding Company L.L.C. (10)

Yasser Bajsair
Placement and Relationship Management
Joined Investcorp: 2010
Prior experience: Global Investment House (1), Al Kabeer Merchant Finance Corporation (1), Arab National Bank (3)

Hazem Ben-Gacem
Corporate Investment – Europe
Joined Investcorp: 1994
Prior experience: Credit Suisse First Boston (2)

Stephanie R. Bess
Corporate Secretary
Legal and Compliance
Joined Investcorp: 2005
Prior experience: Gibson, Dunn & Crutcher (8), Dechert (19)

Tristan de Boysson
Corporate Investment – MENA
Joined Investcorp: 1998
Prior experience: McKinsey & Co. (7), Rhone-Poulenc (6)

Maud Brown
Corporate Investment – North America
Joined Investcorp: 2001
Prior experience: Merrill Lynch (1.8), Salomon Smith Barney (2)

Jennifer Cahill
Alternative Investment Solutions
Joined Investcorp: 2015
Prior experience: Atlantic Investment Management (2), Protégé (8), Goldman Sachs (3)

David Cranston
Alternative Investment Solutions
Joined Investcorp: 2005
Prior experience: North Creek Advisors (1), Investcorp (5), Channel Capital Group (3), Lehman Brothers (2), Barclays Capital (3), JPMorgan (2)

Andrea Davis
Corporate Investment – Europe
Joined Investcorp: 2014
Previous experience: TDX Group (2), Fellowes Inc. (9), Willet (6)

F. Jonathan Dracos
Real Estate Investment
Joined Investcorp: 1995
Prior experience: George Soros Realty Fund (1), Jones Lang Wootton Realty Advisors (5), Chemical Bank (3)

Ebrahim H. Ebrahim
Corporate Accounting and Internal Controls
Joined Investcorp: 1985
Prior experience: Banque Paribas (3)

Dominic Elias
Human Resources and Compensation Administration
Joined Investcorp: 2010
Prior experience: The Blackstone Group (0.5), Towers Perrin (1.5), Morgan Stanley (11)

Lionel Erdely
Alternative Investment Solutions
Joined Investcorp: 2013
Prior experience: Lyxor Inc. (11)

Andrew Fisch
Alternative Investment Solutions
Joined Investcorp: 2015
Previous experience: SSARIS Advisors (11), Aurum Investment Management (2), Aurum Capital (4)

John Franklin
Alternative Investment Solutions
Joined Investcorp: 1997
Prior experience: Citicorp (4)

Numbers in brackets indicate years of experience.
List reflects staff employed at July 31, 2016.

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Corporate Investment – Europe
Joined Investcorp: 2005
Prior experience: JPMorgan (2.5)

Neil Hasson
Real Estate Investment
Joined Investcorp: 2016
Prior Experience: Macquarie (2), Citi (7),
Donaldson, Lufkin & Jenrette (4)

Rebecca Hellerstein
Alternative Investment Solutions
Joined Investcorp: 2014
Prior experience: JP Morgan Asset Management (2.5),
Federal Reserve Bank (13)

Grahame Ivey
Finance Business Support and Investment Administration
Joined Investcorp: 1988
Prior experience: Touche Ross (7),
John Laing Developments (2)

Gilbert Kamieniecky
Corporate Investment – Europe
Joined Investcorp: 2005
Previous experience: Morgan Stanley (2)

Rishi Kapoor
Co-Chief Executive Officer
Joined Investcorp: 1992
Prior experience: Citicorp (4)

Brian Kelley
Real Estate Investment
Joined Investcorp: 2001
Previous experience: JP Morgan (4)

Rabih Khouri
Corporate Investment – MENA
Joined Investcorp: 2007
Prior experience: Nord Est Industrial Fund (2),
McKinsey & Company (5), Arthur Andersen (3)

Richard Kramer
Risk Management
Joined Investcorp: 2011
Prior experience: Credit Suisse (14),
Robert Fleming (2)

Daniel Lopez-Cruz
Corporate Investment – Europe
Joined Investcorp: 2005
Prior experience: Morgan Stanley (7), UBS (3),
The Prudential Insurance Company of America (3),
Arthur Andersen (1)

Numbers in brackets indicate years of experience.
List reflects staff employed at July 31, 2016.

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Corporate Investment – MENA
Joined Investcorp: 2007
Prior experience: ABN AMRO Bank (10),
Oracle Corporation (5)

Timothy A. Mattar
Placement and Relationship Management
Joined Investcorp: 1995
Prior experience: Banque Indosuez (5),
Arthur Andersen (2), Grant Thornton (5)

Jonathan Minor
Financial Management
Joined Investcorp: 2005
Prior experience: Daiwa Securities SMBC Europe (4),
Westpac Banking Corporation (6),
State Bank South Australia/Bank SA (6), AE plc (5),
Thornton Baker (5)

Fahad H. Murad
Placement and Relationship Management
Joined Investcorp: 1996
Prior experience: Chase Manhattan Private Bank (2),
Chase Manhattan Bank (10)

H. Herbert Myers
Real Estate Investment
Joined Investcorp: 2000
Prior experience: JPMorgan Asset Management (4),
Peter R Freidman (4)

Kevin Nickelberry
Corporate Investment – North America
Joined Investcorp: 2003
Prior experience: JPMorgan (4.5), Goldman Sachs (3)

Michael O'Brien
Real Estate Investment
Joined Investcorp: 2007
Prior experience: ING Clarion Partners (12),
Reichmann International/Quantum Realty Fund (1),
Equitable Real Estate (2)

Anand Radhakrishnan
Corporate Investment – North America
Joined Investcorp: 2002
The Carlyle Group (2), Robertson Stephens (2),

Mufeed Rajab
Administration
Joined Investcorp: 2003
Prior experience: JPMorgan Chase Bank (24)

Anthony L. Robinson
Chief Financial Officer
Joined Investcorp: 2015
Prior Experience: Mumtalakat (4), RAC Insurance (2),
Investcorp (14)

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Placement and Relationship Management
Joined Investcorp: 2012
Prior experience: UBS (14), SBC (2),
Greenwich Capital (2), SBC (3), Citibank (13)

Harsh Shethia
Placement and Relationship Management
Joined Investcorp: 2002
Prior experience: Goldman Sachs (2),
Deloitte Consulting (4), Tata Consulting Services (2)

Mohammed E. Al-Shroogi
Co-Chief Executive Officer
Joined Investcorp: 2009
Prior experience: Citigroup (33)

James Tanner
Corporate Investment – MENA
Joined Investcorp: 2008
Prior experience: Aviva Investors (3), HSBC (2),
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David Tayeh
Corporate Investment – North America
Joined Investcorp: 2015
Previous experience: CVC Capital Partners (4),
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Savio Tung
Senior Management Adviser
Joined Investcorp: 1984
Prior experience: Chase Manhattan Bank (9)

Nick Vamvakas
Alternative Investment Solutions
Joined Investcorp: 2010
Prior experience: Société Générale (6),
Lyxor Asset Management (5),
BAREP Asset Management (6),
Société Générale Alternative Investment (5),
Rodman & Renshaw (2)

Daniele Vecchi
Financial Management
Joined Investcorp: 2016
Previous experience:
Transmed S.A.L. (1), Majid Al Futtaim Group (7),
Panalpina World Transport (5), Nestle (9)

Yusef Al Yusef
Placement and Relationship Management
Joined Investcorp: 2005
Prior experience: Arcapita Bank (4),
Ahli United Bank (0.5),
National Bank of Bahrain (4), Unilever (2)

Numbers in brackets indicate years of experience.
List reflects staff employed at July 31, 2016.

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List reflects staff employed at July 31, 2016

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List reflects staff employed at July 31, 2016.

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List reflects staff employed at July 31, 2016

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Dina Treanor
Corporate Investment – North America

Arne Uekotter
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Larisa Vandenko
New York-London Business Support

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Richard Weiss
Real Estate Investment

Andrew Weymann
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Yvrose White
Administration

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Gayan Wijesinha
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Technology

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Alternative Investment Solutions

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