INVESTCORP

# RAISING OUR SIGHTS

INVESTCORP GROUP ANNUAL REPORT 2017

AT INVESTCORP, WE SEE A CLEAR PATH TO GROWTH. IN LATE 2015, THE NEW LEADERSHIP OF THE FIRM LAUNCHED AN AMBITIOUS VISION, DECLARING OUR INTENTION TO MORE THAN DOUBLE OUR ASSETS UNDER MANAGEMENT WITHIN FIVE TO SEVEN YEARS. A YEAR AND A HALF LATER, THROUGH ENTREPRENEURIAL ACTION AND INSIGHT, WE ARE NEARLY THERE.

OUR NEW STRATEGY HAS EXPANDED TO ENCOMPASS EVEN GREATER GROWTH – WITH AN UNWAVERING FOCUS ON SERVING THE INVESTMENT NEEDS OF OUR CLIENTS. THE QUALITIES THAT WILL TRANSLATE THIS VISION INTO SUCCESS ARE ALSO CLEAR: BEING AGILE, DISCIPLINED, ENDURING AND TRANSFORMATIVE IN OUR THINKING AND OUR ACTIONS, AS A RISING GLOBAL FORCE IN ALTERNATIVE INVESTING.


01 Message to Shareholders

04 About Our Vision

12 Our Businesses at a Glance

14 Financial Review


2015
TODAY
$10B AUM
$21.3B AUM

PROJECTED

# $100B AUM

THROUGH ENTREPRENEURIAL ACTION, WE ARE DOUBLING ASSETS UNDER MANAGEMENT (AUM) FOUR TIMES FASTER THAN PROMISED. OUR NEW GOAL: $100B AUM.

2017 WAS A YEAR OF GREAT ACHIEVEMENTS FOR INVESTCORP:

34%
RISE IN PROFITABILITY

$3.4B
IN DISTRIBUTIONS

$4.1B
RAISED FROM CLIENTS

$2.1B
TOTAL INVESTMENT ACTIVITY

33%
INCREASE IN EPS

12%
ROE

# MESSAGE TO SHAREHOLDERS

**The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 34th fiscal year ended June 30, 2017.**

Dear Shareholders,

We are pleased to report that it has been a strong year for Investcorp, with our profit for the year growing by 34% to $120.3 million. This year has also seen Investcorp double in size in terms of assets under management (AUM), which now stand at $21.3 billion, as well as making record levels of distributions to Investcorp and its clients, which totaled $3.4 billion for the year. The fact that all this was achieved against a challenging macroeconomic and political backdrop is testament to the dedication, focus and skill of the great people we have working at Investcorp.

The new growth strategy we unveiled in 2015 continued to guide Investcorp and our activities over the course of the year. The strategic decision to strengthen Investcorp's placement team, which has been reinforced with 10 new members over the last two years, is already delivering positive results, with the Firm achieving its highest-ever volume of deal by deal placement in the Gulf, totaling $1.1 billion. In parallel, we have also been actively working toward diversifying Investcorp's investor base geographically and by asset class, which resulted in the Firm raising $4.1 billion across the platform from its broad range of clients in the Gulf and from a deep pool of institutional investors in the United States, Europe and Asia. We believe this diversification will put Investcorp on a stronger footing as we grow around the world and into new asset classes, ultimately allowing us to better serve the needs of our clients anywhere in the world.

Significant progress has been made toward achieving the targets set out in our ambitious growth strategy. In March 2017, Investcorp completed its acquisition of 3i Debt Management, which was subsequently rebranded as Investcorp Credit Management (ICM). ICM became Investcorp's fourth line of business, immediately adding $10.8 billion to the Firm's AUM, and making significant incremental contributions to the Group's gross operating income.

**‘WE ARE BUILDING A MORE GLOBAL INVESTCORP, AN INVESTCORP THAT WE INTEND TO BE INCREASINGLY DIVERSIFIED AND ABLE TO DELIVER CONSISTENT AND STABLE RETURNS OVER THE LONG TERM.’**

In Europe, we established Investcorp’s first fully fledged Real Estate team, which has already completed two deals in the United Kingdom. By combining our 20 years of experience of investing in US real estate with our 30 years of investing in Europe, we are confident that we can bring a new perspective to investing in European real estate, which we expect will resonate particularly well with our investor base in the Gulf. These developments were all received warmly by the market, as can be seen in our deal by deal Real Estate placement in the Gulf reaching a record level of $518 million in FY17.

In other FY17 strategic developments, Investcorp successfully launched its fourth Technology Fund, which reached $215 million in investor commitments at the end of the fiscal year. Building on the strong performance of our first three Technology Funds, the fourth Technology Fund is cementing Investcorp’s status as a leading technology investor. We have already made two investments through the Fund and expect the momentum to continue into FY18.

Overall, Investcorp is in a very healthy condition, with a strong balance sheet and deep liquidity pool. This ensures we are well positioned to take advantage of both inorganic and organic growth opportunities as they arise.

## Performance

We began this letter by highlighting the 34% growth in profit for the year over the previous year. Looking a little closer at the numbers, gross operating income was 10% higher at $421.7 million (FY16: $383.5 million), reflecting the strong performance of the Firm’s core operations.

Fee income during the period was $316.5 million (FY16: $307.5 million), while asset-based income was $105.2 million (FY16: $76.0 million), driven by increased recurring fees and strong performance of the co-investment portfolio.

As a result of the significant expansion of Investcorp’s capabilities and the resources required to deliver them, aggregate operating expenses increased by 7% to $239.9 million (FY16: $224.3 million). Despite the increase in expenses, Investcorp’s cost-to-income ratio improved to 67% at the end of the period from 71% in FY16, reflecting the enhanced profitability of the Firm.

Fully diluted earnings per share for the period increased by 33% to $1.25 (FY16: $0.94 per share), while return on equity increased to 12% (FY16: 10%).

The Board of Directors has proposed an ordinary share dividend of 24 cents per share, which is at the same level as last year, along with a full dividend on the preference shares.

## Outlook

We are building a more global Investcorp, an Investcorp that we intend to be increasingly diversified and able to deliver consistent and stable returns over the long term. We have already made a number of strategic decisions to grow the Firm toward this objective, and we will continue to seize opportunities to help us achieve our objectives over the year ahead.

Saying that, we are conscious that we are living in a volatile world. It is rare for a month to go by without a major event impacting global markets. That is why it is critical that Investcorp remain nimble and prudent, while continuing to focus on diversification over the medium- and long-term.

On behalf of the Investcorp Board of Directors, we would like to thank all of our shareholders for their continued support. Investcorp has achieved a lot over the past 12 months and we firmly believe that we can build on this to have another successful year in 2018.

**Nemir A. Kirdar**
Chairman of the
Board of Directors

**H.E. Mohammed Mahfoodh Alardhi**
Executive Chairman

# AGILE

## INNOVATING PATHWAYS TO GROWTH

$10.8B

AUM ADDED FROM 3i DEBT MANAGEMENT ACQUISITION

$3.4B

RETURNED TO INVESTORS IN 2017

$1B

ACCESSIBLE LIQUIDITY

$2.1B total investment activity across 3 businesses


$1.3B

invested in US real estate in the past 24 months

$1.1B

total volume of placement in the Gulf – highest ever

$215M

Tech Fund 4 fully subscribed – including $191 million from third-party investors

**Investcorp Is Entrepreneurial Spirit in Action**

We have always found unique opportunities and acted decisively to harness their potential. Today, guided by our Executive Chairman's vision, we are creating further opportunities for growth – moving into adjacencies such as corporate credit and European real estate, and diversifying Investcorp's investor base. Our acquisition of 3i Debt Management created ICM, nearly doubling Investcorp's AUM, while giving us a beachhead in Asia.

2017 was our greatest year ever in distributions to Investcorp and our clients. We also continued to invest in companies on the rise. AlixPartners, a global advisory firm, gives us unique insight into markets around the world. Ageras, a European online marketplace, ABAX, a leading Nordic telematics company, and Calligo, a fast-growing cloud solutions provider, increase our depth in technology. We do not limit ourselves to particular industries, and are just as excited about our investments both in Agromillora, the leading global developer of high-yielding plants and trees, and Arrowhead Engineered Products, the leading distributor of replacement parts in the US specialty vehicle market.

This agility and diversity set us apart.

# DISCIPLINED

## BUILDING ON PROVEN STRENGTHS AND RESILIENCE

**34%**

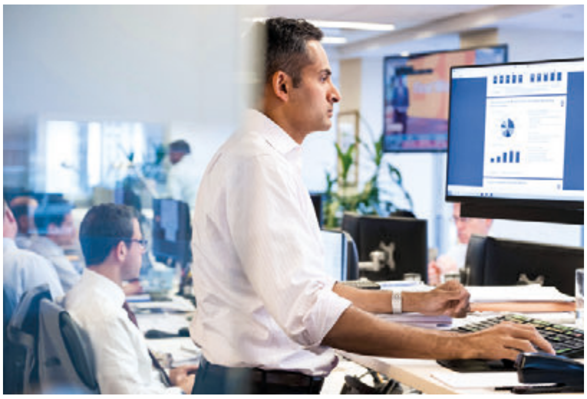
**RISE IN PROFITABILITY**

**BEST PRIVATE EQUITY FIRM IN MENA 2017**

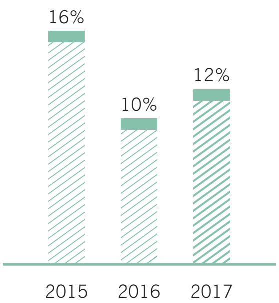
NAMED BY *BANKER MIDDLE EAST*

**31.7%**

**CAPITAL ADEQUACY RATIO**



## Return on Equity




$2.7B total assets

$4.1B raised

33% increase in EPS

1.3x leverage ratio

**Investcorp Embodies Institutional Discipline**

Given today's challenging macroeconomic and geopolitical backdrop, operational and fiscal discipline is mission critical. Our strong balance sheet and deep liquidity pool position Investcorp well going forward.

The 34% increase in net income to $120.3 million and cost-to-income ratio falling from 71% to 67% reflect enhanced profitability. Yet aggregate operating expenses rose by only 7% – while expanding our capabilities, resources and investments in the future.

We raised $4.1 billion in 2017 from our broad range of clients in the Gulf and from a deep pool of institutional investors in the US, Europe and Asia. We also rapidly integrated 50 ICM employees in New York, London and Singapore into the firm.

The EMEA Finance Achievement Awards in London recognized Investcorp with two awards, 'Best private equity house in EMEA' and 'Best private equity exit in EMEA.'

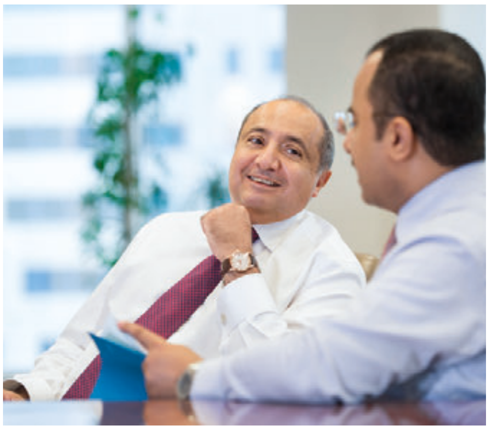
Our entrepreneurial spirit is balanced by institutional depth. This combination of agility and discipline is built for success in any environment.

# ENDURING

## DELIVERING LASTING IMPACT

'WITH A STRONG BALANCE SHEET AND DEEP LIQUIDITY POOL...WE ARE WELL POSITIONED TO TAKE ADVANTAGE OF BOTH INORGANIC AND ORGANIC GROWTH OPPORTUNITIES AS THEY ARISE.'

**MOHAMMED ALARDHI,** EXECUTIVE CHAIRMAN



The late architect Zaha Hadid and Mohammed Alardhi at the opening of the Investcorp Building, Middle East Centre, St. Anthony's College – Oxford University.

**Investcorp Is a Bridge to Success**

Our role since founding has been as a bridge between Gulf wealth and global opportunities. Our proven ability to preserve and create wealth is a key to why clients stay with us.

This living legacy is reflected in our commitment to bridging knowledge, as well, as exemplified by the Investcorp Building at Oxford University's Middle East Centre. The flagship building was designed by the late Zaha Hadid, one of the world's most renowned architects and a pioneer in her field. We also support leadership education for young Arab women and men at Cambridge and Oxford. In Bahrain, we offered the Investcorp Student Innovation Prize for university students with innovative business plans.

As the world has changed, so have we. Investcorp has become a leader in cyber security. In 2017, a ransomware attack hit businesses across 150 countries. Specialist teams across our cyber security portfolio continue to actively manage this worldwide issue and work closely with clients as new cyber threats emerge.

17%

IRR original shareholder return

Founded in 1982, delivering growth for 34 of 35 years

170+

corporate investments worth $40B+ since 1982

470+

properties acquired worth $13B+ since 1995

# TRANSFORMATIVE

## SHAPING A FUTURE OF BOUNDLESS SUCCESS

2.5x

ROI IN 2.5 YEARS WITH PRO UNLIMITED EXIT

1ST

TWO REAL ESTATE DEALS IN EUROPE

1ST

OFFICE IN ASIA, IN SINGAPORE

**Investcorp Is Driving Change**

2017 has been a pivotal year for Investcorp, making progress on our ambitious growth strategy while producing robust results for our investors. Expanding into new territories and types of investments is transforming both Investcorp and the portfolios of our clients. We are also forging new and expanded relationships.

We have seen a significant rise in diversity of our overall business, and this will continue, as we further diversify our investor base geographically, by segment and by asset class.

By design, these changes are making us more relevant and resilient going forward, while leading toward significant growth.

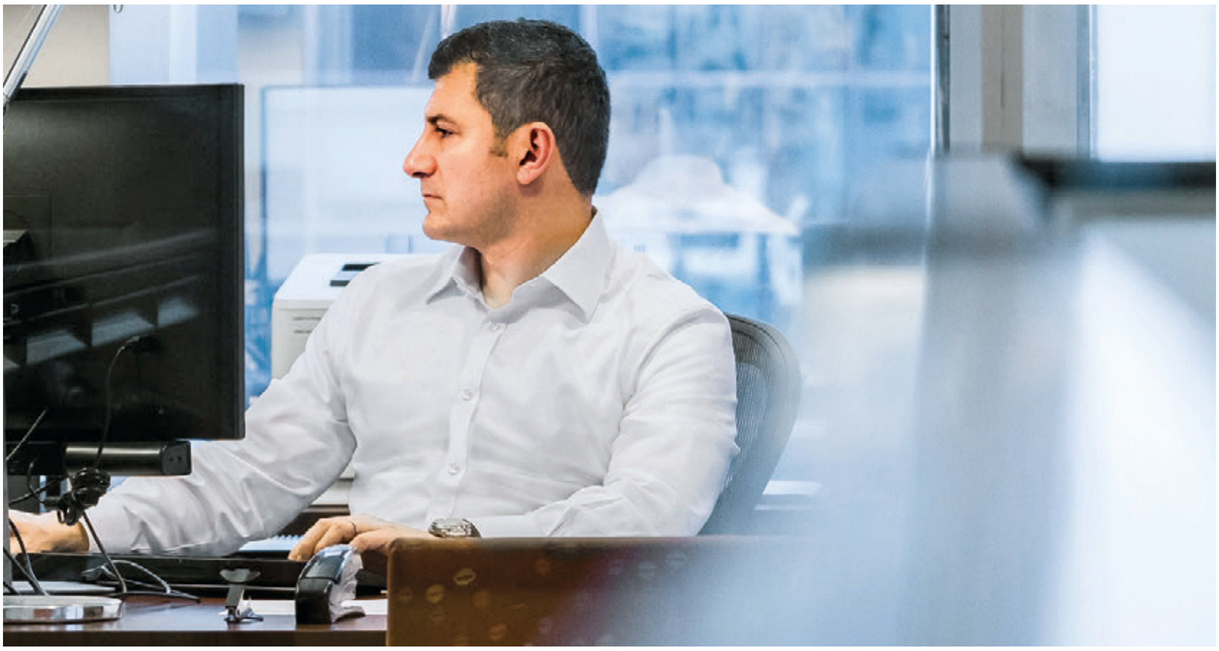
$1B+

$1B+ across 3 recent exits in European tech sector

10 new members added to our Gulf-based placement team over the past 2 years

4x

growth in fund assets by Nut Tree Capital Management



## AT A GLANCE

# OUR BUSINESSES

**Investcorp is a world-leading manager of investments for select individuals, families and institutions. Founded in 1982, we have built a global reputation for superior performance, innovation and service. Entrepreneurial and global in our outlook, we combine the growth dynamics of Gulf capital and the alternative investment industry with international management discipline. We offer our clients four distinct avenues of growth.**

Alternative Investment Solutions

$3.5B AUM

170+

corporate investments totaling over $40 billion in transaction value

$518M

in real estate deal by deal placement in the Gulf in 2017 – highest ever

Credit Management (ICM)

$10.8B AUM

## CORPORATE INVESTMENT

Investcorp is one of the most active global mid-market private equity firms, with over 30 years' experience of successfully investing in North America and Europe, and more recently in the MENA region. We focus on investment opportunities in mid-sized companies with strong managers, solid cash flow, prominent positioning within their industry, a robust track record and potential for growth.

## REAL ESTATE

We focus on mid-market core and core-plus opportunities in US and European commercial real estate, targeting cash flow and capital appreciation. Since 1996, we have completed more than 300 property investments totaling more than $11 billion. We rank among the most active Gulf real estate investors in the US, and recently completed our first two deals in Europe.

## ALTERNATIVE INVESTMENT SOLUTIONS

Launched in 1996, AIS manages assets across customized multi-manager solutions, hedge fund partnerships, alternative risk premia and special opportunities portfolios. We believe that our differentiating characteristics – alignment of interests, nimble and innovative approach, disciplined process, deep and talented team, integrated investment program, and proprietary research – allow us to better serve our clients in achieving their investment objectives.

## CREDIT MANAGEMENT

Based in London, New York and Singapore, ICM manages funds that invest primarily in senior secured corporate debt issued by mid- and large-cap corporates in Western Europe and the US. Our global team has extensive credit experience investing through numerous market cycles, offering a long track record of achieving market outperformance, consistent growth and low default rates, and developing attractive income-generating products.

# FINANCIAL REVIEW

# CONTENTS

**16 Business Review**

16 Message from the Executive Chairman

19 Business Highlights

24 Business Environment

39 Discussion of Results

46 Investment Activity

51 Realizations & Distributions

57 Assets Under Management & Fundraising

62 Portfolio Performance

72 Corporate Investment Portfolio Listing

**85 Ownership Structure, Corporate Governance and Regulation**

98 Balance Sheet

100 Risk Management

**104 Consolidated Financial Statements: June 30, 2017**

BUSINESS REVIEW

**"This has been a pivotal and successful year for Investcorp. We have made significant progress towards delivering on our ambitious growth strategy, as well as producing robust financial results for our investors. The Firm is making great headway executing a number of initiatives that are designed to diversify the Firm's client base, product offering, geographical reach and, ultimately, better serve the needs of our clients wherever they are in the world.**

**"We have seen strong returns to clients and record levels of activity, and our pipeline of strategic initiatives and investment opportunities remains very strong. There is real momentum across the business and we enter our new financial year with a fresh sense of confidence and ambition."**

**Mohammed Alardhi, Executive Chairman**

## GROWTH INITIATIVES

A number of strategic initiatives were launched or completed in FY17 to achieve Investcorp's medium-term objective of more than doubling assets under management, including:

**Inorganic growth:**

Acquisition of the Debt Management business from 3i, adding a new product capability in credit-based investments and approximately $11 billion in incremental AUM

**Fundraising platform:**

Focus on strengthening Gulf-based placement team yielding positive results with addition of 10 new members over the last two years helping the Firm achieve its highest ever deal-by-deal placement in the Gulf, totalling $1.1 billion

Continued progress on development and implementation of a global distribution capability across the Firm's current markets

AIS product suite continues to gain traction with global institutional investors, winning several mandates from new investors

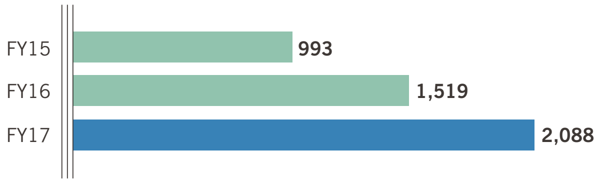
**Investment platform:**

Real estate club deal product well underway with acquisition of two high quality assets in Washington, D.C. and Seattle, syndicated to a small group of investors

Full European real estate investment team in place with an active pipeline of investment opportunities – completed two deals in the United Kingdom

Launch of Investcorp's fourth Technology Fund which made two investments and reached a size of $215 million by the end of the year

**Investment activity ($m)**

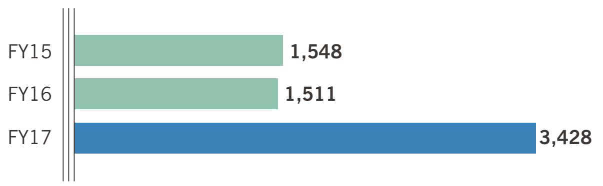



Strong levels of activity with $2.1 billion of aggregate investment across Investcorp's businesses, a 37% year-on-year increase

**Deal-by-deal placement ($m)**


Investcorp raised more than $1.0 billion in new money from Gulf investors for the third year in a row, with the $1.1 billion this year representing the highest total in the Firm's history. Investcorp's investment in strengthening its Gulf placement team has been a key driving factor in performance

**Realizations and distributions ($m)**




Distributions to Investcorp and its clients from investment realizations and other distributions more than doubled to $3.4 billion, the highest level in the Firm's history

# BUSINESS REVIEW

**Profit for the year ($m)**


The rise in profit for the year is predominantly attributable to the contribution of the newly acquired credit management business and improved returns in real estate and alternative investment solutions

**Fee income ($m)**


Fee income exceeded $300 million for the fifth consecutive year, reflecting the sustainability of Investcorp's client franchise and fee-generating business

**Asset-based income ($m)**


Asset-based income reflects a very strong turnaround of returns generated by real estate and alternative investment solutions and additional returns generated by the newly acquired credit management business

**Cost-to-income**


Interest expense decreased by 6% due to a combination of lower commitment fees and a lower cost of funding on funded liabilities. Operating expenses increased by 7% reflecting the ongoing expansion of Investcorp's capabilities and the investment in resources required for this growth

## FY17 KEY BUSINESS HIGHLIGHTS

### Shareholder KPIs

**$1.25** Fully diluted EPS

**12%** Return on equity

**$11.10** Book value per share

### Balance sheet KPIs

| Jun-16 | Jun-17 | |
|---|---|---|
| $2.5b | $2.7b | **Total assets** increase reflects the acquisition of the credit management business |
| $1.0b | $1.1b | **Total equity** increase reflects the profit for the year |
| $854m | $984m | **Accessible liquidity** substantially covers next five years of debt |
| 0.6x | 0.4x | **Net leverage** remains well below 1.0x |
| 30.3% | 31.7% | **Basel III regulatory capital** well above CBB minimum requirements |
| 0.6x | 0.7x | **Co-investments/permanent & long-term capital** well below 1.0x |

## BUSINESS REVIEW

### Fundraising ($m)

| | |
|---|---|
| $819 | Corporate investment |
| $518 | Real estate |
| $838 | Alternative investment solutions |
| $1,969 | Credit management |

Total fundraising was **$4.1 billion** (FY16: $2.5 billion)

**$628 million** placed with clients in corporate investments

**$191 million** raised for a new technology fund

**$518 million** placed with clients across five new real estate portfolios and one single-property club deal

**$538 million** of inflows and advisory mandates for AIS. An additional $300 million mandate was signed but is expected to be funded in early FY18

Almost **$2 billion** was raised in credit management for one new European CLO, the resets of two older European CLOs and the refinancings of two older CLOs in the United States

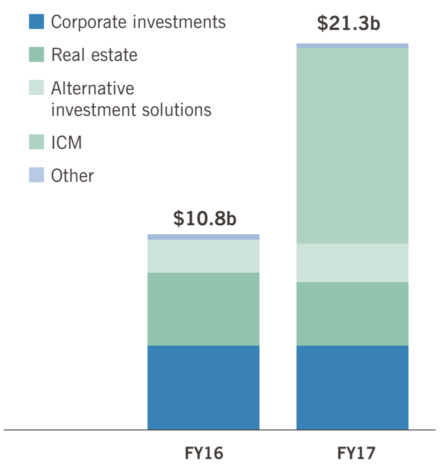
Corporate investment AUM was stable at $4.6 billion reflecting new investment activity offset by a similar level of distributions from realization activity

Real estate AUM increased by 17% to $2.1 billion reflecting continued high levels of investment activity for this business, including the first two European real estate investments

AUM in AIS decreased by 13% as redemptions net of performance more than offset new subscriptions during the year

The acquisition of the credit management business added $10.8 billion AUM

### Total AUM ($b)



## INVESTMENT ACTIVITY

**$604 million…**

…the aggregate capital deployed in five new **CI investments** and two add-on investments for existing portfolio companies; and an additional **$17 million** invested for Investcorp's new technology fund into two new investments. Another **$3 million** of additional capital was invested in an existing portfolio company

PRO Unlimited

AlixPartners

Arrowhead Engineered Products Inc.

Ageras

Calligo

ABAX

Agromillora

**$932 million…**

…the aggregate investment in two new CLOs for the new **credit management** business

Harvest CLO XVII
**€408 million**
May 2017

Jamestown CLO X (Warehousing)
**$467 million**
June 2017

**$533 million…**

…the aggregate capital deployed in five new **real estate portfolios**, including ten new properties which will form three new portfolios for placement in FY18 including a maiden portfolio for the recently-formed Real Estate Europe team

BUSINESS REVIEW

## EXITS & DISTRIBUTIONS










Corporate investment exits included the sale of **Polyconcept**, the world's leading value-added supplier of promotional products; **Tyrrells**, a leading manufacturer of premium hand-cooked potato crisps and other snacks; **Optiv**, the largest holistic pure-play cyber security solutions provider in North America; **Randall-Reilly**, a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States; and the exit of **PRO Unlimited**, a leading software-enabled services company for the staffing and management of skilled professionals

Significant real estate exits included the realizations of five portfolios: **Diversified X** (with the sale of Park Tower); **Southeast Multifamily** (Bala Sands, Bay Pointe); **2013 Residential** (Eagle Crest, University Estates, University Village); **2012 Office** (Keystone Office Park Portfolio, Duke Bridges III); and **Houston Multifamily** (Cottages of Cypresswood, Green Tree Place and Westborough Crossing)

Total realization proceeds and other distributions to Investcorp and its clients were $3.4 billion, including $1.2 billion related to the new credit management business

## INVESTCORP'S KEY PERFORMANCE INDICATORS*:

| | FY13 | FY14 | FY15 | FY16 | FY17 | 5-year view (FY13-FY17) |
|---|---|---|---|---|---|---|
| Fee income ($m) | 309 | 316 | 308 | 307 | **317** | 1,557 (cumulative) |
| Asset-based income ($m) | 32 | 48 | 73 | 76 | **105** | 334 (cumulative) |
| Gross operating income ($m) | 341 | 363 | 381 | 383 | **422** | 1,890 (cumulative) |
| Cost-to-income ratio | 69% | 66% | 64% | 71% | **67%** | 67% (average) |
| Return on average assets | 3% | 4% | 5% | 4% | **5%** | 4% (average) |
| Return on ordinary shareholders' equity | 5% | 11% | 16% | 10% | **12%** | 11% (average) |
| Diluted earnings per share ($)** | 0.36 | 0.76 | 1.29 | 0.94 | **1.25** | 4.60 (cumulative) |
| Book value per share ($)** | 6.95 | 7.38 | 9.00 | 10.15 | **11.10** | 60% (cumulative growth) |
| Dividend per ordinary share ($)** | 0.15 | 0.15 | 0.15 | 0.24 | **0.24** | 0.93 (cumulative) |

* Restated for adoption of IFRS15 for FY13 to FY14.

** The weighted average ordinary shares and the resulting metrics for FY13-FY15 have been realigned to reflect the share split executed in FY16.

## PURCHASE OF 3i'S DEBT MANAGEMENT BUSINESS

In 2015, Investcorp's Executive Chairman, Mohammed Alardhi, set out a vision targeting growing assets under management ('AUM') by more than two times from $10 billion to $25 billion in the medium term and laid out a detailed strategy roadmap with key initiatives to pursue this objective.

In FY17, Investcorp announced a very significant step towards delivering against this growth vision, when it acquired the debt management business of 3i ('3iDM') from UK-based 3i Group PLC ('3i'), a leading global credit investment management platform.

The transaction, for a total consideration of approximately $316 million, significantly enhanced Investcorp's global franchise as a multi-asset class alternative investment manager by adding approximately $11 billion of assets under management, bringing the total to approximately $21 billion.

On completion of the transaction the two companies comprising the business became wholly-owned subsidiaries of Investcorp. Upon closing, the name of the business changed to Investcorp Credit Management ('ICM') and the entire team of approximately 50 employees made the physical move to Investcorp's offices in London, New York and Singapore. This transaction has enabled the business to leverage upon Investcorp's strategic commitment, capital and distribution capabilities and will support ICM in its next phase of global growth.

ICM is a leading global credit manager investing primarily in senior secured corporate debt issued by mid and large-cap corporates in Western Europe and the United States. ICM manage a range of closed and open-ended fund strategies on behalf of its clients, which include institutional and ultra-high-net-worth investors based around the world. The business is also a leading global CLO manager and has, to date, issued twenty 2.0 CLOs (post financial crisis deals) in Europe and the United States.

The transaction is the largest ever strategic acquisition made by Investcorp. It was fully funded through the existing balance sheet, and did not require any incremental debt financing or equity capital given a current strong capital and liquidity position with a regulatory capital adequacy ratio of 31.7% and accessible liquidity of $1.0 billion at the end of June 2017. These strong continuing levels of liquidity and capital after the transaction provide Investcorp with flexibility to fund additional strategic acquisitions where appropriate.

This acquisition has provided Investcorp with:

- A pool of highly talented and experienced credit investment professionals;
- A product offering that is very complementary to Investcorp's existing product set, and one that meets the evolving needs of an increasingly sophisticated client base; and
- Access to a deeper pool of capital through ICM's existing network of institutional investors in the UK, the rest of Europe, the United States and Asia.

The complementary nature of ICM relative to Investcorp's existing businesses is expected to further cement Investcorp's position as a diversified multi-asset class alternative investments business, well positioned for long-term growth and to better serve Investcorp's clients and all stakeholders.

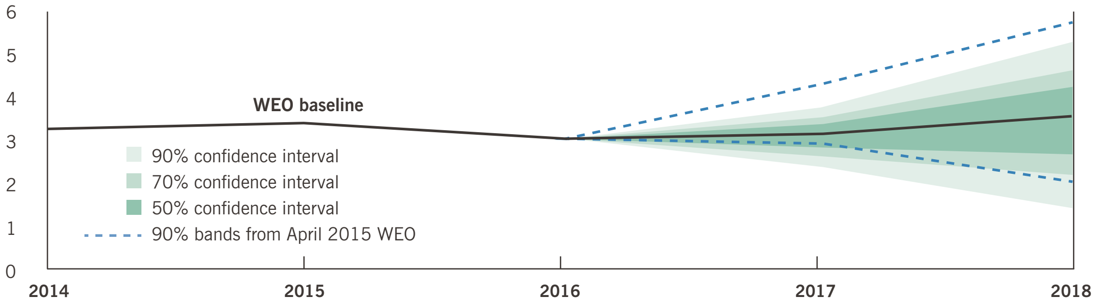
BUSINESS REVIEW

## BUSINESS ENVIRONMENT[1]

**Global** recovery continues to gain momentum after the world economy gained further speed in the fourth quarter of 2016. The International Monetary Fund ('IMF') baseline projection for global growth in 2017 is 3.5% and 3.6% in 2018. The recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies, as conditions in stressed economies appear to be normalizing. However, uncertainty has increased, and factors such as low productivity growth and high income inequality continue to hold back a stronger recovery in advanced economies.

**Prospects for World GDP Growth**

***(% change)***




Source: World Economic Outlook April 2017, International Monetary Fund

Growth in the **United States** is projected to expand at a faster pace in 2017 and 2018 than in 2016, with a growth forecast of 2.3 and 2.5% respectively. The strong near term outlook reflects momentum from the second half of 2016 as well as a recovery in inventory accumulation, consumption growth and an assumed loose fiscal policy stance following the US elections. This anticipated shift has been reflected in market sentiment, most notably gains in equity markets.

However, downside risks remain over the medium term with much uncertainty surrounding economic policy. Most notably, the inward shift towards protectionism could lower global growth and reduce trade and cross-border investment flows. The aggressive rollback of financial regulation could also be a factor, as it could spur excessive risk taking, increasing the likelihood of a future financial crisis.

In the **Euro area**, the main event of the past year was the UK referendum in favor of leaving the European Union ('Brexit'). Spending in the UK was resilient following June 2016 and activity also surprised on the upside in Germany and Spain, which was a result of strong domestic demand. However on the whole, growth projections for the Euro area have been revised downward for 2017 to 2018, to 1.7 and 1.6% respectively. This is due in part to demographic headwinds and weak trend productivity which are likely to restrain growth. The unpredictability of the European Union's future relationship with the United Kingdom also plays a role. Additional factors for a dim medium-term outlook may also be an unresolved legacy of public and private debt leading to a high level of non-performing loans. Supporting the Euro's modest recovery may be a mildly expansionary fiscal stance, accommodative financial conditions, a weaker euro and a potential spillover from a likely US fiscal stimulus.

On a regional basis, growth is expected to decrease modestly in Germany (1.6% in 2017 and 1.5% in 2018), Italy (0.8% in 2017 and 2018) and Spain (2.6% in 2017 and 2.1% in 2017). Growth is expected to increase modestly in France (1.4% in 2017 and 1.6% in 2018).

Growth in emerging market and developing economies is expected to rise to 4.5% in 2017 and 4.8% in 2018. This projected uptick is a reflection of stabilization for commodity exporters, some of which underwent adjustments following a drastic price drop in commodity prices in 2016. Much of the growth amongst emerging markets and developing economies remains uneven due to China's transition to a more sustainable pattern of growth less reliant

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

on investment and commodity imports, high debt levels and slow medium-term growth prospects in advanced economies. Other major factors include political discord and geopolitical tensions in a number of countries.

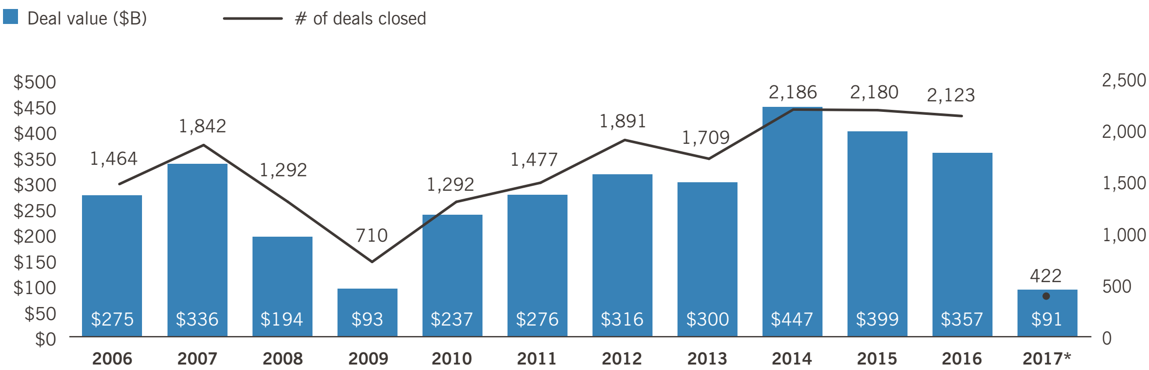
The outlook across the **Middle East** region has continued to weaken reflecting lower headline growth in the region's oil exporters. This is driven mainly by the November 2016 OPEC agreement to cut oil production, masking the expected pick-up in non-oil growth. The continued regional conflicts are also expected to detract from economic activity. In Saudi Arabia, which is the region's largest economy, growth is expected to slow to 0.4% in 2017 due to lower oil production and continued fiscal consolidation but is expected to pick up in 2018 to 1.3%. Many countries within the Gulf Cooperation Council[1] ('GCC') are expected to experience a dip in growth rates in 2017 before experiencing a substantial uptick in 2018. In contrast, many of the region's oil importers are set to experience a continued acceleration with growth rising from 3.7% in 2016, to 4% in 2017 and 4.4% in 2018.

## CORPORATE INVESTMENT – NORTH AMERICA AND EUROPE

The private equity market in 2017 remains as competitive as in 2016. Global economic activity is picking up with a long-awaited cyclical recovery in investment, manufacturing, and trade, according to the World Economic Outlook by the IMF in April this year. Reduced pressure of deflation, prospects of a more global demand and optimistic financial markets are upside developments.

In the US, capital of $91 billion was invested in 422 transactions in Q1 2017, representing a 2.6% increase in deal value and a 24.5% decrease in number of transactions completed as compared to the prior year. This is due to the fact that the first quarter of 2017 saw an increase in larger middle-market deals driven primarily by increased amounts of dry powder. The median deal size rose to $238.5 million after two consecutive years of decreases. IT/Technology deals accounted for 20% of all PE deals in the US a trend that is expected to continue for the remainder of the year. Multiples in the US remain high due to increased competition among PE firms in the middle-market space.

### US PE deal flow by year



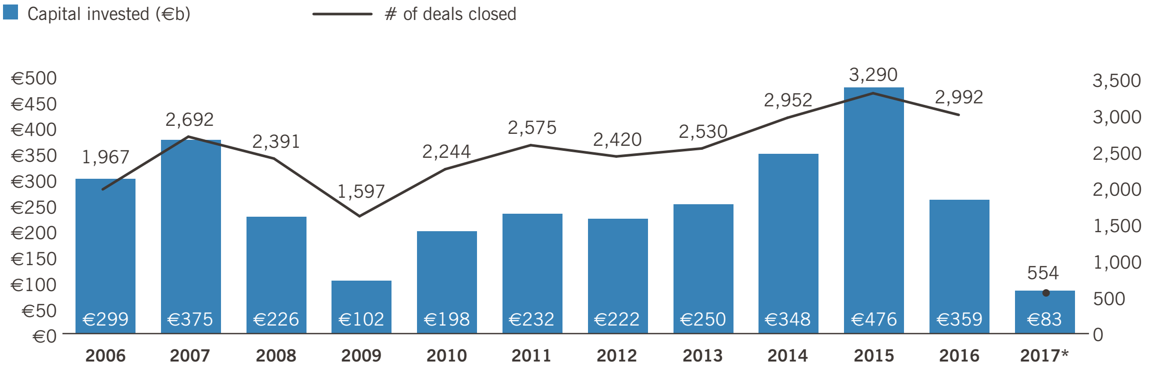

*As of March 31, 2017. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2017 US Breakdown Report

In Europe, deal flow started relatively strong in Q1 2017 despite an unknown political environment. Capital of €82.5 billion was deployed across 554 transactions in the first quarter of 2017 representing an 8% decrease in deal value and 7% increase in number of deals closed, respectively, over the same period in the prior year. The number of deals in IT/Technology noticeably stood out in Q1 2017 accounting for 20% of all PE deals in Europe, a situation similar to the US. This trend is expected to continue at least for the remainder of 2017 due to the attractiveness of recurring revenue models of software-as-a-service ('SaaS') businesses. Multiples in the first three months in Europe have slightly come down to 7.9x from 8.3x in Q1 2016.

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

BUSINESS REVIEW

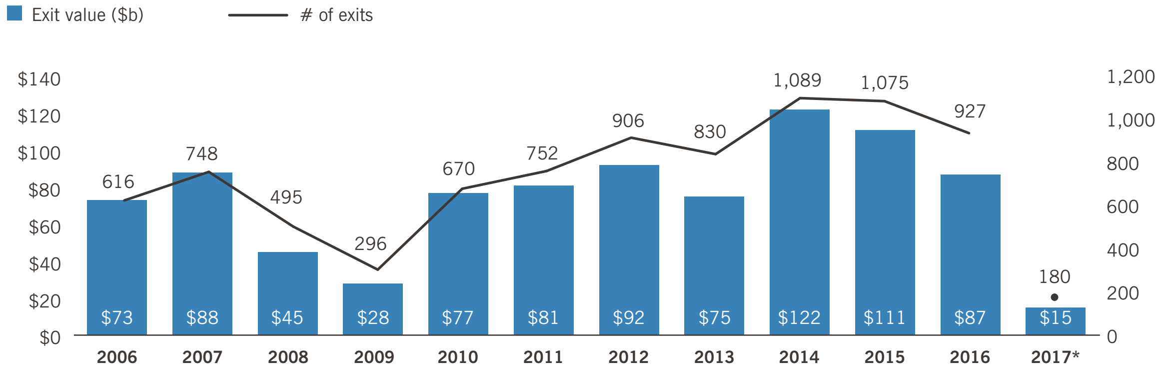
### Europe PE deal flow




*As of March 31, 2017. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2017 European Breakdown Report

The US exit market was at its lowest level in more than three years in the first three months of 2017, with 180 transactions and an exit volume of $15 billion. This trend is expected to continue as most investments made prior to 2008 have already been sold and the majority of companies acquired from 2014-2016 are not yet ready for sale. However, IPO activity increased in Q1 2017 with 12 PE-backed IPOs of middle-market companies completed – the highest level since Q2 2015.

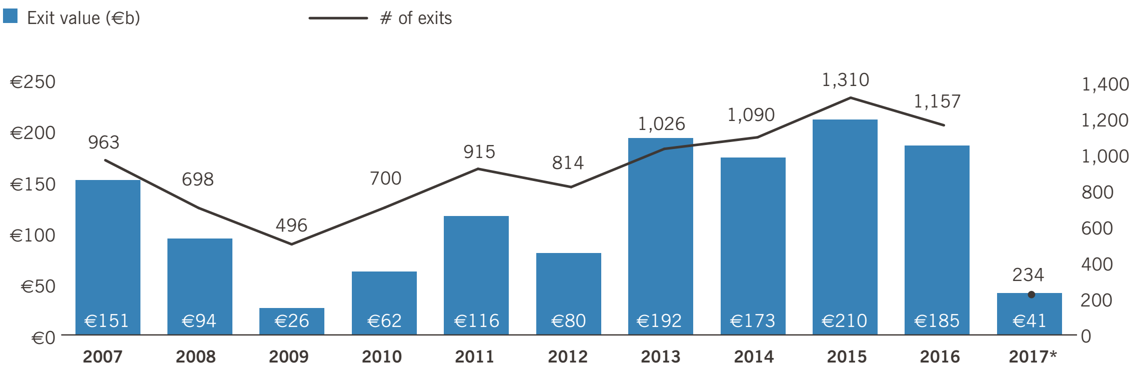
### US PE-backed exits




*As of March 31, 2017. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2017 US Breakdown Report

The European exit market remained strong in the first three months of 2017. With 234 transactions and an exit volume of €41 billion, the value of exits is above Q1 2016 and the number of transactions also increased by circa 10%. IPO activities in 2017 are limited so far which is mainly caused by an unknown political environment in numerous European countries in early 2017. However, the market environment for IPOs could improve as the political situation becomes clearer after concerns about the elections in France and The Netherlands have faded and interest rates continue to be at a low level.

**European PE-backed exits**



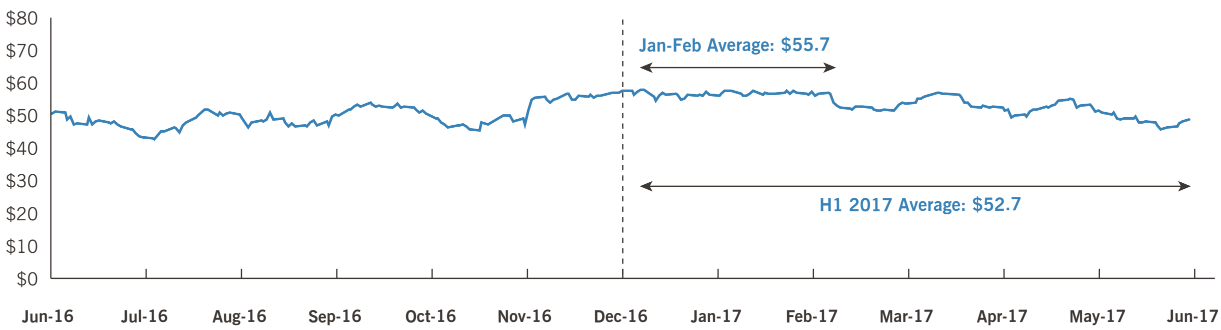

*As of March 31, 2017. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2017 European Breakdown Report

Overall, the private equity industry continues to see strong interest from investors in alternative assets with the emphasis on companies with strong top-line revenue growth.

## CORPORATE INVESTMENT – MENA

Crude oil prices averaged $56 per barrel during the first two months of 2017 as data from secondary sources showed that the OPEC and non-OPEC producers were adhering to their formal agreement reached in November 2016, to cut production by 1.2 million barrels per day ('mb/d') for a period of six months starting January 2017. However, oil prices dropped to nearly $50 per barrel in March on concerns over continued commitments of OPEC and non-OPEC members to reach targeted production cuts, larger than expected US crude oil inventories, and a strong recovery in US shale oil activity. On May 25, OPEC announced that it would extend cuts in oil output by nine months to March 2018, in hopes of reducing global crude oil inventories and supporting oil prices. The second half of 2017 is expected to witness a slower-than-expected market rebalancing on the back of higher production from Nigeria and Libya and a rebound in US shale output despite the OPEC's efforts to extend production cuts. Given this backdrop, the US Energy Information Administration ('EIA') forecasts Brent spot prices to average $53 per barrel in 2017.

**Brent Crude Oil Price – June 30, 2016 – June 30, 2017 ($bbl)**




Source: Bloomberg

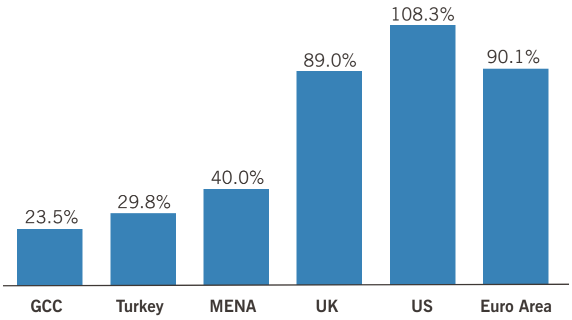
Given the slowdown in economic activity in the GCC region, the IMF projects GCC economies to grow at 0.9% in 2017 compared to 2.0% in 2016, with growth projected to pick up to 2.5% in 2018. Non-oil growth in the region is projected to strengthen from 2% in 2016 to 3% in 2017 as the pace of fiscal consolidation eases. Growth in Saudi Arabia is expected to slow to 0.4% in 2017 from 1.4% in 2016, due to lower oil production and ongoing fiscal consolidation, before picking up to 1.3% in 2018. Nonetheless, GCC countries continue to make significant efforts to consolidate public finances, rationalize subsidies and reduce fiscal deficits. In this context, the IMF expects the cumulative budget shortfall of the GCC countries through 2021 to be $240 billion, compared with a previous forecast of $350 billion in its 2016 outlook. The IMF also expects GCC countries to record a current account surplus of $26 billion in 2017 compared to a deficit of $28 billion in 2016.

## BUSINESS REVIEW

Given the level of foreign exchange reserves, which remain in excess of $675 billion, 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.

The debt to GDP ratio of the GCC countries is expected to increase from 21.4% as of December 2016 to 23.5% by the end of 2017. While debt levels in the region have increased, they are expected to remain significantly lower than in the rest of the world (90% in the Euro area and 108% in the US), allowing GCC governments to continue to invest cautiously in large development projects and infrastructure.

**2017E Government Debt (% GDP)**




Source: International Monetary Fund

In line with 2016, the first half of 2017 saw GCC countries tapping the international debt markets in an effort to diversify their funding sources and reduce liquidity pressures in their domestic banking systems. Kuwait issued a dual-tranche $8 billion bond offering in the international debt markets with the offer being significantly oversubscribed at $29 billion, recording strong demand from both international and regional investors. Saudi Arabia raised $9 billion in its first global sukuk issue (Islamic bond structure) with investors placing orders in excess of $33 billion. Additionally, the Qatar Central Bank also sold $4.1 billion in domestic bonds this year.

Countries in the region continue to accelerate their reforms focusing on diversifying the economy and increasing the role of the private sector within their economies. A number of deals and agreements worth $380 billion were signed between Saudi Arabia and the US, following the US President's visit in May. Defense deals worth approximately $110 billion were signed including a landmark $6 billion defense agreement with Lockheed Martin which is expected to support around 450 jobs in Saudi Arabia. Saudi Aramco also signed joint venture agreements with major US companies valued at $50 billion. Saudi Arabia's Public Investment Fund ('PIF') also agreed to commit $20 billion to an infrastructure investment fund with Blackstone while also announcing plans to invest in a $90 billion technology investment fund to be managed by SoftBank.

GCC countries have signed a unified framework agreement with a view to introduce a value added tax ('VAT') starting in 2018. According to the IMF, the GCC economies could boost their GDP by approximately 1.5% if they implement a VAT of 5%.

While the GCC region witnessed a surge in debt issuances, the GCC stock exchanges remained bearish during the first half of the year due to uncertainty in oil prices, geopolitical developments and the generally volatile economic conditions globally. This resulted in relatively subdued IPO activity with no new issuances at all in the first half of 2017 compared to four issuances in Saudi Arabia in the first half of 2016 with total capital raised of $845 million. The pipeline for the remainder of the year into 2018, however, looks more favorable as transactions put on hold in 2016 are expected to come to market once economic reforms gain traction and as oil prices stabilize.

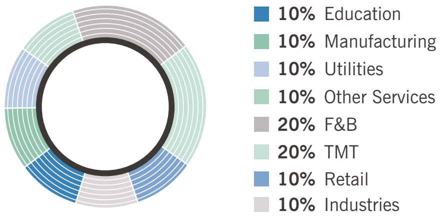
In the second half of 2016, Turkey witnessed a failed military coup attempt. Following this, in April 2017, a constitutional referendum was held throughout the country where amendments to the constitution proposed by the governing AKP party were approved. A key amendment was the introduction of a presidential system and executive presidency in the country, which is expected to come into effect following the presidential elections in November 2019.

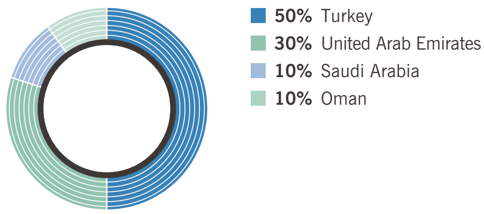
Turkey's GDP growth reached 5.0% year-on-year in the first quarter of 2017, driven by an increase in government spending, private consumption and exports. Growth in public consumption was mainly driven by expansionary measures implemented by the government towards the end of 2016, which included a number of temporary tax reductions/exemptions and expanded investment incentives. The improvement in the country's price competitiveness linked to a weaker lira and improving demand from the European Union further added to export growth.

Following a steep depreciation of the Turkish Lira by 21% in 2016, the currency remained fairly stable at TL3.52:US$1 as of June 30, 2017, in line with 2016 year-end levels. As of June 2017, year-on-year inflation stood at 10.9% compared to the long-term inflation target of 5%. The current account deficit is expected to widen to 4.7% of GDP by the end of 2017 compared to 3.8% in 2016, on the back of lower tourism revenues and a moderate level of economic activity despite lower energy prices. While the IMF has not released a more recent update on Turkey, the full year 2017 GDP growth is projected at 2.5% compared to 2.9% in 2016. However, as the political environment stabilizes following the constitutional referendum, the long-term outlook for 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.

Despite challenging market fundamentals, regional markets (GCC & Turkey) continue to attract the interest of equity investors on the basis of strong and positive long term fundamentals. In the first half of 2017, there were 63 M&A transactions in the region, of which 10 were private equity investments, compared to 22 private equity investments in the first half of 2016. The majority of the private equity investments were in the UAE and Turkey with the most active sectors being the food & beverage ('F&B') and the 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 2017**




Source: Zawya, Merger Market, Investcorp Analysis as of July 2, 2017

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 2017 witnessed three private equity exits in the GCC and two private equity exits in Turkey, to private buyers, compared to three in the GCC and three in Turkey during the first half of 2016.

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

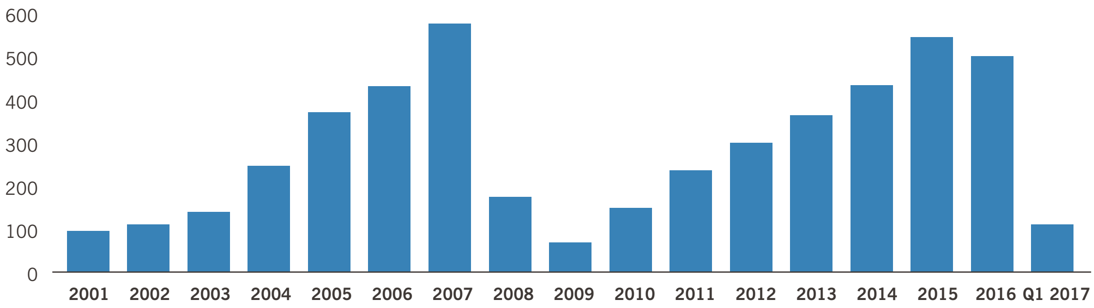
BUSINESS REVIEW

## 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. 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 two million jobs through June 2017, down from 2.5 million for the same prior year period. However the unemployment rate stands at 4.4% as of June 2017 (versus 4.9% in June 2016). 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 12% year-to-date through May 2017 versus the same period last year. However, overall activity is still at elevated levels compared to historical averages. Prices have held steady and cap rates remain largely unchanged from a year ago. Further, operating fundamentals remain solid. Even though the Fed raised rates, the spread between cap rates and Treasuries is wide enough that the interest rate increase did not result in higher cap rates. Capital flows into the US should continue to remain strong because the US is seen as a safe haven relative to other countries.

**Transaction Volume ($b)**




Source: Real Capital Analytics, Inc. 2017

US **office market** fundamentals remained sound through Q1 2017. Office-using employment remained resilient and expanded for the 30th straight quarter, adding over 129,000 jobs. Tech markets and low-cost markets in the south and west saw the highest office-using job growth. According to CBRE, rent growth year-over year slowed to 4.9% and vacancy ticked up for the quarter to 13.0%, due to an increase in new supply. The top markets for construction were New York City, San Jose, San Francisco, Washington, D.C., Dallas and Seattle. Leasing demand continues to be led by the high-tech and financial sectors. Low oil prices continue to impact major leasing activity in the energy markets such as Houston, Tulsa and Oklahoma City. Many southern and western markets, such as Tampa, 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 2017 due to consistent demand and relatively low supply. According to CBRE, net absorption was positive for the 24th consecutive quarter. Demand was strongest in neighborhood, community and smaller shopping centers. Demand remained relatively weak at power centers and lifestyle and mall properties due to big-box and department store closures. Vacancy decreased slightly during the quarter to 7.0% from 7.3% in Q1 2016 the lowest level in more than a decade. Rent growth remained resilient as retail net asking rents increased for a 13th consecutive quarter – up 6% from Q1 2016. Retail sales, excluding sales at gasoline stations, increased by 4.3% year-over-year as demand drivers such as employment and personal income remain relatively strong. New supply increased during Q1 2017, but completions still remain 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 28th 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 Atlanta, Dallas/Fort Worth, the Inland Empire region of Southern California, Houston and Cincinnati. The US industrial availability rate ticked up slightly to 8%, the first increase in the past 26 quarters. The San Francisco peninsula, Oakland, Orange County and Los Angeles led the way with the lowest availability rates, all below 4%. Low availability rates and strong leasing demand have resulted in sustained rental growth. The average net asking rent grew 2.1% in Q1 2017 and was up 7.4% 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 2017 but still remain healthy. According to CBRE, the vacancy rate of 4.9% was flat for the quarter and year-over-year rent growth of 4.1% remains above the historical average. Demand is strong due to favorable demographics and shifting lifestyle preferences favoring renting rather than owning. As of Q1 2017, 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. Quarterly supply increased by 2.9% during Q1 2017. Markets that saw the biggest increase in supply for the four quarters ended in Q1 2017 were New York, Washington, D.C., and Dallas/Fort Worth. Demand in each of these markets remains solid.

The US **hospitality market** strengthened slightly in Q1 2017. According to STR, Inc., demand growth grew by 2.8% year-over-year and supply increased by 1.9%, which pushed up national occupancy levels to 61.1% in Q1 2017, a 0.9% increase from Q1 2016. Average daily rate increases remained modest at 2.5% but combined with a higher occupancy level resulted in revenue per available room growth of 3.4%. A strong US dollar weakened demand in many gateway cities that rely more heavily on tourism spending. Washington, D.C., had the best year-over-year performance due to high demand during the inauguration weekend. Other markets with strong performance were Salt Lake City, Tucson and San Diego. Markets that saw the biggest increase in supply for 2016 were Cleveland, Houston and Oahu.

## REAL ESTATE INVESTMENT – EUROPE

In the wake of the Brexit vote last summer, political uncertainty in the UK has continued into 2017. Prime Minister Theresa May's 'Brexit election' in June did not succeed as her Conservative Party lost their parliamentary majority. Although the Tories managed to build a coalition government with the Democratic Unionist Party, the result represents a serious setback for the Prime Minister's hard Brexit stance and it will likely lead to a softer approach to Brexit negotiations.

The UK economy slowed in the opening months of this year as rising prices in the wake of the Brexit vote took their toll on consumer spending. GDP grew just 0.2% in the first quarter of 2017, a marked change of pace from the 0.7% growth in the final three months of 2016.

The UK inflation rate currently stands at a near four-year high of 2.9%. The fall in the value of Sterling since last year's Brexit referendum has led to increased costs of imports. The higher-than-expected inflation figure will intensify the debate over how long the Bank of England can leave interest rates at the record low of 0.25%. Inflation is well above the Bank's 2% target, but policymakers seem happy to tolerate some overshoot, supporting growth and employment as the UK prepares to begin Brexit negotiations.

The UK real estate market continues to see a decline in investment volumes. For the first five months of 2017 investment volumes stood at £17.2 billion, down 20% on 2016 and 47% on 2015.

Whilst investment has continued to flow from the Far East (c. over £3 billion in 2017), there has been a decline from almost every other source. Similarly, domestic investment is down 30% versus 2016 and 45% versus 2015.

The fall in investment has been sharpest in London, where volumes at the end of Q1 were down 46% against their peak in Q4 2015. Whilst this is a significant reduction, it should be noted that more than £22 billion was invested in the 12 months to the end of May 2017, a third more than in Paris, Europe's second biggest market. Domestic investment in Central London offices has fallen to the lowest level recorded.

BUSINESS REVIEW

This slowdown in deal volume seems to be the means by which the market has adjusted to the new investment environment and though prices have declined, the extent of the decline is in contrast to the larger corrections of 2008-2009. In fact, with few, if any, forced sellers in the market and many players sitting on their hands, the lower volumes are likely to continue in the short term.

In London, prices have largely been sustained by overseas players diversifying their portfolios, while outside London, UK councils have emerged as some of the most active players in the market as they invest cheap public money in real estate to supplement falling income from central government.

European investment volume dropped 16% year-on-year to €53.5 billion in Q1 2017. This decline masks the underlying strength in some of Europe's biggest real estate markets. Germany continues to be the destination of choice for investors, with investment up 33% compared to a year ago. The fall in investment volumes in France was in some part a function of the uncertainty generated by the presidential election.

Cross-border investment volumes in Europe have climbed back up above 50% of the total market in Q1 2017, having dipped below this benchmark in 2016. One of the reasons is the consistent flows of intra-European cross border investment. Global players, driven by a slowdown from the US based investors, have reduced their market share to around 25% from a peak of 35%.

Political risk notwithstanding, the consensus is that the fundamentals of the European real estate market remain strong.

As regards pricing, the inward movement in transaction yields seems to have stabilized. While some commentators express worries about high prices, property still looks relatively attractive when compared to European government bonds.

## ALTERNATIVE INVESTMENT SOLUTIONS

FY17 was positive for the hedge funds industry with positive performance of +6.4%, as measured by the HFRI Fund of Funds Composite Index, compared to performance of -5.4% for FY16.

### Hedge funds

**Equity long/short** hedge funds had a strong year, with US and Asia Pacific managers outperforming. The group benefited from the tailwinds of higher equity markets and a rebound in alpha generation after a difficult fiscal year 2016. Drivers of alpha for the year included positive contributions from factor and sector positioning, with the industry capitalizing on long exposures in equity growth and technology stocks most notably. Lower pairwise correlation across equities and lower volatility also proved to offer a more constructive environment for stock picking, allowing hedge funds to focus on equities' idiosyncratic drivers. Finally, managers were prescient in raising their levels of net market exposure throughout the second half of 2016.

**Discretionary global macro** funds underperformed this fiscal year, posting a net return of -2.5%. That said, there has been meaningful dispersion in the peer group. For instance, emerging markets focused funds strongly outperformed the universe of funds focused on developed markets alone. An environment characterized by extremely low realized volatility across most asset classes as well as numerous trend reversals in fixed income, currencies and commodities proved difficult to trade for macro funds.

**CTA**[1] funds were the worst performing group within hedge funds. The universe was the worst affected by the major trend reversals that affected macro asset classes over the past 12 months. Only long equity positioning helped mitigate the extent of the losses registered in trading fixed income, energy futures or currencies.

**Fixed income relative value** was a welcome bright spot amid macro oriented strategies. The universe was able to profit from a high velocity of flows and continued micro dislocations in developed countries' fixed income markets. Lower competition from proprietary trading desks and higher barriers to entry in a world where balance sheet capacity is scarce and expensive has helped funds deliver higher returns with very limited directional exposure.

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

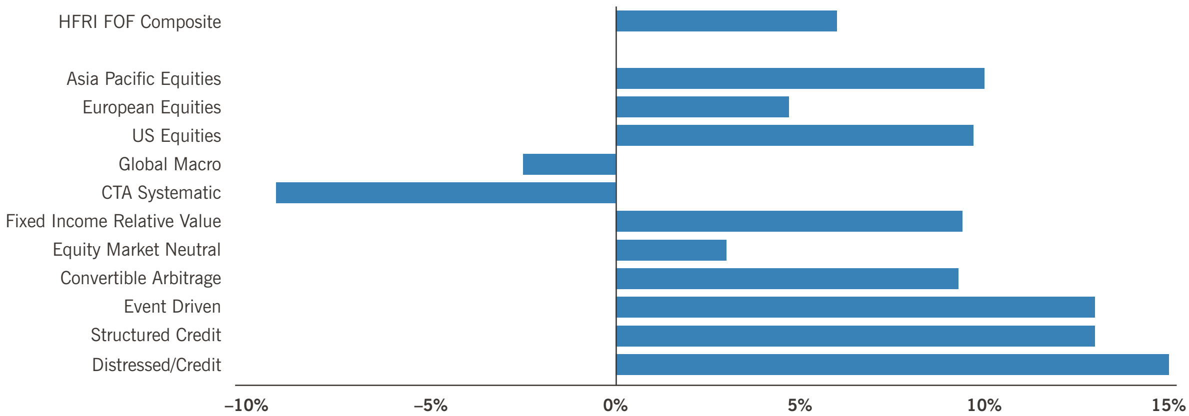
**Convertible arbitrage** also performed well, posting a net return of 9.3% according to HFR. The strong performance can be explained by the recovery of the asset class, after the large dislocation observed over the first quarter of 2016. Relatively high carry and cheap valuations offered a particularly strong opportunity set to hedge funds.

**Equity market neutral** had a mixed year. Lower equity volatility generally proved challenging for statistical arbitrage models. Quantitative arbitrage models were supported by the strong returns to the equity value factor as financial markets reflated in the second half of 2016. Year-to-date, value exposure detracted while growth, momentum and defensive factors outperformed.

**Event driven** hedge funds were among this year's top performers, with a net gain of 12.8%. Alpha generation recovered strongly in the universe after a dismal 2016. Fairly elevated net market exposures, positive exposure to the equity value style and strong returns from stock picking alpha were the major drivers of this remarkable performance. Special situation hedge funds were the largest contributors, with mid double-digits performance. Merger arbitrage strategies delivered high single digit returns, riding merger spread compression driven by lower equity volatility and corporate credit spreads.

Long-biased **credit** strategies rank first in the industry's league tables this year. Both distressed and structured credit hedge funds were able to post mid- double digits returns. Hedge funds were well positioned to capture and monetize these opportunities including historically high credit spreads relative to fundamentals, an elevated liquidity premium and a dislocated CDS basis. The recovery and stabilization of energy markets was the key catalyst that helped support the broader rally of credit markets, further helped by stronger macro-economic fundamentals in H2 2016.

**Performance of hedge fund strategies (July 2016 – June 2017)**

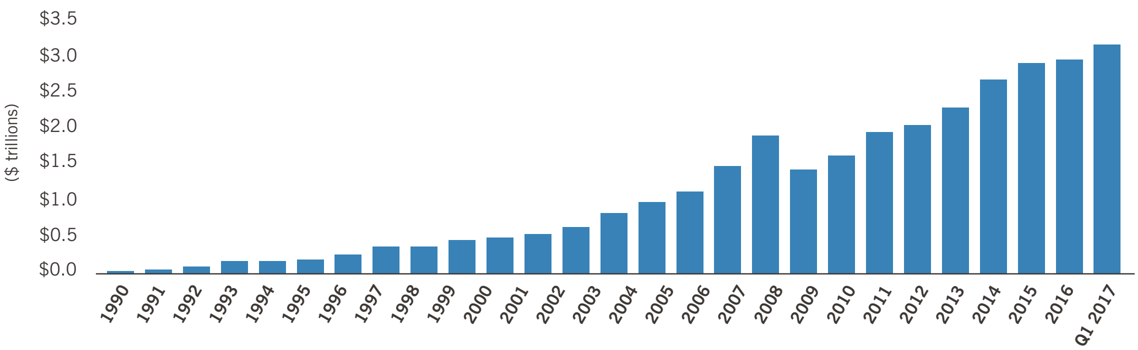



Source: Per Trac, Investcorp

BUSINESS REVIEW

As can be seen in the chart below, the hedge fund industry growth has slowed since 2014, primarily due to challenging returns and investors' reassessments of their portfolio allocations. The hedge funds industry experienced estimated investor inflows of $44 billion during 2015, but experienced estimated investor outflows of $70 billion in 2016 and $5 billion in Q1 2017. Positive performance in the second half of 2016 and Q1 2017 has helped the industry maintain its asset level in spite of redemptions and, as of March 31, 2017, total hedge fund industry assets were $3.1 trillion. The number of new hedge fund launches has 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**




Source: HFR Industry Reports © HFR, Inc. Q1 2017, www.hedgefundresearch.com

## Alternative Risk Premia

In alternative risk premia, foreign exchange strategies proved particularly profitable over the past 12 months. This standout performance was the result of a strong contribution from developed markets value signals and the tailwind earned from carry strategies. Only trend following materially underperformed, particularly within the G10 currency universe. The contribution from equity factors was more mixed, with broadly positive returns from index strategies and a more challenged picture for cross-sectional cash equity factors. Trend following, carry and mean reversion were all profitable in equity indices, but only value and quality ended positively in single-name equities. Low beta and momentum strategies strongly underperformed in the later part of 2016 but have gradually recovered in 2017. Similarly, the performance of commodity strategies was mixed. There were positive returns from carry curve and congestion strategies, but the underperformance of cross-sectional carry and momentum signals unfortunately dominated the asset class contribution. Finally, fixed income algorithms broadly suffered from limited carry opportunities and numerous price reversals that proved costly to trend following models.

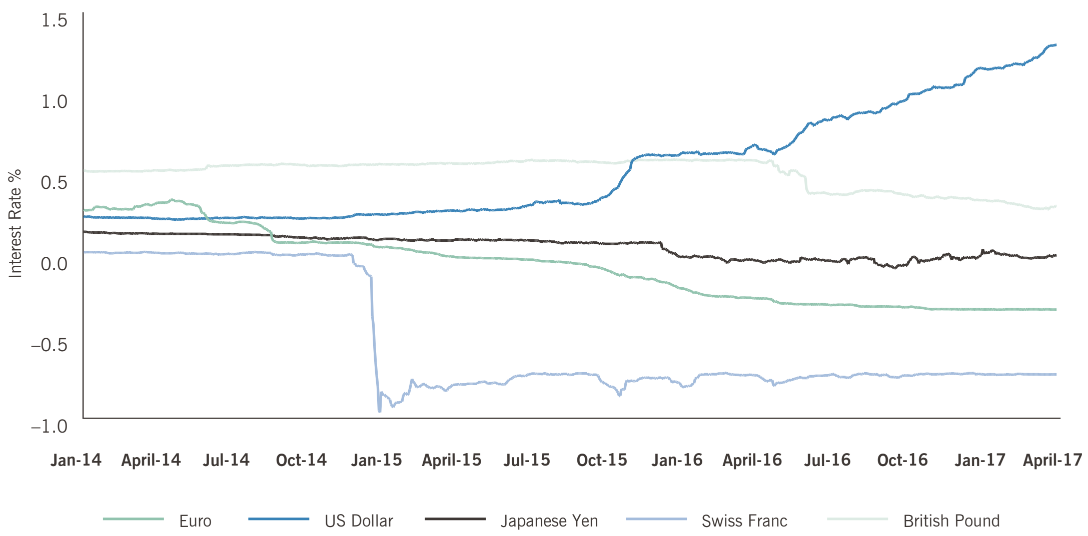
There continues to be significant interest in alternative risk premia by the institutional investor community although there continues to be divergence among various investors in their stage of adoption of risk premia investments into their respective portfolios. Some investors are starting to research the space and conduct due diligence on managers while others have made significant risk premia allocations. As risk premia is expected to experience significant growth in the next few years, investment managers are responding to this increase in demand with several new product launches in the recent years. These launches have primarily been by existing investment platforms which are diversifying their product offerings into risk premia.

## CREDIT MANAGEMENT

Low (or in some countries negative) interest rates, improving economic conditions and stability in commodity markets all contributed to support for the US and European leveraged loan markets in the latter half of 2016 and first half of 2017. Accommodative monetary policy in most developed economies kept interest rates at or close to historic lows, with Japanese, Swiss and European short term rates remaining below zero. Although US rates began to move upward, increases have been modest as the Fed has been cautious about tightening due to limited signs of inflationary pressures. This environment created significant liquidity and a search for yield in fixed income markets, driving investors towards credit investments to generate returns. Demand for credit products was also supported by a solid US economy and improving economic trends across Europe, resulting in strong fundamentals across both regions. US GDP accelerated during this period, reaching 2.6% for the second calendar quarter of 2017, while most European economies demonstrated positive trends fueled by aggressive European Central Bank policy. 2016 loan default rates, a key indicator of leveraged loan market health, remained close to thirty year lows.

**Short-Term Global Interest Rates**

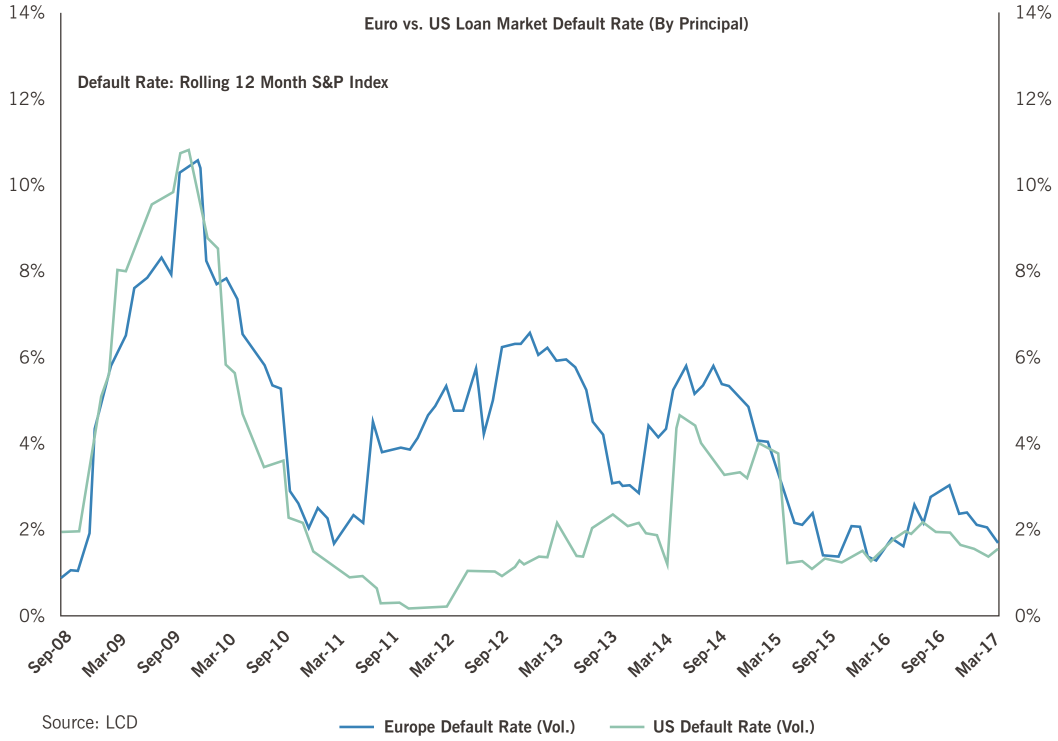
**January 2014 – June 2017**



BUSINESS REVIEW

**US and European Loan Market Default Rates (by Principal)**

**September 2008 – March 2017**

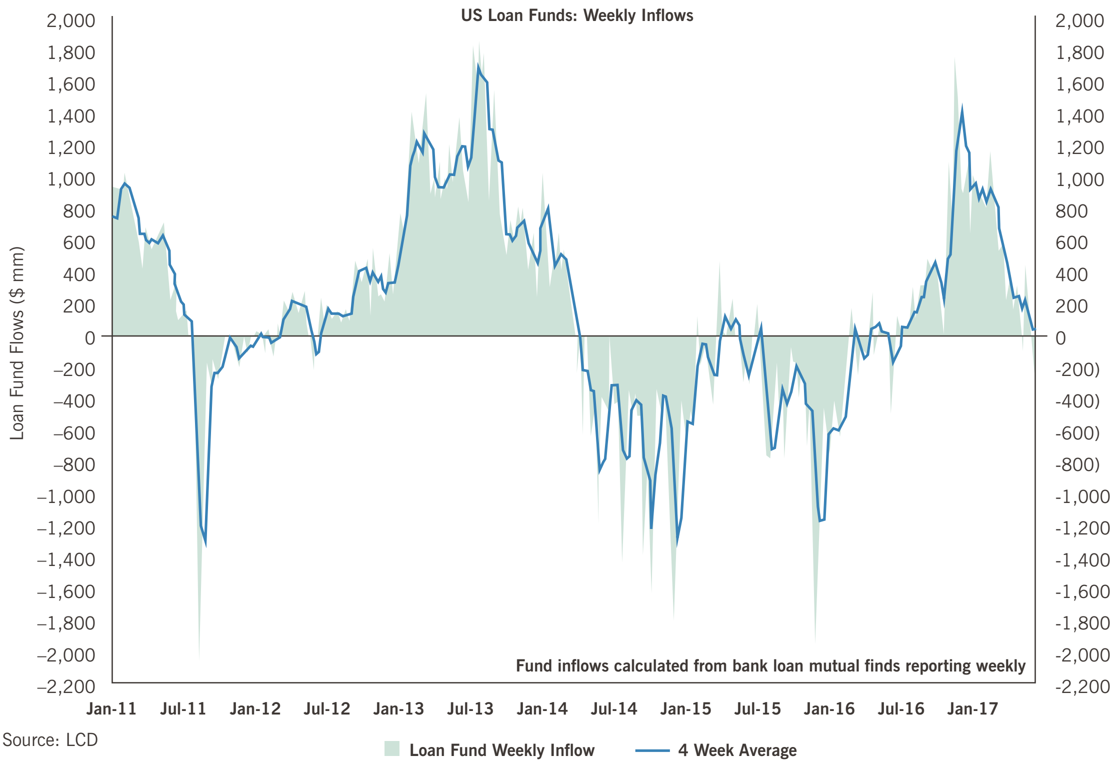



Source: LCD

These conditions have resulted in substantial flows of capital into the US and European leveraged loan markets. For the 12 months ended June 30, 2017, US loan mutual funds experienced net inflows of $32 billion. During the same period, US and European CLO formation added another $97.3 billion and €17.9 billion of capital to their respective markets. Institutional separately managed accounts focused at least partially on loans also saw significant growth. While market liquidity increased and demand for loans grew, supply failed to keep pace. Private equity sponsored transaction volume proved modest as PE firms struggled to find value, borrowers locked in historically low rates by refinancing with high yield bonds and solidly performing companies used free cash flow to repay loan debt. US and European new money loan issuance has equaled less than 35% and 40%, respectively, of total loan issuance since the middle of 2016.

### US Loan Mutual Fund Flows by Week

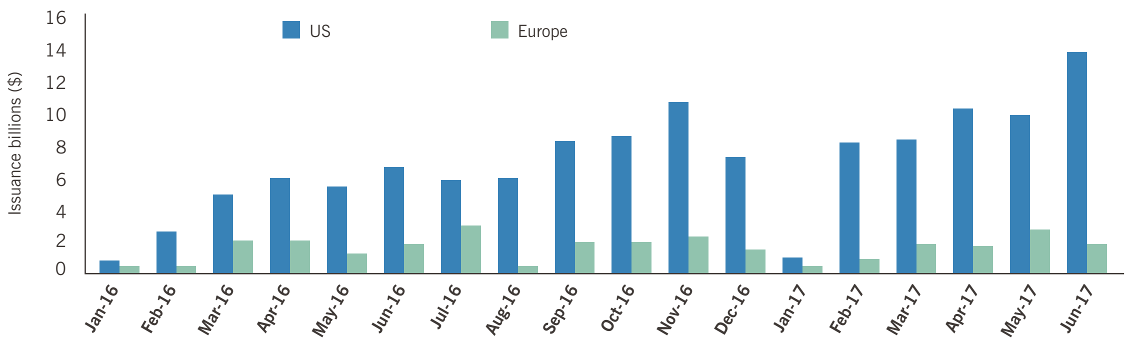
### January 2011 – June 2017




Source: LCD

### US and European New Issue CLO Issuance by Month

### January 2016 – June 2017




Source: LCD, Intex, S&P, Moody's, Wells Fargo Securities
FX Rate as at June 30, 2017

## BUSINESS REVIEW

Excess demand created a very strong secondary market bid for loans, driving prices up from depressed levels reached in early 2016. At the end of June 2016, less than 10% of loans in both the US and European loan markets traded above 100. By the end of 2016, over 70% of loans in each market traded above this level. As a result, the US and European loan markets generated total returns of 9.9% and 6.5%, respectively for calendar year 2016. US outperformance was driven by the recovery from -0.4% total return in 2015. European loans significantly outperformed the US in 2015 and therefore had less upside opportunity in 2016. Both markets demonstrated continued strength in the first half of 2017, with US and European loans returning 2.0% and 2.1%, respectively.

The downside of strong demand for loans and limited new money supply is decreasing yields and credit spread compression. Increasing secondary market prices pushed US and European loan market yields (to a three-year expected life) down by 21bp and 88bp, respectively, in the second half of 2016. The three-year discount margin ('DM') declined by 120bp to 461bp in the US and 68bp to 522bp in Europe during the same period. As spreads fell, borrowers aggressively pursued opportunities to reduce funding costs. Given loans generally have very limited to no call protection, borrowers can take advantage of market strength to lower borrowing costs by refinancing/repricing their loans at lower credit spreads when market conditions are supportive. Such activity began to increase in the second half of 2016 and accelerated in the first half of 2017. Over 50% of the loans outstanding in each of the US and European loan markets were refinanced/repriced at lower spreads during the 12 months ended June 30, 2017, with the first half of 2017 accounting for the bulk of this activity. Loan DMs consequently narrowed another 19bp to 442bp in the US and 119bp to 403bp in Europe during this period.

Several industry sectors and certain borrowers have failed to perform in line with the market trends noted above. Retail companies are under pressure due to changing consumer buying patterns and continued expansion by companies such as Amazon into new market segments. Independent power producers have suffered from low electricity prices in some major markets and competition from renewable energy providers. Oil and gas exploration and production companies remain subject to volatility in energy markets and concern that commodity prices will be range-bound for the foreseeable future. Investors are quick to exit investments in more aggressively leveraged borrowers that fail to meet market performance expectations. These sectors and companies create pockets of weakness that can negatively impact portfolios with excessive exposure.

These conditions have created challenges for loan investors. Along with tighter credit spreads and lower yields, leverage multiples have crept higher and loan terms have become increasingly borrower friendly. While some investors will reach for yield at the expense of credit quality and participate in issuance by weaker companies, more disciplined investors have had to accept lower returns in order to remain invested in loans of borrowers with acceptable credit quality and be increasingly vigilant to avoid market potholes such as those highlighted above. Despite lower spreads and pockets of increased risk, loan investors continue to see value in attractive loss adjusted returns supported by underlying economic strength, low default rates, modest increases in short term interest rates (at least in the US) and good relative value versus many alternative fixed income markets.

# DISCUSSION OF RESULTS

## PROFIT FOR THE YEAR

*Profit for the year 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') products, accrued returns on credit management ('CM') exposures and realized changes in the fair value of alternative investment solutions ('AIS') products.*

Profit for the year of $120.3 million for FY17 was 34% higher than profit for the year for the prior fiscal year ('FY16'), primarily driven by higher gross operating income that reflects the return on investments being made in resources and infrastructure to support the firm's medium-term strategy for growth in AUM and related fee income. Investcorp's FY17 results represent a return on equity ('ROE') of 12% and fully diluted earnings per share ('EPS') of $1.25 per ordinary share.

| **Income** ($m) | **FY17** | FY16 | % Change B/(W) |
|---|---|---|---|
| Fee income | **316.5** | 307.5 | 3% |
| Asset-based income | **105.2** | 76.0 | 38% |
| **Gross operating income** | **421.7** | 383.5 | 10% |
| Provisions for impairment | **(4.1)** | (8.2) | 50% |
| Interest expense | **(57.5)** | (60.9) | 6% |
| Operating expenses | **(239.9)** | (224.3) | (7%) |
| **Profit for the year** | **120.3** | 90.1 | 34% |
| Basic earnings per ordinary share ($) | **1.28** | 0.97 | 32% |
| Fully diluted earnings per ordinary share ($) | **1.25** | 0.94 | 33% |

Fee income increased marginally to $316.5 million (FY16: $307.5 million) reflecting continuing strong levels of activity across the business. Asset-based income increased 38% to $105.2 million (FY16: $76.0 million). This was driven by the contribution of the newly acquired credit management business and improved returns in real estate and AIS which had both recorded losses in FY16.

Interest expense decreased by 6% due to a combination of lower commitment fees and lower cost of funding on funded liabilities. Operating expenses increased by 7% to $239.9 million (FY16: $224.3 million) reflecting the expansion of Investcorp's capabilities and the resources required to deliver them.

## 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 CM; 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) | **FY17** | FY16 | % Change B/(W) |
|---|---|---|---|
| AIS fees | **12.0** | 9.6 | 26% |
| CM fees | **15.3** | – | 100% |
| Other management fees | **108.2** | 87.8 | 23% |
| **AUM Fees** | **135.5** | 97.4 | 39% |
| Activity fees | **161.3** | 169.5 | (5%) |
| Performance fees | **19.7** | 40.6 | (52%) |
| **Deal fees** | **181.0** | 210.1 | (14%) |
| **Fee income** | **316.5** | 307.5 | 3% |

BUSINESS REVIEW

Total fee income in FY17 increased to $316.5 million (FY16: $307.5 million). This is the fifth consecutive year where fee income has exceeded $300 million, reflecting the sustainability of Investcorp's client franchise and fee-generating business.

AUM fees were $135.5 million in FY17, 39% higher than FY16. The increase was primarily the result of an increase in management fees from CI and RE investments due to the growth in AUM in these two asset classes over the last year. The growth was also helped by the contribution of the newly acquired CM business.

Deal fees decreased in FY17 to $181.0 million, mainly driven by lower performance fees relative to FY16. Performance fees decreased by 52% relative to FY16 reflecting the lower performance of the underlying CI portfolio. Activity fees decreased by 5% to $161.3 million (FY16: $169.5 million). The decrease reflects the impact of regional and global political and economic factors causing uncertainty and temporarily affecting investor sentiment and the pace of placement in the Gulf, particularly in the first half of the year. The overhang of uncertainty also led to a deliberate slowdown by the Firm in making new investments, particularly in real estate, at the start of the year. However, the pace of new investment activity picked up significantly in the second half of the year.

## ASSET-BASED INCOME

*Asset-based income is earned on Investcorp's CI, RE, CM 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, accrued returns on CM exposures and realized changes in the fair value of AIS co-investments.*

Gross asset-based income during FY17 increased by $29.2 million versus FY16 to a net gain of $105.2 million, primarily driven by the strong turnaround of returns generated by RE and AIS and additional returns generated by the newly acquired CM business. The improvement in RE and AIS returns was offset by declines in CI asset-based income from $100.8 million in FY16 to $19.2 million in FY17. Treasury and other asset-based income increased to $13.3 million from higher treasury trading and returns on cash and other liquidity.

| **Asset-based income** ($m) | **FY17** | FY16 | % Change B/(W) |
|---|---|---|---|
| Corporate investment | **19.2** | 100.8 | (81%) |
| Alternative investment solutions | **15.8** | (27.7) | >100% |
| Real estate investment | **23.4** | (1.5) | >100% |
| Credit management | **33.5** | – | 100% |
| Treasury and other asset-based income | **13.3** | 4.4 | >100% |
| **Gross asset-based income** | **105.2** | 76.0 | 38% |

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

| **CI asset-based income KPIs** ($m) | **FY17** | FY16 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **19.2** | 100.8 | (81%) |
| Average co-investments | **561.3** | 611.0 | (8%) |
| Absolute yield | **3.4%** | 16.5% | (13.1%) |

CI asset-based income in FY17 was negatively impacted by two main factors. Returns and exit expectations for investments in the MENA and Turkey region were impacted by the uncertain geopolitical situation and economic softness driven by low oil prices. Investments in the US and Europe generally performed well. However, investments in the retail sector were affected by economic turbulence in that industry.

| **AIS asset-based income KPIs** ($m) | **FY17** | FY16 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **15.8** | (27.7) | >100% |
| Average co-investments | **278.3** | 442.8 | (37%) |
| Absolute yield | **5.7%** | (6.2%) | 11.9% |

AIS returns rebounded from a loss in FY16 to deliver 5.7% in FY17. The positive performance was primarily driven by Investcorp's hedge fund partnership investments.

| RE asset-based income KPIs ($m) | FY17 | FY16 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **23.4** | (1.5) | >100% |
| Average co-investments | **311.7** | 271.8 | 15% |
| Absolute yield | **7.5%** | (0.6%) | 8.1% |

RE asset-based income is primarily driven by rental yields. The higher income in FY17 compared to last year reflects the return made on increased amounts of underwritten investments. RE returns in FY16 were also exceptionally low due to a significant fair value write down in one legacy (pre-2009) asset.

| CM asset-based income KPIs ($m) | FY17 | FY16 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **33.5** | – | 100% |
| Average co-investments | **279.6** | – | 100% |
| Absolute yield | **12.0%** | – | 100% |

The newly acquired CM business contributed $33.5 million to asset-based income. The information shown in the table above is for the period from acquisition of the business to the end of FY17 in June 2017. The income primarily represents returns on CLO co-investment exposures, which delivered steady returns during the period, which were supported by active management of the CLO funds by the credit management team.

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 | FY13 | FY14 | FY15 | FY16 | FY17 | Average (FY13-FY17) |
|---|---|---|---|---|---|---|
| Corporate investment | 0.0% | 2.6% | 6.8% | 16.5% | **3.4%** | 5.9% |
| Alternative Investment Solutions | 6.6% | 7.2% | 2.0% | (6.2%) | **5.7%** | 3.1% |
| Real estate investment | 0.1% | (3.6%) | 5.5% | (0.6%) | **7.5%** | 1.7% |
| Credit management | – | – | – | – | **12.0%** | 12.0% |
| Average co-investment yield | 1.6% | 2.9% | 5.0% | 5.4% | **6.4%** | 4.3% |

## INTEREST EXPENSE

Total interest expense, including commitment fees on undrawn revolving credit facilities, decreased by 6% to $57.5 million in FY17 from $60.9 million in FY16. The decrease was due to a combination of lower commitment fee and lower cost of funding on funded liabilities, as shown in the table below.

| Interest expense ($m) | FY17 | FY16 | Change H/(L) |
|---|---|---|---|
| **Total interest expense** | **57.5** | 60.9 | (3.5) |
| Average short-term interest-bearing liabilities | **597.9** | 505.1 | 92.8 |
| Average medium- and long-term interest-bearing liabilities | **821.5** | 801.3 | 20.2 |
| **Average interest-bearing liabilities** | **1,419.4** | 1,306.4 | 113.0 |
| Interest expense on funded liabilities[(a)] | **50.6** | 51.5 | (0.9) |
| **Average cost of funding on funded liabilities** | **3.56%** | 3.94% | (0.38%) |

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

BUSINESS REVIEW

## OPERATING EXPENSES

Operating expenses increased by 7% to $239.9 million in FY17 from $224.3 million in FY16. The increase generally reflects the ongoing expansion of Investcorp's capabilities and the investment in resources required for this growth. Staff compensation, which includes fixed and variable components, increased by 4%. This was primarily due to an 18% increase in global headcount across the Gulf, Europe and the US. 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 11%. Despite the increase in expenses, total expenses, as a percentage of net revenues, improved to 67% in FY17 from 71% in FY16, reflecting the enhanced profitability of the Firm.

| **Operating expenses** ($m) | **FY17** | FY16 | Change H/(L) |
|---|---|---|---|
| Staff compensation | **150.2** | 143.8 | 6.3 |
| Other personnel costs and charges | **10.5** | 8.1 | 2.5 |
| Other operating expenses | **79.1** | 72.4 | 6.8 |
| **Total operating expenses** | **239.9** | 224.3 | 15.6 |
| Full time employees ('FTE') at end of period | **388** | 328 | 60 |
| Staff compensation per FTE ('000) | **387.1** | 438.5 | (12%) |
| Other operating expenses per FTE ('000) | **204.0** | 220.6 | (8%) |
| Total staff compensation/total operating expenses | **63%** | 64% | (2%) |
| Operating expenses/Net revenue[a] | **67%** | 71% | (5%) |

(a) Net revenue represents profit for the year before operating expenses.

## BALANCE SHEET

Key balance sheet metrics are shown in the table below.

| **Balance sheet metrics** | **Jun-17** | Jun-16 |
|---|---|---|
| Total assets | **$2.7 billion** | $2.5 billion |
| Leverage[a] | **1.3x** | 1.5x |
| Net leverage ratio[b] | **0.4x** | 0.6x |
| Shareholders' equity | **$1.1 billion** | $1.0 billion |
| Co-investments[c]/long-term capital[d] | **0.7x** | 0.6x |
| Capital adequacy ratio | **31.7%** | 30.3% |
| Residual maturity – medium- and long-term facilities | **66 months** | 75 months |

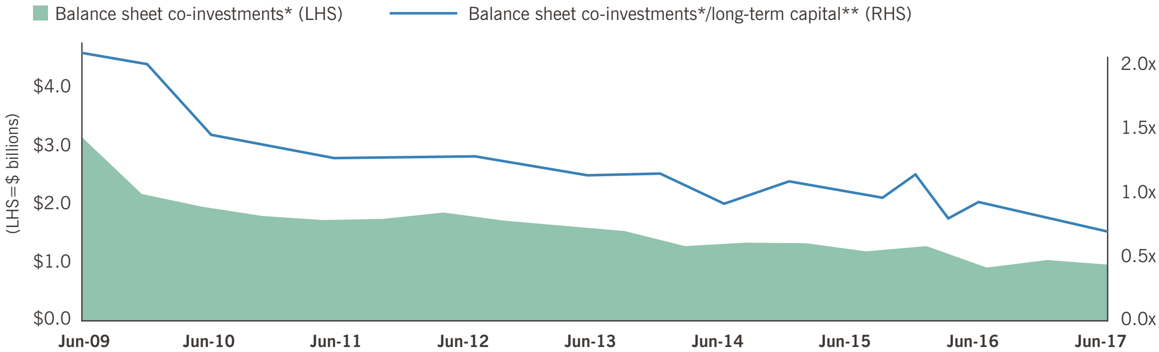
(a) Calculated in accordance with bond covenants.
(b) Calculated in accordance with bank loan covenants and is net of liquidity, underwriting and deferred fees.
(c) Excludes underwriting and is net of revolving facilities secured against alternative investment solutions co-investments.
(d) JPY 37 billion debt maturing in 2030 and $50 million debt maturing in 2032, deferred fees and total equity.

## ASSETS

| **Assets** ($m) | **Jun-17** | Jun-16 | Change H/(L) |
|---|---|---|---|
| Cash and other liquid assets | **562** | 425 | 136 |
| CI, RE and AIS underwriting | **460** | 493 | (33) |
| ICM co-investments | **259** | – | 259 |
| AIS co-investments | **236** | 316 | (80) |
| CI and RE co-investments | **618** | 707 | (89) |
| Other (working capital and fixed assets) | **521** | 555 | (35) |
| **Total assets** | **2,656** | 2,497 | 159 |
| **Co-investment assets (excluding underwriting)** | **1,113** | 1,023 | 90 |

At June 30, 2017, total assets were $2.7 billion, 6% higher than at June 30, 2016. Total co-investments increased by $90 million to $1.1 billion, primarily driven by $259 million of new co-investments recorded on acquisition of the credit management business, which was partially offset by a decrease in CI, RE and AIS co-investments. The decrease in CI, RE and AIS co-investments reflects realizations and redemptions net of new acquisitions. As at June 30, 2017, gross co-investments in AIS were $236 million of which $14 million was utilized to secure amounts drawn under a bilateral revolving facility.

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



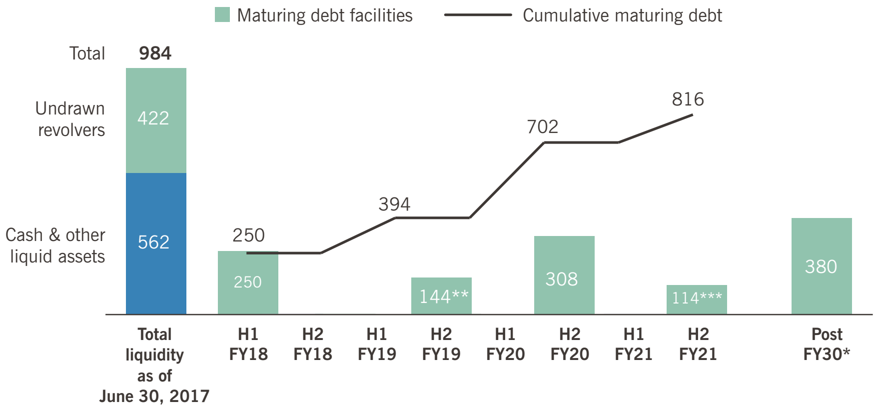

* Excludes underwriting and is net of the amount of a bilateral revolving facility (which is secured against AIS co-investments when drawn).
** Long-term capital consists of JPY 37 billion debt maturing in 2030, $50 million debt maturing in 2032, total equity and deferred fees.

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, 2017 the aggregate level of co-investments net of a $14 million[1] 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 $984 million (June 30, 2016: $854 million) and substantially covers all outstanding medium-term debt maturing over the next three years.

**Liquidity cover ($m)**




* JPY 37 billion ($330 million at current exchange rates) debt maturing in 2030 and $50 million maturing in 2032.
** CHF 125 million ($130 million at current exchange rates) plus drawn secured bilateral revolving facility.
*** Syndicated undrawn revolving facilities.

1 The secured revolving facility has a contractual size of $175 million. As of June 30, 2017, based on the amount of eligible collateral, the effective available facility size was $14 million.

BUSINESS REVIEW

## LIABILITIES

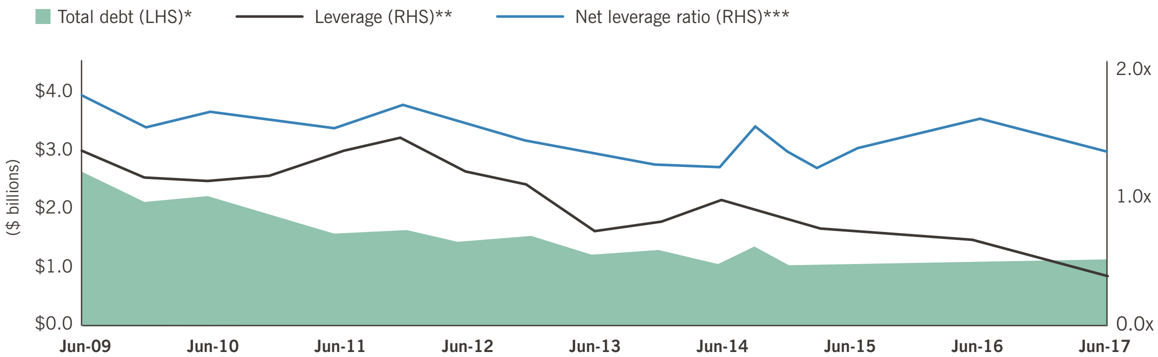
Total liabilities increased by $31 million to $1.5 billion at June 30, 2017.

| **Liabilities** ($m) | Jun-17 | Jun-16 | Change H/(L) |
|---|---|---|---|
| Term and institutional accounts | **185** | 124 | 61 |
| Call accounts | **249** | 130 | 119 |
| Medium-term debt | **382** | 403 | (21) |
| Long-term debt | **410** | 479 | (69) |
| **Total debt** | **1,225** | 1,136 | 89 |
| Deferred fees | **87** | 93 | (6) |
| Other liabilities[(a)] | **199** | 251 | (52) |
| **Total liabilities** | **1,511** | 1,480 | 31 |

(a) Payables and accrued expenses and negative fair value of derivatives.

The decrease in medium-term debt was primarily due to repayment of drawn revolvers. The decrease in long-term debt, the majority of which is denominated in Japanese Yen, was primarily due to the depreciation of the Yen against the US Dollar. Currency translation risks are fully hedged, and hence there is no material impact on profit for the year 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 four-year syndicated revolving credit facility, 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. Moody's reaffirmed the Ba2 rating and maintained a Negative outlook. The semi-annual credit opinion released in May 2017 did not change Moody's rating and outlook on Investcorp. Following the yearly review, Fitch Ratings reaffirmed Investcorp's credit ratings at BB in November 2016 and upgraded the outlook to 'positive' from 'stable'.

| Agency | Rating grade | Comment |
|---|---|---|
| Moody's Investor Service | Ba2/Negative outlook | Rating confirmed in published Semi Annual Credit Opinion in May 2017 |
| Fitch Ratings | BB/Positive Outlook | Rating confirmed and outlook upgraded to Positive in Nov 2016 |

## EQUITY

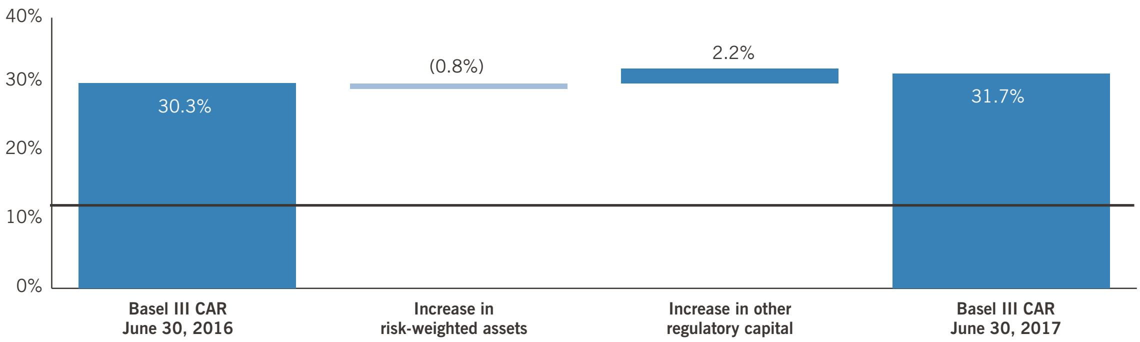
| **Equity** ($m) | **Jun-17** | Jun-16 | Change H/(L) |
|---|---|---|---|
| Ordinary shareholders' equity | **884** | 750 | 134 |
| Preference share capital | **223** | 223 | – |
| Proposed appropriations | **44** | 45 | (1) |
| Fair value and revaluation adjustments | **(6)** | (1) | (5) |
| **Net book equity** | **1,145** | 1,017 | 128 |

Net equity at June 30, 2017 was $1.1 billion. The increase in FY17 primarily relates to an increase in retained earnings from profit for the year. Book value per ordinary share as of June 30, 2017 was $11.10 (FY16: $10.15).

## CAPITAL ADEQUACY

Investcorp's capital adequacy ratio ('CAR') at June 30, 2017 was 31.7% (June 30, 2016: 30.3%), 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 is 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 satisfy a higher minimum regulatory capital threshold.

## SHAREHOLDER BASE

At June 30, 2017, Investcorp remains a management-controlled company, with management, in concert with strategic shareholders, controlling the voting of 50.4% of Investcorp's ordinary shares and 49.6% of the ordinary shares is split between owners holding 49.5% in ordinary shares on the Bahrain Bourse, and 0.1% of beneficial ownership through unlisted GDRs.

BUSINESS REVIEW

## 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 FY17 was $623 million. $604 million was deployed across five new corporate investments and two new add-ons, $17 million was invested through Investcorp's fourth technology fund in two new investments, and $3 million of additional capital was invested in an existing portfolio company. In addition, Investcorp completed the acquisition of Al Borg Medical Laboratories which was signed in June 2016 and included in FY16 equity deployment but was only publicly announced upon completion of the acquisition in November 2016.

ARROWHEAD
ENGINEERED PRODUCTS INC.

#### ARROWHEAD

A market leading supplier/distributor of mission critical aftermarket parts primarily for off-highway vehicles.

Date of Investment: October 2016
Investors: Deal-by-deal
Industry Sector: Industrial services – supply change services
Headquarters: Minnesota, US

مختبرات البرج الطبية
Al Borg Medical Laboratories

#### AL BORG MEDICAL LABORATORIES*

A leading private laboratory network in the GCC.

Date of Investment: November 2016
Investors: Deal-by-deal
Industry Sector: Healthcare
Headquarters: Jeddah, Saudi Arabia

*Capital deployed in FY16.

calligo
The trusted cloud®

#### CALLIGO

A fast-growing provider of cloud solutions.

Date of Investment: November 2016
Investors: Technology fund
Industry Sector: Technology – big data
Headquarters: St Helier, Jersey

## AGROMILLORA

The leading global developer of high yielding plants and trees.

Date of Investment: December 2016
Investors: Deal-by-deal
Industry Sector: Consumer products
Headquarters: Barcelona, Spain

## ALIXPARTNERS

A leading global business advisory firm.

Date of Investment: January 2017
Investors: Deal-by-deal
Industry Sector: Business services – knowledge & professional services
Headquarters: New York, US

## AGERAS

A fast-growing online marketplace for professional services.

Date of Investment: March 2017
Investors: Technology fund
Industry Sector: Technology – internet/mobility
Headquarters: Copenhagen, Denmark

## PRO UNLIMITED

A leading provider of software and services that enable large enterprises to more effectively manage their contingent workforce.

Date of Investment: May 2017
Investors: Deal-by-deal
Industry Sector: Business services – technology enabled services
Headquarters: Florida, US

## ABAX

An international market leader in the development and supply of vehicle and fleet tracking systems technology.

Date of Investment: June 2017
Investors: Deal-by-deal
Industry Sector: Business services – technology enabled services
Headquarters: Larvik, Norway

BUSINESS REVIEW

## OTHER CORPORATE INVESTMENT ACTIVITY

*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.*

July 2016: CI Europe portfolio company **SecureLink** acquired **Nebulas**, the UK's largest independent cybersecurity service provider. Founded in 2001, Nebulas provides a broad range of IT security products and services to predominantly mid to large enterprises in the UK. Combined with the acquisition of Scandinavia's Coresec in June, SecureLink and Nebulas will operate across six countries in Europe and employ over 530 members of staff.

December 2016: CI North America portfolio company **Arrowhead** acquired **Stens**, a distributor of aftermarket replacement parts to the outdoor power equipment, golf, and industrial end markets. Based in Indiana, Stens' offerings include non-discretionary, high-wear parts, including engine components, blades, chains, belts, and electrical components for use in mowers, chainsaws, snow blowers, trimmers, and other applications.

May 2017: Recently, Investcorp has implemented additional initiatives to address the challenges facing **Totes**. These initiatives include significant updates at the senior management team, enhancing the go-to-market strategy, and improvements to the cost structure. Additionally, Investcorp provided additional capital in June 2017 to support the incoming senior management team and facilitate the growth initiatives implemented.

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

September 2016: CI North America portfolio company **TelePacific** received regulatory approval to close the acquisition of **DSCI** that was announced in March 2016. The addition of DSCI, a leading provider of managed services in the Northeast of the US, 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. TelePacific will now have more than 50% of its business in the managed services segment and a complete set of products that can be deployed nationwide.

January 2017: **Arrowhead** made a second acquisition with **J&N Electric** as part of the company's growth strategy to consolidate its market share. A family-owned business based in Cincinnati, J&N distributes mission critical aftermarket replacement rotating electrical parts and accessories to over 4,000 domestic and international customers.

January 2017: CI North America portfolio company **Wrench** signed an agreement to acquire **Baker Brothers Rotovision, Inc.** ('Baker'), a leading Dallas-based residential heating, ventilation and air conditioning ('HVAC') and plumbing service provider. Baker was identified early in Wrench's initial 180-day plan as an acquisition target given the firm's strong brand reputation and financial performance.

March 2017: CI Europe portfolio company **SecureLink** announced an agreement to acquire **iT-Cube**, Germany's leading cybersecurity and managed security services provider. Headquartered in Munich, iT-Cube Systems successfully operates as a full service provider for IT security for more than 15 years in the DACH (Germany, Austria, Switzerland) region. With over 70 employees, including highly qualified strategy consultants, technology experts and security analysts at designing, developing, implementing and managing leading cybersecurity solutions, the company is trusted by an extensive range of loyal, high-caliber clients including well-known corporations.

March 2017: CI MENA portfolio company **NDTCCS** announced the add-on acquisition of a majority stake in **Hi-Tech Inspection Services LLC** ('Hi-Tech'). Established in 1996, Hi-Tech offers a complete range of non-destructive testing, post-weld heat treatment and specialized inspection services to clients in Oman engaged in the oil and gas, manufacturing and construction sectors. Hi-Tech employs over 600 specialized technicians and has an estimated market share of over 35% in Oman.

May 2017: Veco, a division of CI Europe portfolio company **SPGPrints**, announced the acquisition of **Reith Laser**, a specialist Micro Machining Laser Company that supplies precision components into high-tech industrial customers.

May 2017: **Arrowhead**, along with The Riverside Company, added **Interparts** to its platform. Based in New York, Interparts distributes branded aftermarket replacement products for the powersports, industrial and automotive aftermarkets. Interparts' primary product lines include axles, joints and components, which all require frequent replacement and repair throughout the lifecycle of a vehicle.

## 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 FY17 was $533 million.

### 2016 RESIDENTIAL PROPERTIES PORTFOLIO

Shari'ah compliant equity ownership interests in a student housing portfolio in Tampa, Florida (4050 Lofts*), a student housing portfolio in Indianapolis, Indiana (The Avenue*), three student housing communities and three apartment complexes in Raleigh, North Carolina (Raleigh Student Housing Portfolio* and Raleigh Multifamily Portfolio), an apartment complex in Phoenix, Arizona (Villa Blanco*) and an apartment complex in Nashville, Tennessee (Arbors of Brentwood).

*signed and purchased in FY16.

Number of properties: 10

### BOSTON & DENVER COMMERCIAL PORTFOLIO

Shari'ah compliant equity ownership interests in four office and laboratory buildings in Cambridge, Massachusetts (Blackstone Science Square), four industrial/warehouse buildings in Boston, Massachusetts (Boston Metro Industrial Portfolio), two office buildings in Denver, Colorado (Centerpoint I & II*), seven office/flex buildings in Centennial, Colorado (Arapahoe Business Park*) and three office/flex buildings in Englewood, Colorado (345 Inverness*).

*signed and purchased in FY16.

Number of properties: 20

### NEW YORK & CALIFORNIA MULTIFAMILY PORTFOLIO

Shari'ah compliant equity ownership interests in a 795-unit, town-home style, apartment complex in Bellport, New York (Atlantic Point) and a 556-unit, garden style, apartment complex in Grand Terrace, California (Highlands Apartment Homes).

Number of properties: 2

BUSINESS REVIEW

### VILLAS AT GREEN VALLEY

Shari'ah compliant equity ownership interest in Villas at Green Valley, a 609-unit, garden style, apartment complex in Henderson, Nevada.

Number of properties: 1

### CHICAGO & BOSTON INDUSTRIAL PORTFOLIO

Shari'ah compliant equity ownership interests in three refrigerated warehouse/logistics properties in Chicago, Illinois and a two warehouse/logistics properties and a one flex property in Boston, Massachusetts.

Number of properties: 6

In Europe, two industrial properties have been acquired in the north east of England. A maiden investment for the recently-formed RE Europe team, these two properties will be combined with subsequent UK industrial acquisitions to form a UK industrial portfolio that will be placed in FY18.

Eight additional properties were acquired in the US during the second half of FY17. These properties will form part of two new portfolios to be placed in FY18.

## CREDIT MANAGEMENT

### COLLATERALIZED LOAN OBLIGATIONS ('CLOs')

In the four-month period from the transaction close, in March 2017, to the end of the fiscal year in June 2017, a total of $932 million of investments related to the issuance of new CLOs were made. The team in Europe closed a new CLO, Harvest XVII, at €408 million. In addition, the US team also priced a new US CLO, Jamestown X, a $612 million deal, which was upsized from the initial target of $500 million due to strong demand throughout the capital structure. This US deal closed on July 12, 2017. A total of $467 million had been invested before the end of the fiscal year and is included in the investment activity for FY17.

During this period, ICM's European team have also worked upon two resets. An existing CLO, Harvest VII (originally priced in August 2013), was reset in March. The reset of the rated notes (€280 million) took effect in April. In June, Harvest XI (originally issued in March 2015) was also reset. The original equity tranche of €46 million remains unchanged, with the new liabilities taking the total size of the deal to €414 million. The reset option on a CLO is similar to an 'amend and extend' option on a loan; the underlying loans in the fund remain in place and the original rated notes are repaid and new notes issued. A new structure is put in place for the new notes that will be issued that allows the CLO manager to extend the life of the deal and reinvestment period, change and update terms in the fund documents and extend the period for which management fees will be generated.

Meanwhile, in the US, Jamestown V (originally priced in December 2014) was refinanced in March. The refinancing of $327 million of notes closed in April. Finally, in May, the refinancing of $407 million notes for Jamestown III closed.

## REALIZATIONS & DISTRIBUTIONS

Total realization proceeds and other distributions to Investcorp and its clients were $3.4 billion in FY17.

### CORPORATE INVESTMENT REALIZATIONS

Total corporate investment realization proceeds and other distributions to Investcorp and its clients were $1.9 billion in FY17.

#### POLYCONCEPT

The world's leading value-added supplier of promotional products.

Date of Investment: June 2005
Date of Realization: August 2016
Investors: Deal-by-deal
Industry Sector: Industrial products

#### TYRRELLS

A leading manufacturer of premium hand-cooked potato crisps and other snacks.

Date of Investment: August 2013
Date of Realization: September 2016
Investors: Deal-by-deal
Industry Sector: Consumer products – retail

#### OPTIV

The largest holistic pure-play cyber security solutions provider in North America.

Date of Investment: November 2012*
Date of Realization: February 2017
Investors: Deal-by-deal
Industry Sector: Technology – security

*Original investment in FishNet.

#### RANDALL-REILLY

A leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the US.

Date of Investment: February 2008
Date of Realization: June 2017
Investors: Deal-by-deal
Industry Sector: Business services

BUSINESS REVIEW

## PRO UNLIMITED

A leading software-enabled services company for the staffing and management of skilled professionals.

Date of Investment: October 2014
Date of Realization: May 2017
Investors: Deal-by-deal
Industry Sector: Business services – Technology enabled services

In July 2016, Investcorp agreed to sell **Polyconcept** to an affiliate of Charlesbank Capital Partners, LLC, a middle-market private equity firm. Investcorp worked closely with senior management to transform the business into the global leader that it is today, supporting a series of strategic acquisitions and realizing success through expanding into new markets, launching new product categories, building out a key digital presence and implementing significant operational enhancements. During the 2008 global recession, the Company was significantly affected with EBITDA falling over 40%. While the North American business rebounded, the European business continued to struggle due to the prolonged economic slump in Europe. In 2012, Investcorp brought in a new senior management team to turn around the ailing European business, reduce costs, and mirror the North American go-to-market strategy. As a result of these actions, the European operations were stabilized and returned to growth in 2014.

In September 2016, Investcorp announced the successful completion of the sale of portfolio company **Tyrrells** to Amplify Snack Brands. Based in Herefordshire, UK, Tyrrells is a premium manufacturer of hand-cooked potato and vegetable crisps as well as other snacks such as popcorn. Investcorp acquired Tyrrells in August 2013 and has overseen an extensive transformation of the Company in which sales and EBITDA more than doubled and employee numbers grew by over 70% globally. International markets now account for close to 40% of sales compared to 20% three years ago.

In February 2017, Investcorp, together with co-investment partners Blackstone and Sverica, completed the sale of **Optiv Security** to KKR. Investcorp originally invested in Optiv through the acquisition of FishNet Security in November 2011. During the hold period Investcorp completed four acquisitions and merged with Accuvant (the second largest player in the industry and a Blackstone portfolio company). As a result, with the merger, over the four year period revenues and EBITDA tripled and Investcorp created one of the largest pure-play cyber security services providers.

In October 2014, Investcorp first invested in **PRO Unlimited**. In April 2017, it had signed a definitive agreement to sell to Harvest Partners. However, it had re-invested in the company alongside Harvest Partners and will continue to have a significant minority stake with meaningful influence.

In June 2017, Investcorp completed the sale of **Randall-Reilly** to Aurora Capital Partners. Due to the recession shortly after Investcorp's acquisition in 2008, Investcorp and its clients invested additional equity in Randall-Reilly to reduce debt and provide covenant relief. With this capital infusion and Investcorp's help over the hold period, the company successfully transformed from its legacy print business to an industry-leading B2B data and data-driven digital marketing solutions firm focused on the trucking, construction, agriculture and select other industrial end markets.

In July 2017, Investcorp signed a definitive agreement to sell **Esmalglass**, a leading global producer of ceramic colors and glazes, to private equity firm Lone Star Fund X. Under Investcorp's ownership, EBITDA was doubled, with strong organic growth in the color business complemented by the Company's acquisition of Fritta in 2015, which enabled Esmalglass to strengthen its position in the glazes market. Throughout this period, Esmalglass has also become a market leader in ceramic digital solutions – such as inkjet inks, digital effects and digital glazes – which have revolutionized the ceramic tile industry. The sale is subject to regulatory approval and is expected to close in H1 FY18.

## OTHER TRANSACTIONAL ACTIVITIES

| | |
|---|---|
| August 2016: | The sale of **CSIdentity**, a Technology Fund III investment, to Experian was completed in August. CSIdentity is a market leading provider of enterprise level identity theft protection technology solutions to businesses and government agencies. |
| December 2016: | In December, CI North America portfolio company **PRO Unlimited**, via an amendment to its existing debt facility, paid a dividend to its shareholders. The newly revised facility will support the Company's continued strong growth, while also at a reduced interest rate. This represents the second dividend recapitalization of the company since Investcorp's acquisition in October 2014. |
| January 2017: | Investcorp fully monetized its remaining stake in the CI Europe portfolio company **Welcome Break**. As a result of a successful refinancing, the Company redeemed its outstanding PIK note that had been accruing at a 16.25% rate for the past four years. Welcome Break is one of the UK's leading independent motorway service operators with 27 sites across the UK attracting approximately 85 million motorway customers annually. Under a newly hired management team, a significant number of operational initiatives were launched to improve the profitability of the business. |
| April 2017: | CI North America portfolio company **AlixPartners** announced it has successfully upsized its term loan to pay a $295 million distribution to investors. The transaction will refinance AlixPartners' current debt outstanding with a new seven-year term loan. |
| June 2017: | CI Europe portfolio company **SPGPrints** announced it has successfully refinanced its debt facilities enabling the company to distribute $75 million of proceeds to its shareholders, representing approximately 80% of the original invested equity value. |

BUSINESS REVIEW

## REAL ESTATE REALIZATIONS

Total real estate realization proceeds and other distributions to Investcorp and its clients were $300 million in FY17.

Five portfolios were fully realized in FY17 with the sale of the Park Tower property from **Diversified X** (the other two properties, Bethesda Health Center and Ashford Apartments, were sold in 2013), the sale of Bala Sands and Bay Pointe properties from **Southeast Multifamily** (the other two properties, Citrus Park and Pineville, were sold in April 2016), the sale of Eagle Crest, University Estates and University Village properties from **2013 Residential** (the other properties, Chicago Multifamily portfolio, were sold in January 2016), the sale of Keystone Office Park Portfolio and Duke Bridges III from **2012 Office** (the other property, Broadreach Mezzanine Loan was sold in November 2015), and the sale of Cottages of Cypresswood, Green Tree Place and Westborough Crossing from **Houston Multifamily**.

A complete list of real estate properties realized in FY17 can be found below.

### FLAGLER CENTER*

The industrial portion of the 1.35 million-square foot portfolio.

Date of Investment: August 2014
Date of Partial Realization: August 2016
Portfolio Name: 2014 Office & Industrial Properties
Location: Jacksonville, Florida

*The remaining portion of the Flagler Center portfolio consists of over 1.0 million square feet in nine office and flex buildings.

### PARK TOWER

A 119,287-square foot office building.

Date of Investment: October 2011
Date of Realization: August 2016
Portfolio Name: Diversified X
Location: Long Beach, California

### DUKE BRIDGES III

A 160,263-square foot office building.

Date of Investment: October 2012
Date of Realization: August 2016
Portfolio Name: 2012 Office Properties
Location: Dallas, Texas

### BALA SANDS

A 298-unit multifamily property.

Date of Investment: November 2013
Date of Realization: September 2016
Portfolio Name: Southeast Multifamily
Location: Orlando, Florida


## ARUNDEL MILLS MEZZANINE LOAN

A 250-key dual-branded hotel property.

Date of Investment: December 2011
Date of Realization: September 2016
Portfolio Name: Southland and Arundel Mezz Portfolio
Location: Arundel Mills, Maryland


## EAGLE CREST

A 624-unit multifamily property.

Date of Investment: October 2013
Date of Realization: September 2016
Portfolio Name: 2013 Residential
Location: Las Vegas, Nevada

## BAY POINTE

A 368-unit multifamily property.

Date of Investment: November 2013
Date of Realization: October 2016
Portfolio Name: Southeast Multifamily
Location: Tampa, Florida

## UNIVERSITY VILLAGES

A 348-unit student housing apartment complex.

Date of Investment: August 2013
Date of Realization: November 2016
Portfolio Name: 2013 Residential
Location: Austin, Texas

## UNIVERSITY ESTATES

A 498-unit student housing apartment complex.

Date of Investment: July 2013
Date of Realization: November 2016
Portfolio Name: 2013 Residential
Location: Austin, Texas


## THE SHOPS AT TECH RIDGE

A 332,845-square foot shopping center.

Date of Investment: February 2011
Date of Realization: December 2016
Portfolio Name: Commercial VI
Location: Austin, Texas

BUSINESS REVIEW

### KEYSTONE OFFICE PARK

A 285,874-square foot three-building portfolio.

Date of Investment: September 2012
Date of Realization: March 2017
Portfolio Name: 2012 Office
Location: Raleigh, North Carolina

### STONE MOUNTAIN INDUSTRIAL PORTFOLIO*

A 24,833-square foot industrial building in the Stone Mountain Industrial Park.

Date of Investment: December 2015
Date of Partial Realization: March 2017
Portfolio Name: 2015 Office & Industrial Properties
Location: Atlanta, Georgia

*The remaining portion of the Stone Mountain Industrial portfolio consists of over 4.1 million square feet in 68 buildings.

### COTTAGES OF CYPRESSWOOD

A 136-unit multifamily property.

Date of Investment: June 2014
Date of Realization: June 2017
Portfolio Name: Houston Multifamily
Location: Houston, Texas

### GREEN TREE PLACE

A 212-unit multifamily property.

Date of Investment: June 2014
Date of Realization: June 2017
Portfolio Name: Houston Multifamily
Location: Houston, Texas

### WESTBOROUGH CROSSING

A 271-unit multifamily property.

Date of Investment: June 2014
Date of Realization: June 2017
Portfolio Name: Houston Multifamily
Location: Houston, Texas

## OTHER REALIZATIONS AND DISTRIBUTIONS

Investcorp's Special Opportunities Portfolio III made a final distribution to investors in January 2017. Special Opportunities Portfolio IV made distributions in January, April and June 2017. Special Opportunities Portfolio VI made distributions in July 2016, October 2016, January 2017, April 2017 and June 2017. A total of $14 million of distributions to Investcorp and its investors was made across all Special Opportunities Portfolios.

In addition, the newly acquired credit management business returned a total of $1.2 billion to Investcorp and its investors through realizations and other distributions from the CLOs managed by the team.

# AUM & FUNDRAISING

## ASSETS UNDER MANAGEMENT ('AUM')[1]

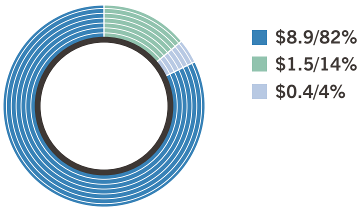
Please refer to the table in Note 3 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes total assets under management in each of the reporting segments.

**Total assets under management**

($b)

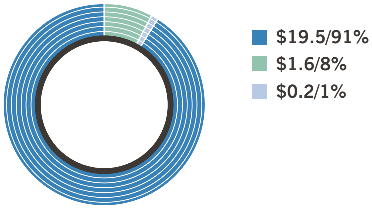
Client AUM    Balance sheet co-investment AUM    Affiliates & co-investors AUM

**As of June 30, 2016**




**Total AUM**
**$10.8b**

**As of June 30, 2017**




**Total AUM**
**$21.3b**

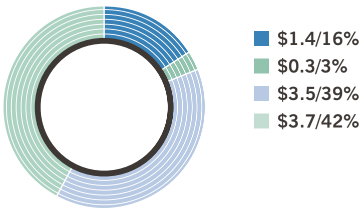
Total AUM nearly doubled to $21.3 billion at June 30, 2017 from $10.8 billion at June 30, 2016, largely due to the addition of $10.8 billion of AUM from the credit management business acquired in FY17.

**Total client assets under management**

($b)

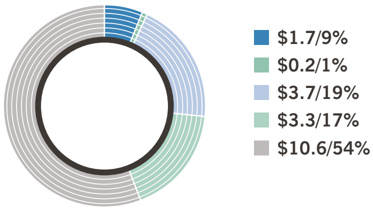
Real estate investments    Client monies held in trust    Corporate investments
Alternative investment solutions    Credit management investments

**As of June 30, 2016**




**Total Client AUM**
**$8.9b**

**As of June 30, 2017**




**Total Client AUM**
**$19.5b**

Total client AUM more than doubled to $19.5 billion at June 30, 2017 from $8.9 billion at June 30, 2016. The increase was primarily driven by $10.6 billion of AUM added following the acquisition of the credit management business during the year. Real estate and corporate investments AUM also increased by 24% and 5% respectively, which was offset by a 12% decrease in AIS AUM.

1 Includes $2.0 billion (June 30, 2016: $2.5 billion) of hedge fund partnerships (including exposure in multi-manager solution), managed by third-party managers and assets subject to a non-discretionary advisory mandate, where Investcorp receives fees calculated on the basis of AUM.

BUSINESS REVIEW

Credit management is now the dominant asset class in client AUM with 54% of the total. With the increase in corporate investment AUM and the decline in AIS AUM over the last year, corporate investment client AUM is now the next largest asset class (19%), closely followed by AIS (17%). Corporate investment client AUM in deal-by-deal products increased marginally by 2%, to $2.73 billion (June 30, 2016: $2.68 billion). This increase reflected strong new deal placement activity offset by distributions from exits during the year, which included PRO Unlimited, Randall Reilly, Polyconcept and Tyrrells. Overall, corporate investment AUM increased by 5% driven by new fund raising for Investcorp's Technology Fund IV. The decline in AIS client AUM reflects funded new subscriptions during the year of $538 million offset by redemptions net of performance of $965 million.

## KEY AUM METRICS (BY ASSET CLASS)

| **Corporate investment** ($m) | Jun-17 | Jun-16 | % Change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-end invested funds | **944** | 821 | 15% |
| Deal-by-deal investments | **2,728** | 2,671 | 2% |
| **Total client AUM – at period end** | **3,672** | 3,492 | 5% |
| Average client AUM | **3,583** | 3,583 | – |

| **Real estate investment** ($m) | Jun-17 | Jun-16 | % Change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-end funds (Mezzanine/debt) | **33** | 33 | – |
| Deal-by-deal investments | **1,716** | 1,373 | 25% |
| **Total client AUM – at period end** | **1,749** | 1,406 | 24% |
| Average client AUM | **1,577** | 1,347 | 17% |

| **Credit management** ($m) | Jun-17 | Jun-16 | % Change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-end invested funds | **10,186** | – | 100% |
| Open-end invested funds | **398** | – | 100% |
| **Total client AUM – at period end** | **10,584** | – | 100% |
| Average client AUM[1] | **10,744** | – | 100% |

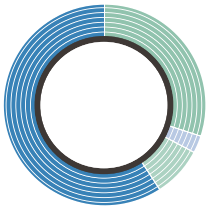
| **Alternative investment solutions** ($m) | Jun-17 | Jun-16 | % Change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Multi-manager solutions | **1,927** | 1,947 | (1%) |
| Hedge funds partnerships | **962** | 1,441 | (33%) |
| Special opportunities portfolios | **107** | 97 | 10% |
| Alternative Risk Premia | **263** | 200 | 32% |
| **Total client AUM – at period end** | **3,259** | 3,685 | (12%) |
| Average total client AUM | **3,472** | 3,639 | (5%) |

At June 30, 2017, AIS AUM in total was $3.5 billion, of which $3.3 billion represented client assets and $0.2 billion represented Investcorp's balance sheet co-investment.

1 Period from closing of the acquisition in March 2017 to June 2017.

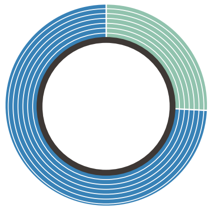
**Alternative investment solutions client assets under management**

**By product type**



- **59%** Multi-manager solutions
- **30%** Hedge fund partnerships
- **3%** Special opportunities portfolios
- **8%** Alternative risk premia

**By geography**



- **74%** Non-Gulf
- **26%** Gulf

As at June 30, 2017, 74% 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, special opportunities portfolios and alternative risk premia investments experienced net inflows while hedge fund partnerships AUM declined. Client AUM for multi-manager solutions was flat over the year. At June 30, 2017, 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 FY17, 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 at an all time record of $1.1 billion and also marked the third year in a row that Investcorp has crossed the significant threshold of $1 billion raised from Gulf investors.

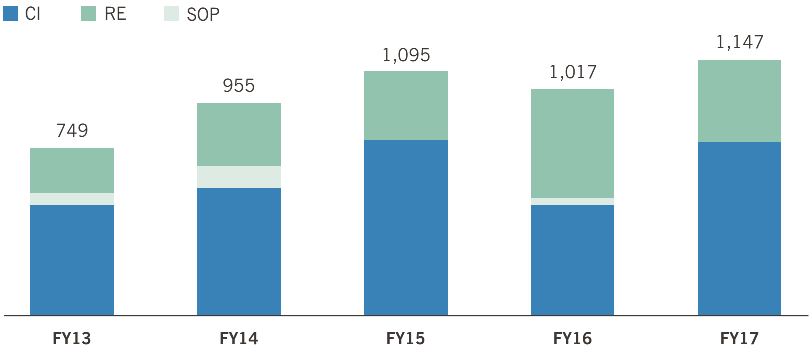
Corporate investment placement was $628 million, a 26% increase over $499 million placed in FY16. Placement in FY17 included an additional offering in SecureLink, relating to the acquisitions of Coresec in June 2016 and Nebulas in July 2016 (placed with existing investors in SecureLink and new investors); new offerings for Al Borg Medical Laboratories, Agromillora, Arrowhead, and AlixPartners; and a rollover minority investment offering in PRO Unlimited following the sale of the majority stake in May 2017 (placed with existing investors in PRO Unlimited and new investors).

BUSINESS REVIEW

Real estate placement, across five new portfolios and one single-property club deal, was $518 million, a 6% increase over $488 million placed in FY16.

**Total deal-by-deal placement**

($m)




Investcorp's fourth technology fund, established to invest in European lower middle-market tech-enabled companies, was launched in September 2016 with a first close in November. The fund builds on the successes of the first three funds that have seen Investcorp develop a strong reputation as a leading technology investor. A total of $191 million was raised from Gulf-based investors in FY17.

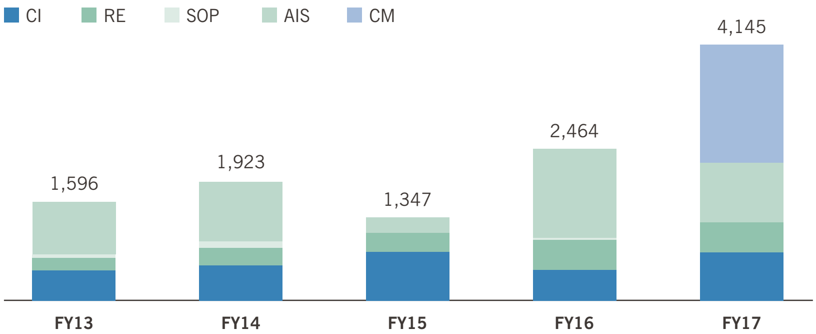
As outlined in more detail in the Investment Activity section, ICM continues to be a strong issuer of CLOs in both the US and in Europe; between the transaction close date and the end of the financial year, one CLO was issued and four CLOs were refinanced or reset, for a total value of $1.9 billion.

The AUM for the two open ended senior secured loan funds, the ICM Senior Loan Fund and the ICM Global Floating Rate Loan Fund, also remained stable and investors proved receptive and encouraged by the move to Investcorp. A total of $32 million in new subscriptions was raised in the period.

Total new subscriptions for AIS products in FY17 amounted to $538 million. An additional $300 million mandate was signed and will be funded in early FY18. Redemptions net of performance over the same period were $965 million resulting in a net decrease in client AUM of $427 million.

**Total fundraising – by product**

($m)



*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 2016, Investcorp hosted its annual two-day investors' conference in Abu Dhabi. The conference, with over 300 investors present from across the six GCC countries, was held under the patronage of His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces. His Highness Sheikh Hamed bin Zayed Al Nahyan, Chief of the Abu Dhabi Crown Prince's Court, His Highness Sheikh Nahayan Mabarak Al-Nahayan, UAE Minister of Culture and Knowledge Development, and His Highness Sheikh Hamdan bin Mubarak Al Nahyan, Minister of Higher Education and Scientific Research, were in attendance at the opening of the Conference. The opening saw a keynote speech by Her Excellency Reem Al Hashimy, UAE Minister of State for International Cooperation and Director General of Dubai Expo 2020 Bureau. Investcorp's Co–CEOs Mohammed Al-Shroogi and Rishi Kapoor outlined the roadmap for the future of the Firm and Executive Chairman Mohammed Alardhi provided closing remarks. Addressing the room of 300 investors, Mr. Alardhi highlighted Investcorp's achievements over the past 12 months including the agreement to purchase the credit management business of 3i Group plc which nearly doubled Investcorp's total AUM to more than $21 billion. He also emphasized the Company's growth ambition – 'we are going to use this momentum as a springboard to the next step of the Investcorp journey.' Delegates at the Conference also heard from John Greenwood, Chief Economist of Invesco Ltd., who provided an overview of the global economy in the wake of Brexit and the US election. Meanwhile, Gordon Hewitt, Professor of Business Administration at Ross School of Business, discussed competitive innovation and a changing world.

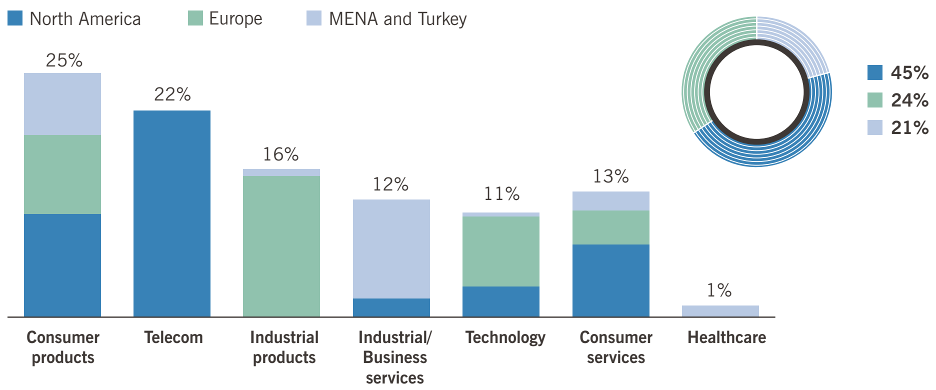
BUSINESS REVIEW

## PORTFOLIO PERFORMANCE

### CORPORATE INVESTMENT

*At June 30, 2017, the carrying value of Investcorp's balance sheet co-investment in CI, excluding strategic investments and underwriting, was $514.6 million (38 companies) compared with $554.3 million at June 30, 2016 (36 companies). This represents 46% of total balance sheet co-investments at June 30, 2017 (FY16: 54% at June 30, 2016). CI underwriting at June 30, 2017 was $189.6 million (FY16: $167.1 million at June 30, 2016).*

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, 2017 and June 30, 2016 carrying values of CI co-investments by region and investment sector.*

At June 30, 2017, Investcorp's aggregate CI North America co-investments were $231.1 million with 12 active portfolio companies (FY16: $286.4 million at June 30, 2016 across 13 active portfolio companies). Aggregate CI Europe co-investments were $174.3 million with 12 active portfolio companies (FY16: $146.2 million at June 30, 2016 across nine portfolio companies). Aggregate CI MENA co-investments were $109.2 million with 14 active portfolio companies (FY16: $121.7 million at June 30, 2016 across 14 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 and launched a fourth technology fund in FY17.

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 FY17.*

On average, Investcorp's direct investments in mid-market companies in the US, Europe and MENA increased their aggregate EBITDA by approximately 6% year-on-year, benefiting 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 $1.3 billion and the average debt across the portfolio is relatively modest at 3.1x aggregate EBITDA.

The add-on investments and realizations in FY17, discussed previously in Investment Activity, reflect Investcorp's strong post-acquisition focus during its period of ownership.

## Other Corporate Investment News

| | |
|---|---|
| July 2016: | CI North America portfolio company **PRO Unlimited** was named the world's second largest managed service provider ('MSP'). According to the 2016 MSP Market Developments Report published by Staffing Industry Analysts ('SIA'), PRO Unlimited demonstrates extensive global reach with services in 87 countries, 49 with full billing, and support of 26 languages. |
| August 2016: | CI MENA portfolio company **Leejam (Fitness Time)** was ranked in International Health, Racquet & Sports Club Association's global top 20 rankings, making it the first company in the Middle East, Africa or Southeast Asia to be featured within the list. Investcorp acquired a ~25% stake in Leejam in July 2013. |
| September 2016: | CI Europe portfolio company **Georg Jensen** won a prestigious award in Danish design for their Urkiola line, designed by Spanish architect and designer Patricia Urquiola. Georg Jensen's management team attended the award event together with Danish Crown Princess Mary, the Firm's business partners, press and competitors. |
| October 2016: | CI North America hosted a one-day conference for its portfolio companies' CFOs in New York. The objective was for the CFOs to meet each other, form relationships, share best practices and leverage the power of being part of Investcorp. |
| November 2016: | CI Europe portfolio company **Dainese** announced that it will introduce SEA-GUARD, an innovative life jacket that the Emirates Team New Zealand crew will be wearing during the 2017 America's Cup races in Bermuda. The SEA-GUARD is fully ergonomic and designed to combine both protective and floating functions; Dainese is currently collecting data to equip the SEA-GUARD with their D-air protection system. |
| January 2017: | CI MENA portfolio company **L'azurde** announced that it has approved the launch of the franchise brand, Amazing Jewelry. Amazing Jewelry was recently founded in Copenhagen, Denmark by Mr. Jesper Nielsen, former co-founder of Pandora Central Western Europe, a part of the Pandora Group. L'azurde acquired the franchise for Saudi Arabia, Egypt and seven other countries in the MENA region for a period of 25 years. |
| February 2017: | CI Europe portfolio company, **POC** was awarded a host of industry awards for several of its 2017/18 snow season innovations. For example: SPIN, a new patent pending helmet technology created to counter the effects of oblique impacts, was awarded the 'Outside – gear of the show' award at SIA. Whereas, POC Layer, which is a cut resistant performance base layer for ski racers, has been chosen as an ISPO 'Gold Winner'. |
| February 2017: | **Orka Group**, a CI MENA portfolio company held its fifth Annual International Resellers' Event in Istanbul in February. It hosted a delegation of 180 people from 80 countries, including Italy, Spain, Russia, Australia, South Africa and China, for 10 days. The Resellers' Meeting enables Orka Group not only to present Damat, D'S and Tween collections and brand plans set for this year, but also to announce its 50 new store openings target for 2017 to new countries including Sweden and Switzerland. |
| March 2017: | Investcorp's CI North America team held its first Digital Marketing Symposium for its portfolio companies' marketing executives to share successes and learn how to handle current challenges their companies are facing in the current market. The Symposium's day-long program included presentations and panel discussions led by the CINA team as well as from several portfolio companies including AlixPartners. This first-of-its-kind event allowed rich discussions and connectivity in the Investcorp portfolio companies network. |
| April 2017: | Under the patronage of the European Commission, Italy's seventh annual Le Fonti Awards for Innovation and Human Resources presented **Dainese**, a CI Europe portfolio company, with the Excellence of the Year/Innovation & Leadership award in hi-tech protective wear category and Cristiano Silei, CEO of the Dainese Group, with the 'CEO of the Year' award for innovation. |
| April 2017: | Francesco Pesci (former CEO of luxury menswear, Brioni) has agreed to serve on the CI Europe Advisory Board effective April 1. Prior to that he was the global commercial director of the jewelry business Damiani. Over the past six months he has joined Investcorp on the board of Georg Jensen and most recently joined the board of Damat in Turkey. |

BUSINESS REVIEW

| | |
|---|---|
| April 2017: | The **Dainese Group** submitted concepts to the Red Dot Design Award, the renowned international competition for design and innovation, and won three prestigious awards in the Product Design 2017 category for the Mugello R D-air® race suit, Pista GP R race helmet and Pro-Armor protectors. |
| April 2017: | CI North America portfolio company **TelePacific** has been renamed and rebranded to TPx Communications as part of the DSCI integration. The Company has grown beyond its historical telecom roots and western US footprint. To reflect that, the Company launched a new brand name to show its focus on hosted unified communications, managed IT and connectivity that serves business customers across the United States. |
| June 2017: | Investcorp's CI Europe team hosted its first Digital Conference for its European portfolio companies. The objective of the conference was to re-affirm the centrality of Digital as a key value creation driver, as well as to inspire how Digital can transform businesses. The day was structured along 3 panels and one key note, delivered by AlixPartners. |
| June 2017: | **SecureLink** was identified by Gartner as the European market leading managed security service. With 15 years of experience, five Cyber Defense Centers and more than 500 cyber security experts, SecureLink's offerings stand out and can be matched only by a few other companies in the industry. |

## ALTERNATIVE INVESTMENT SOLUTIONS ('AIS')

*At June 30, 2017, the balance sheet carrying value of Investcorp's co-investment in AIS was $236.3 million compared with $315.8 million at June 30, 2016. The amount represents 21% of total balance sheet co-investments at June 30, 2017. Please refer to the table in Note 11 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2017 and June 30, 2016 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. Allocations were further reduced from FY16 levels due to the challenges faced by some hedge fund managers in the current market environment.

Total balance sheet AIS co-investment was $236.3 million at June 30, 2017, reflecting a reduction relative to the previous fiscal year end when Investcorp had a gross exposure of $315.8 million.

The exposure consists of investments in managers on the hedge fund partnerships platform, investments with managers on the multi-manager solutions platform, alternative risk premia investments and co-investments in special opportunities portfolios. As of June 30, 2017, Investcorp's balance sheet co-investment in hedge fund partnerships was $70.9 million, compared to $111.1 million as of June 30, 2017. This reflects redemptions from two managers based on Investcorp's outlook for the specific strategies of those managers. Investcorp reduced the allocation to the alternative risk premia product line by $20 million in November 2016, bringing the total allocation to this suite of products down to $38.7 million. Investcorp's exposure to special opportunities portfolios increased to $56.6 million from $14.8 million last year primarily due to the reclassification of $30 million of underwriting exposure to co-investment exposure for Special Opportunities Portfolio VI. The multi-manager solutions exposure declined from $130.1 million as of June 30, 2016 to $70.1 million reflecting a planned reduction in Investcorp's overall co-investment exposure to AIS to below $250 million.

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

## Performance

During FY17, Investcorp's AIS co-investment portfolio delivered returns of +5.7%. During the same period, the industry benchmark, HFRI Fund of Funds Composite Index, returned +6.4%. The market environment for Investcorp's invested managers has been mixed during this fiscal year. There were favorable conditions for fundamental strategies and more challenging conditions for systematic and factor-based strategies. The external liquid manager portfolio returned +8.6%, outperforming its respective benchmark by 2.0% over the full fiscal year. Managers with whom Investcorp has seed partnership arrangements delivered positive performance of 11.6% in FY17. Nut Tree Capital, the latest manager added to Investcorp's hedge fund partnerships platform in February 2016, returned +21.9% for the fiscal year. Investcorp's alternative risk premia investments generated negative performance during the fiscal year.

**Special Opportunities Portfolio IV** ('SOP IV') was launched in January 2014 and provides investors with access to US non-performing loans. Approximately 71% of the portfolio is now resolved or performing. The portfolio is in the final phase of harvesting with focus on returning cash to clients as the portfolio resolutions continue.

**Special Opportunities Portfolio V** ('SOP V') was launched in May 2016 and is the first SOP tranche offered exclusively to institutional investors. SOP V's objective is to provide these investors access to Italian secured non-performing loans for commercial and residential real estate that are purchased from regional Italian banks. Through June 2017 half of the deployed capital has been resolved and all pools are outperforming the base case business plan.

**Special Opportunities Portfolio VI** ('SOP VI') was launched in April 2016 and, like SOP IV, provides investors with access to US non-performing loans. Approximately 55% of the portfolio is now resolved or performing after only 14 months.

## 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, 2017, approximately 40% of Investcorp's AIS co-investment was contractually available for monetization within a three-month window and 72% was available within a 12-month window.

## Alternative Investment Solutions Portfolio News

Strong performance and investor flows have taken fund assets at **Nut Tree Capital Management** ('Nut Tree'), Investcorp's latest hedge fund partnership from February 2016, to $420 million as of July 1, 2017. Jed Nussbaum, Nut Tree's founder and CIO won the Rising Star Award at the *Institutional Investor* hedge fund gala in June. Mr. Nussbaum is a former Partner at Redwood Capital Management and a 16-year investment industry veteran. Nut Tree pursues an all-weather fundamental credit strategy, focusing on mid-market stressed and distressed credit and value equities across North America.

Investcorp launched a **Seeding Club** to provide a select group of investment partners with potential benefits that include: (i) access to the broad AIS manager sourcing network; (ii) access to the AIS infrastructure, expertise and capabilities; (iii) enhanced returns through seed economics; (iv) flexibility through a deal-by-deal opt-in structure; and (v) potential for additional capacity rights at negotiated terms.

Investcorp AIS, which celebrated its 20th anniversary this past year, **was again selected as a finalist** for the **Institutional Investor** Boutique Fund of Hedge Funds Manager award in 2017.

## 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 | | | ■ | |

Looking forward to the next quarters, Investcorp has downgraded its outlook for **hedge equities** hedge funds to a neutral stance, on a lower expected contribution from the fund's beta exposure and stretched exposures in equity growth factors. In the meantime, Investcorp has revised its expectations for European markets upward and now hold a positive view on the region's equity funds. Investcorp's lower forecast for US equity markets is translated in a downgrade of **special situation** managers that continued to have expanded their net market exposures to historical highs. In the merger arbitrage space, Investcorp remains slightly positive as valuation indicators continue to point to fairly rich merger spreads, relative to their cross-asset valuation anchors. Investcorp also holds its constructive view on the **global macro** investment style that should continue to benefit from carry exposures while offering a faster response function in case of a change in the macro-economic regime. The performance of **equity market neutral** managers could be bifurcated between challenging market conditions for statistical arbitrage models on lower volatility and liquidity and a stronger outlook for quantitative arbitrage funds. **Fixed income relative value** remains a high conviction as greater velocity of flows and lower balance sheet capabilities from broker/dealers continue to support alpha generation. Investcorp's greater appetite for liquidity at this stage of the business cycle and the full resolution of last year's dislocations leave the Firm underweight **corporate credit** managers for the quarters to come. Investcorp believes the risk/reward has become skewed to the downside as a change in market volatility would likely have severe consequences for credit long/short strategies as spreads decompress and the CDS basis and liquidity premium widen again. In **distressed**, Investcorp maintains its neutral stance with an opportunity set bifurcated with tepid return expectations in traditional corporate distressed on the basis of compressed credit spreads relative to various risk measures and a greater potential in non-corporate idiosyncratic themes. In **convertible arbitrage**, Investcorp holds its neutral outlook. Much of last year's exceptional cheapness has evaporated but there continue to be pockets of value and catalysts for managers to deliver on expectations. The same rational anchors Investcorp's perspective for **structured credit** hedge funds. Finally, **volatility arbitrage** managers have continued to underperform relatively, as volatility realizes close to historical lows. A change in market conditions would be necessary to see the universe deliver but Investcorp appreciates the value of that investment style in a portfolio, particularly at today's elevated equity valuations levels.

## Alternative Risk Premia

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

### *Equity*

In equities, Investcorp has upgraded its outlook for low beta strategies, on positive signals from its financial conditions and trend following models. On the other hand, Investcorp has downgraded its expectations for momentum, quality and mean reversion. Mean reversion is likely to stay handicapped by an extremely low realized volatility environment. The change in Investcorp's macro models explains its more conservative stance on both momentum and quality.

### *Fixed Income*

In fixed income, Investcorp remains underweight both carry and value strategies. Interest rate differentials have compressed again, leaving little potential returns from naïve carry implementations. The divergence of signals in the value universe continues to inspire caution for the coming quarters. Investcorp is holding its neutral stance on momentum.

### *Commodity*

In the commodity universe, Investcorp holds no strong views on either carry or momentum. Signals for these two investment styles are mixed and do not offer sufficient support for a tactical view. That said, Investcorp remains constructive on the curve implementation of carry, with Investcorp's trend signals suggesting continued upside potential.

### *FX*

In foreign exchange, Investcorp is neutral on the asset class overall. Investcorp believes a 'Goldilocks' macro-economic environment, defined by robust enough growth and range-bound inflation expectations, could well support the carry trade a while longer. In that trade, Investcorp prefers an emerging markets implementation to the G10 currency universe. Investcorp continues to monitor the behavior of FX value, in the context of increased short-term uncertainty in the United Kingdom following the surprising results of the snap Parliamentary elections.

BUSINESS REVIEW

## REAL ESTATE INVESTMENT

*At June 30, 2017, Investcorp's RE balance sheet co-investments excluding underwriting totaled $79.1 million compared with $104.4 million at June 30, 2016. The amount represents 7% of total balance sheet co-investments at June 30, 2017.*

*Please refer to the table in Note 12 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2017 and June 30, 2016 carrying values by portfolio type. For details on RE underwriting, please refer to the table in Note 9 of the Consolidated Financial Statements of Investcorp Bank B.S.C.*

RE co-investments were comprised of $75.4 million of marked-to-market equity investments and $3.7 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 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, 2017, 10 properties had been acquired and were being warehoused for formation into new portfolios to be offered to clients in FY18. At June 30, 2017, 21 of these portfolios were on or ahead of plan. The remaining seven, which are predominantly 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-17** | Jun-16 |
|---|---|---|---|---|---|
| Diversified VI | 3/1 | Retail | SE | | |
| Diversified VII | 4/1 | Industrial | E | | |
| Hotel | 9/4 | Hotel | SE/SW/MW | | |
| **Vintage FY07** | | | | **8.3** | 10.9 |
| Gallivant – Times Square** | 1/1 | Hotel | E | | |
| Diversified VIII | 5/1 | Hotel | MW | | |
| Weststate | 1/1 | Opportunistic | W | | |
| **Vintage FY08** | | | | **3.6** | 21.2 |
| Commercial VI | 3/1 | Office | E | | |
| **Vintage FY11** | | | | **2.1** | 4.9 |
| Diversified X | 3/0 | – | – | | |
| Southland & Arundel Mill Mezz | n.a.*** | Retail | SE | | |
| **Vintage FY12** | | | | **0.1** | 0.5 |
| 2012 Office | 4/0 | – | – | | |
| 2013 Office | 16/16 | Office | SW/MW | | |
| 2013 Office II | 5/5 | Office | SE/W/SW | | |
| **Vintage FY13** | | | | **3.5** | 4.1 |
| 2013 US Residential | 6/0 | – | – | | |
| 2013 US Commercial/2014 Office | 9/9 | Office/Retail/Medical | W/MW/E | | |
| Southeast Multifamily | 4/0 | – | – | | |
| 2014 Diversified | 4/4 | Office/Retail/Residential | SW/SE | | |
| Houston Multifamily | 3/0 | – | – | | |
| **Vintage FY14** | | | | **12.1** | 17.3 |
| Canal Center | 4/4 | Office | E | | |
| 2014 Office and Industrial | 24/21 | Office/Industrial | E/SE/W | | |
| 2015 Residential | 4/4 | Residential | SE/W/E | | |
| Atlanta Multifamily | 2/2 | Residential | SE | | |
| **Vintage FY15** | | | | **8.0** | 8.0 |
| 2015 Residential II | 8/8 | Residential | W/MW/SW/SE | | |
| 2015 Office & Industrial | 79/78 | 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** | 9.7 |
| 2016 Residential | 10/10 | Residential | SW/MW/SE/E | | |
| Boston & Denver Commercial | 20/20 | Office/Industrial | E/W | | |
| 901 Fifth Street | 1/1 | Office | W | | |
| New York & California Multifamily | 2/2 | Residential | E/W | | |
| Villas at Green Valley | 1/1 | Residential | W | | |
| Chicago & Boston Industrial | 6/6 | Industrial | MW/E | | |
| **Vintage FY17** | | | | **14.1** | 8.8 |
| **Others** | | | | **10.3** | 19.0 |
| **Sub-total** | 247/207 | | | **71.9** | 104.4 |
| **New portfolios under construction** | 10/10 | | | **7.2** | N.A. |
| **Total including new portfolio under construction** | 257/217 | | | **79.1** | 104.4 |

* 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.

BUSINESS REVIEW

## CREDIT MANAGEMENT

*At June 30, 2017, Investcorp's CM balance sheet co-investments totaled $258.7 million. The amount represents 23% of total balance sheet co-investments at June 30, 2017.*

*Please refer to the table in Note 13 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2017 carrying value by geography.*

The table below details the Investcorp co-investment exposure and total AUM by geography and by vintage year. Performance information consisting of the cash returned to equity holders to date is presented at a summarized level by vintage year.

**Assets under management – Investcorp credit management ($m)**

| Fund Name[1] | Cash returned to equity to date %[3] | Total AUM Jun-17 | Investcorp co-investment Jun-17 |
|---|---|---|---|
| 1.0 Funds | 118.52% | 716 | 7 |
| FY14 | 61.99% | 814 | 33 |
| FY15 | 48.24% | 1,552 | 69 |
| FY16 | 24.82% | 1,377 | 63 |
| FY17 | 6.94% | 960 | 48 |
| **European CLO Funds** | | **5,419** | **219** |
| FY12 | 135.30% | 8 | 0 |
| FY13 | 77.22% | 418 | 0 |
| FY14 | 55.61% | 1,263 | 0 |
| FY15 | 41.75% | 1,147 | 0 |
| FY16 | 24.35% | 1,011 | 20 |
| FY17 | 3.40% | 401 | 19 |
| **US CLO Funds** | | 4,248 | 39 |
| CLO under construction | | 467 | 0 |
| Other Funds[2] | | 709 | 0 |
| **Other** | | 1,176 | 0 |
| **Total** | | **10,843** | **259** |

1 Fiscal year groupings are based on the closing date of a CLO.
2 Other funds include the Senior Loan Fund, Global Fund, European Middle Market Fund and COA Fund.
3 % of equity cash distribution over par value of equity at launch.

## Collateralized Loan Obligations ('CLOs')

CLO equity distributions remained strong globally. In Europe, the average annualized cash distribution on Investcorp's 2.0 CLOs as at June 30 was 16.8% and, in the US, was 16.3%. Two US CLO deals were realized during FY17, Fraser Sullivan CLO VII returned an IRR of 12.04% and Jamestown CLO I returned an IRR of 10.5%.

## Open Ended Strategies

The ICM Global Floating Rate Income Fund[1] produced a net return of 0.87%, which exceeded the benchmark[2] by 2 basis points in the last quarter. Since inception in August 2015, the Fund's annualized return of 4.26% has trailed the benchmark by 21 basis points.

The ICM Senior Loan Fund's net return of 0.67% trailed the benchmark Credit Suisse Leveraged Loan Index by 8 basis points in the fourth quarter. For the past five years ended June 2017, the annualized net return of the Fund has exceeded the Index by 12 basis points (4.95% vs. 4.83%).

For the first time in several quarters the performance of the indices was not led by commodity related sectors or the lowest quality loans, to which Investcorp's funds have less exposure. In this environment both funds were more successful in keeping pace with benchmark returns. Additionally, the Global Fund was more weighted towards the European market than the benchmark and, therefore, benefited from Europe outperforming the US for the quarter.

1 USD Share Class.

2 The 'Benchmark' is the weighted average of the Credit Suisse Leveraged Loan Index and Credit Suisse Western European Loan Index hedged to the US dollar weighted by market value.

BUSINESS REVIEW

## CORPORATE INVESTMENT PORTFOLIO LISTING

As of June 30, 2017, Investcorp's aggregate balance sheet co-investment was $514.6 million across 38 companies. The below sections provide an overview of these portfolio companies.

### CI NORTH AMERICA

As of June 30, 2017 Investcorp's aggregate balance sheet co-investment in North America was $231.1 million across 12 companies.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **AlixPartners** | **January 2017** | **Business services – knowledge & professional services** | **New York, US** |
| | AlixPartners is a leading global business advisory firm that specializes in creating value and restoring performance of businesses around the world. Headquartered in New York City and founded in 1981 by Jay Alix to handle the turnaround of Electrical Specialties Company, it pioneered providing consulting services to companies in or near bankruptcy. Over time, AlixPartners has expanded its capabilities and now currently offers five different types of services across a wide range of industries and geographies: Enterprise Improvement, Financial Advisory Services, Information Management, Leadership & Organizational Effectiveness and Turnaround & Restructuring. The Company has nine locations in the US and 16 other locations around the globe including South America, Europe, the Middle East and Asia. AlixPartners has over 1,400 employees, approximately 1,000 of whom are professionals, and over 160 Managing Directors.<br>**www.alixpartners.com** | | |
| **Arrowhead Engineered Products** | **October 2016** | **Industrial services – supply chain services** | **Minnesota, US** |
| | Arrowhead is a market leading supplier/distributor of mission critical aftermarket parts primarily for off-highway vehicles. Arrowhead offers the broadest selection of non-discretionary, replacement vehicle products and services to a diverse set of end markets including Utility/Powersports/Motorcycle, Agriculture, Industrial, Outdoor Power Equipment, Marine, Auto and Heavy Duty. Arrowhead has acquired three companies since Investcorp's investment in November 2016: Arrowhead recently has completed add-on acquisitions of aftermarket replacement parts providers Stens, J&N Electric, and Interparts. Both Stens and J&N Electric are highly complementary add-on acquisitions for Arrowhead and they significantly increase Arrowhead's scale in this attractive market. Interparts distributes branded aftermarket replacement products for the power sports, industrial and automotive aftermarkets.<br>**www.arrowheadep.com** | | |

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| The Wrench Group | March 2016 | Consumer services | Georgia, US |
| | Wrench is a provider of home maintenance and repair services specializing in: heating, ventilation and air conditioning ('HVAC'), plumbing and electrical services. 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).<br><br>**www.wrenchgroup.com** | | |
| Nobel Learning Communities | April 2015 | Business services – knowledge & professional 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.<br><br>**www.nobellearning.com** | | |
| PRO Unlimited | October 2014/ May 2017 | Business services – technology enabled 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.<br><br>*Investcorp originally invested in PRO Unlimited in October 2014. In May 2017, Investcorp sold a majority stake in PRO Unlimited to Harvest Partners and retained a minority stake.*<br><br>**www.prounlimited.com** | | |
| totes»ISOTONER | May 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.<br><br>**www.totes-isotoner.com** | | |

BUSINESS REVIEW

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

Paper Source is a multi-channel retailer offering a premium selection of uniquely designed and curated gifts, stationery and crafting supplies. The Company operates 119 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**

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

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 136 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 its 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**

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|---|---|---|---|
| **Wazee Digital** | **March 2011** | **Technology – internet/mobility** | **Colorado, US** |

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**

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|---|---|---|---|
| **OpSec Security Group** | **March 2010** | **Technology – security** | **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 |
|---|---|---|---|
| **kgb** | **April 2006** | **Technology – big data** | **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**

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|---|---|---|---|
| **TPx Communications** | **April 2000** | **Telecom** | **California, US** |

TPx Communications (formerly TelePacific) is a leading provider of network and communications services headquartered in Los Angeles. In business since 1998, the Company provides services on self-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 September 2016, TelePacific acquired DSCI, a hosted communications provider in the United States. The transaction transformed TelePacific into a managed services platform enabling the company to offer a full suite of products to its customers. In April 2017, TelePacific rebranded itself as TPx Communications.*

**www.tpx.com**

BUSINESS REVIEW

## CI EUROPE

As of June 30, 2017 Investcorp's aggregate balance sheet co-investment in Europe was $174.3 million across 12 companies.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| ABAX | June 2017 | Business services – technology enabled services | Larvik, Norway |

Founded in 2003, ABAX has become one of Europe's fastest growing technology businesses and the leading telematics solution provider in the Nordics by developing and delivering sophisticated fleet tracking, electronic triplogs, equipment & vehicle control systems and order management systems. Headquartered in Larvik, Norway, the Company has approximately 350 employees and established operations across the Nordic region as well as in Poland, the Netherlands, the UK and China.

**www.abax.co.uk**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| Ageras | March 2017 | Technology – internet/mobility | Copenhagen, Denmark |

Founded in 2012, Ageras is a fast-growing online marketplace connecting SMEs and micro-businesses with professional service providers such as accountants and lawyers across Scandinavia and Western Europe. Still run by its founders, the Company has successfully entered five markets (Norway, Sweden, the Netherlands and Germany alongside its home market of Denmark). Ageras' proprietary matching algorithm allows it to combine automation with high levels of service ensuring maximum customer satisfaction and an attractive ROI to its partners.

**www.ageras.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| Agromillora | December 2016 | Consumer products | Barcelona, Spain |

Founded in 1986 in Barcelona, Agromillora is the leading global developer of high yielding plants and trees, with a key focus on permanent crops, including stone fruits, citrus, nuts, berries, olive trees and grape plants. The Company pioneered the production and marketing of trees for high yielding olive orchards with the disruptive technology of super-high-density planting and has since been promoting similar agronomic improvements for a complete portfolio of high quality plants. With a global network of 11 production facilities and a commercial presence in nine countries, Agromillora reaches clients in over 25 countries.

**www.agromillora.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| Calligo | November 2016 | Technology – big data | St Helier, Jersey |

Calligo is a fast-growing provider of cloud solutions focused on serving the global mid-tier enterprise segment. Founded in 2012, with the aim of leveraging jurisdictions across the globe that offer a robust data protection framework, Calligo provides a trusted cloud platform for hosting mid-tier enterprises, their data and applications. The Company's proprietary cloud platform offers the highest levels of data privacy along with application performance guarantees, commercial flexibility and a personalized support service.

**www.calligo.cloud**

| 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 benefits from a global sales presence in more than 65 countries through 10 directly operated stores, approximately 850 multibrand stores, more than 75 franchise stores and approximately 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 – security** | **Wommelgem, Belgium<br>Sliedrecht, Netherlands** |

Founded in 2003, SecureLink is a leading cybersecurity 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. In June and July 2016, Investcorp together with SecureLink acquired Coresec and Nebulas. Operating in very similar markets, Coresec was established in 2003 and provides relevant security advice and hands-on assistance to its diverse client base across Scandinavia and the Netherlands. Coresec operates across seven offices and multiple 24/7 manned Network & Security Operation Centres. Nebulas, founded in 2001, provides a broad range of IT security products and services to predominantly mid to large enterprises in the United Kingdom. In March 2017, SecureLink announced an agreement to acquire iT-Cube, Germany's leading cybersecurity and managed security services provider. Headquartered in Munich, iT-Cube Systems successfully operates as a full service provider for IT security for more than 15 years in the DACH (Germany, Austria, Switzerland) region.

**www.securelink.net**

BUSINESS REVIEW

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Dainese** | **January 2015** | **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, the Company strives to ensure it remains at the forefront of innovation.

In October 2015, Investcorp together with Dainese acquired POC, 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 25 countries worldwide. Through technical collaboration with partners such as Volvo, POC is pioneering innovative safety concepts and has won more than 40 prestigious international safety, design, innovation and business awards.

**www.dainese.com / www.pocsports.com**

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|---|---|---|---|
| **SPGPrints** | **August 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**

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

Based in Copenhagen, Georg Jensen is a global luxury brand that designs, manufactures and distributes jewelry, watches, fine silverware and high-end homeware. With a history that spans 110 years, the Georg Jensen brand has a deep heritage in silversmith 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 and Indonesia.

*In July 2017, Investcorp signed a definitive agreement to sell Esmalglass. The sale is subject to regulatory approval and is expected to close in H1 FY18.*

**www.esmalglass-itaca.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **eviivo** | **March 2011** | **Technology – internet/mobility** | **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, allow for flexible pricing, invoice and process payments. With over 5,500 customers, eviivo's portfolio covers the breadth of the UK market and includes B&Bs, guest accommodation, inns, farmhouses, cottages, restaurants with rooms, and smaller boutique hotels.

**www.eviivo.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **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 and Philips. 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.cemegroup.com**

BUSINESS REVIEW

## CI MENA

As of June 30, 2017, Investcorp's aggregate balance sheet co-investment in MENA was $109.2 million across 14 companies.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Al Borg Medical Laboratories** | **November 2016** | **Healthcare** | **Jeddah, Saudi Arabia** |

Established in 1999 in Jeddah, Al Borg has 52 laboratories across eight countries in the GCC and Africa, with a clear leadership position in Saudi Arabia. As the leading private medical laboratory chain in the GCC, Al Borg employs over 1,000 personnel and offers a wide range of routine and specialty medical laboratory testing services to hospitals, clinics, corporates and individuals.

**www.alborglaboratories.com**

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

Established in 1984, with over 30 years of operations and a network of 54 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**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **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 800 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. In February 2017, NDTCCS acquired a majority stake in Hi-Tech Inspection Services LLC ('Hi-Tech'), Oman's largest provider of NDT and inspection services employing over 600 technicians.

**www.ndtcorrosion.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Arvento** | **March 2015** | **Business services – technology enabled services** | **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**

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|---|---|---|---|
| **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 40,000 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**

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|---|---|---|---|
| **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 38-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**

## BUSINESS REVIEW

| 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 110 fitness clubs and has over 210,000 active members. Employing over 3,200 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**

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|---|---|---|---|
| **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 and also recently started offering long-term leasing to the 'corporate' customer segment. Established in 1991 and headquartered in Riyadh, Theeb operates a fleet of over 13,500 vehicles with a wide network of 46 branches, including 13 at international and regional airports across Saudi Arabia. Over the years Theeb has built a strong local brand and membership program with over 180,000 members.

**www.theeb.com.sa**

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|---|---|---|---|
| **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 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 410 personnel and has state-of-the-art engineering, production, manufacturing, training and warehousing facilities. Clients include British Petroleum, Shell, General Electric and Aggreko.

**www.hydrasun.com**

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| **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 7,500 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**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Orka** | **September 2012** | **Consumer products – specialty retail** | **Istanbul, Turkey** |
| | ORKA Holding ('Orka') is one of the largest menswear retailers in Turkey with 180 directly operated stores (162 in Turkey and 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.<br><br>**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 632 professionals, has processing and storage facilities in Turkey and serves a broad customer base including food processors, retailers, governmental agencies and other agro wholesalers.<br><br>**www.tiryaki.com.tr** | | |
| **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, Oman, Jordan, Egypt, Turkey and Iraq.<br><br>**www.gulfcryo.com** | | |

BUSINESS REVIEW

| 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 completed its IPO on the Saudi Stock Exchange (Tadawul). Investcorp, through its Gulf Opportunity Fund I, retains a 38.85% stake in the Company and representatives of the Investcorp Gulf Opportunity Fund I 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 owns a 100% economic interest in 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, 2017, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 49.6% 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 20% held indirectly by Mubadala Development Company PJSC. International shareholders hold 0.1% of the Ordinary Shares, represented by unlisted Global Depositary Receipts. SIPCO Limited ('SIPCO') directly and indirectly owns 12.6% of Investcorp Bank's ordinary shares.

The 12.6% of Investcorp Bank's ordinary shares owned directly and indirectly by SIPCO represents:

- management and other current and former Investcorp Group employees' (124 current and former employees in the aggregate) ownership of beneficial interests in 12.2% of Investcorp Bank's Ordinary Shares through Investcorp Employee Share Ownership Plans (each such plan an 'ISOP'), which includes 2.0% acquired but unvested shares under an ISOP; and
- treasury shares, amounting to 0.4% of Investcorp Bank's Ordinary Shares that are held for potential grant pursuant to 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, 2017, assets comprising 98.2% 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, 2017, 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 98.2% 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, 2017, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 49.5% of Investcorp Bank's Ordinary Shares directly and through CP Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is controlled by OHL which, in turn, has SIPCO as its largest shareholder. Strategic shareholders own the balance of CPHL and OHL. SIPCO also holds 0.9% of Investcorp Bank's Ordinary Shares directly.

As a result of the Investcorp Bank ownership structure, the directors of SIPCO, comprised of certain Investcorp Bank Directors and senior executive officers who are also the directors of OHL's sole director, which is a Cayman Islands corporation, have the ability to control the voting of 50.4% of the 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 2017 Corporate Governance Report ('Fiscal Year 2017 Corporate Governance Report') which is a supplement to this Annual Report. The Fiscal Year 2017 Corporate Governance Report also is available on Investcorp's website (www.investcorp.com).

As reported above, an aggregate of 50.4%[1] of Investcorp Bank's Ordinary Shares are held by SIPCO, OHL and CPHL, each of which is a Cayman Islands company.

The table below shows the distribution by nationality of the holders of the 49.6% of Investcorp Bank's Ordinary Shares that are held by public shareholders and tradable on the Bahrain Bourse.

| Nationality | Number of Shares | Ownership |
|---|---|---|
| American | 83,469 | 0.1% |
| Bahraini | 11,647,600 | 14.6% |
| British | 205,700 | 0.3% |
| Cayman Islander | 846,200 | 1.1% |
| Emirati | 16,929,700 | 21.2% |
| Jordanian | 700 | 0.0% |
| Kuwaiti | 1,966,600 | 2.4% |
| Lebanese | 47,300 | 0.1% |
| Omani | 450,326 | 0.5% |
| Pakistani | 10,000 | 0.0% |
| Qatari | 1,460,700 | 1.8% |
| Saudi | 5,825,900 | 7.2% |
| Spaniard | 10,000 | 0.0% |
| Swazi | 100,000 | 0.1% |
| Swiss | 64,000 | 0.1% |
| Virgin Islands, British | 44,600 | 0.1% |
| **Total** | **39,692,795** | **49.6%** |

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%** |

1 Numbers may not add up due to rounding.

## CORPORATE GOVERNANCE AND BALANCE SHEET RISK MANAGEMENT

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

| | June 30, 2017 | | |
|---|---|---|---|
| Ordinary shares | No. of shares | No. of shareholders | % of total outstanding shares |
| Less than 1% | 16,406,116 | 272 | 20.5% |
| 1% up to less than 5% | – | – | 0.0% |
| 5% up to less than 10% | 14,463,584 | 2 | 18.1% |
| 10% up to less than 20% | – | – | 0.0% |
| 20% and greater | 49,130,300 | 2 | 61.4% |
| | 80,000,000 | 276 | 100% |

| | June 30, 2017 | | |
|---|---|---|---|
| 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% |
| 20% and greater | 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 35 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;

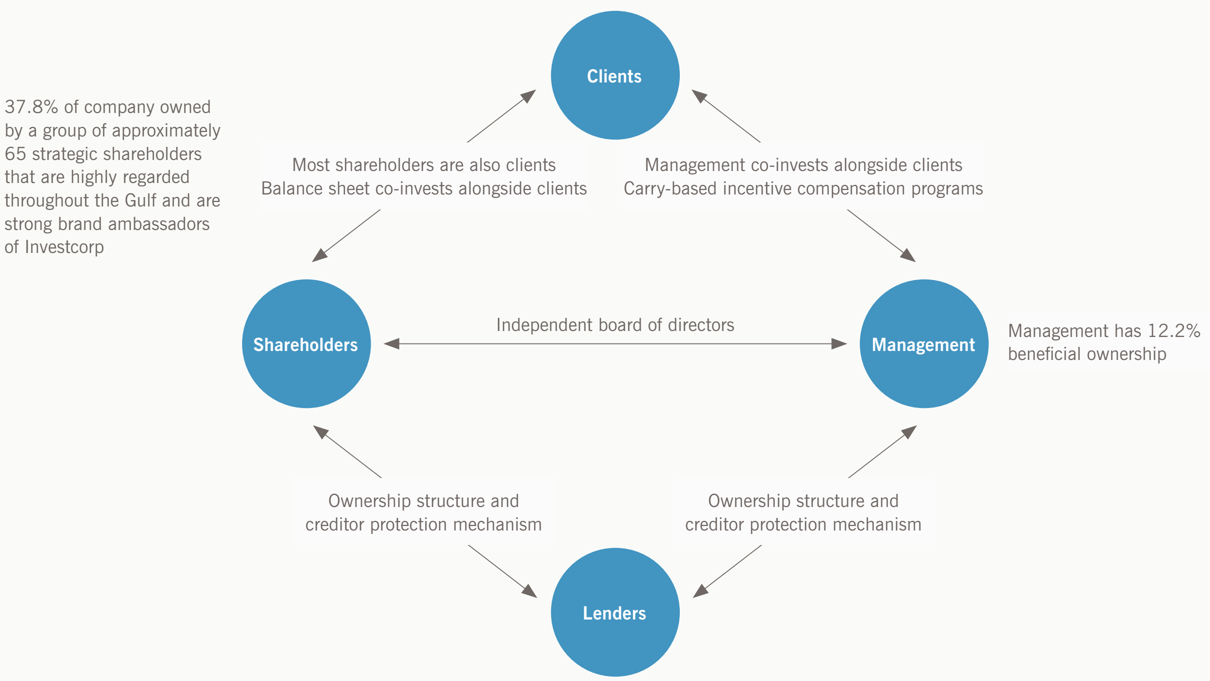
ii. transparency of reporting and actions plus proactive risk control; and

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 2017 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**



## CORPORATE GOVERNANCE AND BALANCE SHEET RISK MANAGEMENT

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 products and the products of the newly acquired credit management business. 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 FY17, 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 30 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 2017 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 12 by action of the shareholders at the Ordinary General Meeting of Shareholders held on September 27, 2016 (the '2016 OGM') and increased to 14 by action of the shareholders at the Ordinary General Meeting of Shareholders held on January 31, 2017 (the '2017 OGM'). At the 2016 OGM, out of the 12 then current Directors of Investcorp Bank, nine were re-elected for a three year term expiring at the 2019 Ordinary General Meeting (the '2019 OGM'). Three Directors who had been newly appointed prior to the 2016 OGM to fill vacancies arising on the Board, were also appointed to the Board of Directors for a three year term that will expire at the 2019 OGM. At the 2017 OGM, two new Directors, Sheikh Abdul Rahman Bin Saudi Al-Thani, and Mr. Abdullah Saud Alhumaidhi, were appointed to the Board of Directors for a term that will expire at the 2019 OGM, bringing the total number of the Directors on the Board to 14.

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;

CORPORATE GOVERNANCE AND BALANCE SHEET RISK MANAGEMENT

- 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 2017 and the aggregate remuneration proposed to be paid to the Directors in respect of Fiscal Year 2017 are reported in the Fiscal Year 2017 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 2017, all of the Directors of Investcorp Bank other than Mohammed Alardhi, Executive Chairman of Investcorp Bank, 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 2017, is reported in the Fiscal Year 2017 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 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 selection, appointment, remuneration, oversight 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 must 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 five 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 and the head of Compliance, 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.

## CORPORATE GOVERNANCE AND BALANCE SHEET RISK MANAGEMENT

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 five 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 2017 and the remuneration proposed to be paid to Directors for their Executive Committee service during Fiscal Year 2017 is reported in the Fiscal Year 2017 Corporate Governance Report.

During Fiscal Year 2017, 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 2017 is presented in the Fiscal Year 2017 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 31 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 2017 Corporate Governance Report.

## 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 in the case of Corporate Investments and Real Estate.

The Investment Committee for an LOB within Corporate Investment comprises senior executives within that LOB, 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.

ICM, reflecting its operations in both the US and European markets, operates two regional Investment Committees drawing on the experience of senior investors active in each market. ICM also operates a global committee which combines senior ICM management with experienced investors from both regional committees to oversee those particular ICM managed strategies which operate on a global basis across all ICM investment markets.

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 in the context of Corporate Investment and Real Estate Investments to determine whether to recommend to the Investment Council that it approve the investment or the disposition. Where a decision is being made in the context of a fund or account managed or advised by an Investcorp subsidiary (e.g. ICM) the suitability of that investment or disposal for the fund concerned, having due regard to the fund's investment strategy, fund documentation and applicable regulatory principles and regulations, will be evaluated by the relevant ICM investment committee.

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 Bank is licensed by the Central Bank of Bahrain ('CBB'), and all of Investcorp Bank's activities are subject to comprehensive regulation by the CBB. In addition, a portion of Investcorp Bank's Ordinary Shares are listed on the Bahrain Bourse and Investcorp Bank is subject to the regulations of the Bahrain Bourse.

Investcorp Bank has two indirect UK subsidiaries, Investcorp Securities Limited ('ISL') which acts as an arranger of corporate finance transactions and manages collective investment undertakings as a small AIFM, and Investcorp Credit Management EU Limited ('ICMEU') which provides portfolio management services to Collateralised Loan Obligation issuer vehicles and other funds which invest in senior secured loans. Both ISL and ICMEU are registered with and regulated by the UK Financial Conduct Authority (the 'FCA') as IFPRU 50K limited license firms. In the US, ISL is registered with the Securities and Exchange Commission as an Investment Adviser and ICMEU has been deemed an Exempt Reporting Adviser.

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, N A Investcorp LLC 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 Bank also has its subsidiaries, Investcorp Investment Advisers LLC ('IIA LLC'), Investcorp Credit Management US LLC ('ICMUS') and Investcorp Investment Advisers Limited ('IIAL') registered with and regulated by the SEC as investment advisers. Two of these investment advisory subsidiaries, IIA LLC and IIAL 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, IIAL is also registered with and regulated by the Cayman Islands Monetary Authority ('CIMA').

One other Investcorp Bank subsidiary, Investcorp Management Services Limited is registered with and regulated by CIMA in connection with the performance of investment-related services.

Investcorp Bank's Saudi Arabian subsidiary, Investcorp Saudi Arabia Financial Investments Co. is licensed by the Capital Market Authority 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 Bank 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 on-going basis and decides on mitigation strategies for these risks. The ALCO 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 on-going operations in line with the Audit Committee and Board-approved risk policies manual. In addition, separate risk review forums are used for each line of business 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 28(i)*;
- credit risk Note 28(ii);
- funding liquidity risk Note 28(iii)*;
- concentration risk Note 28(iv)*;
- foreign currency risk Note 28(v)(a)*;
- interest rate risk Note 28(v)(b)*;
- equity price risk Note 28(v)(c)*; and
- operational risk Note 28(vi)*.

Investcorp has developed tools in conjunction with leading risk management consultants to perform detailed risk analysis, 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, 2017 is shown in Note 28(v)(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 28(v)(a)* of the consolidated financial statements of Investcorp Bank B.S.C.

1 * References are to footnotes in the fiscal 2017 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 client portfolio and balance sheet retention perspective.

All investment proposals are scrutinized rigorously by the 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 and technology investing is to seek returns that justify the risk being taken. The higher risks of technology and MENA investing are alleviated through 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.** Investcorp manages its AIS multi-manager 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 multi-manager 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 multi-manager 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.

The AIS dedicated risk management function monitors and analyses the AIS alternative risk premia portfolios independent of the investment team. Among the risks monitored are basis risk, concentration risk, scenario risk and tail risk. The function also conducts analysis on strategy and asset class, stress tests and historical scenarios, exposure by strategy, security type, sectors, regions and counterparty exposure and liquidity. In addition to reporting on its findings on such analyses, separate reports are generated and distributed to the AIS investment team regarding the monitoring of relevant alternative risk premia portfolios' risk guidelines.

While investment in AIS 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 AIS team is mindful of these risks and has incorporated specific actions in its asset allocation, monitoring guidelines and separate accounts in order 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 conservative 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 investment'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.

## Credit Management

Collateralized loan obligation securitization vehicles ('CLOs') are structured transactions with various collateral quality and portfolio profile tests which are also monitored by the respective Trustees of each securitization vehicle. Within these constraints, many of which relate to portfolio composition (asset type, asset quality, currency and duration), the portfolio managers seek to deliver the contractual returns expected by classes of notes ranking in seniority to the most subordinated class of notes and to maximize the residual returns which are then paid to the subordinated class of notes. To date Investcorp's investment in its managed CLOs has typically been in these subordinated notes.

Investcorp monitors the performance of its investments in CLO notes and equity at least semi-annually and considers the projected cash flows in each securitization vehicle taking into account a number of factors such as the impact of interest rates, weighted average spreads, default and recovery rate assumptions.

In addition to the investments in issued CLOs, Investcorp Credit Management typically invests in the warehouse facilities used to accumulate loans prior to the launch of a new CLO. Mark-to-market exposures are monitored by ICM's senior management on a weekly basis as well as conditions in the new issue CLO market.

### 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 the Company'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 economic 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 stress 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, 2017

## Contents

Independent Auditors' Report to the Shareholders of Investcorp Bank B.S.C. ........ 106
Consolidated Statement of Profit or Loss ........ 111
Consolidated Statement of Other Comprehensive Income ........ 112
Consolidated Statement of Financial Position ........ 113
Consolidated Statement of Changes In Equity ........ 114
Consolidated Statement of Cash Flows ........ 116

### Notes to the consolidated financial statements

1. Organization ........ 117
2. Business combination ........ 120
3. Assets under management ........ 121
4. Segment reporting ........ 122
5. Categories of financial assets and financial liabilities ........ 127
6. Operating expenses ........ 131
7. Receivables and prepayments ........ 132
8. Advances ........ 133
9. Underwritten investments ........ 133
10. Corporate co-investments ........ 134
11. Alternative investment solutions co-investments ........ 135
12. Real estate co-investments ........ 136
13. Credit management investments (CM) ........ 136
14. Provisions for impairment ........ 137
15. Intangible assets ........ 137
16. Call accounts ........ 137
17. Term and institutional accounts ........ 138
18. Payables and accrued expenses ........ 138
19. Medium-term debt ........ 139
20. Long-term debt ........ 139
21. Deferred fees ........ 140
22. Share capital and reserves ........ 140
23. Other reserves ........ 141
24. Earnings, book value and dividends per share ........ 142
25. Derivative financial instruments ........ 142
26. Commitments and contingent liabilities ........ 147
27. Regulatory capital adequacy ........ 148
28. Risk management ........ 151
29. Fair value of financial instruments ........ 162
30. Employee compensation ........ 164
31. Related party transactions ........ 166
32. Significant accounting policies ........ 167

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

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. ('the Bank') and its subsidiaries (together 'the Group'), which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended June 30, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

### 1. Valuation of unquoted investments, related fair value changes and performance fees

| Key audit matter | How the key audit matter was addressed in the audit |
|---|---|
| For corporate and real estate investments, the Group has used a combination of discounted cash flow analysis approach, PE multiples based approach and bids or indicative prices obtained from potential buyers or banks engaged in the sale process to fair value unquoted investments.<br><br>This was a key area of focus of our audit given the significance of the judgments and estimates made by management to support the valuations.<br><br>Also during the year, the Group has recorded performance fees of US$19.7 million in respect of its unquoted investments representing fees accrued for performance in excess of hurdle/performance rates as agreed with investors. | Our audit work included the involvement of EY specialized valuation teams to review valuations of a sample of these unquoted investments. We obtained relevant documents supporting the valuations and reviewed the data and assumptions used in the valuations. We reviewed the changes in fair values by comparing these to the performance of the underlying investments.<br><br>On a sample basis, we assessed the performance fee calculations and the investment fair values used in this computation. In addition, we compared the basis of computation with the terms of the performance fee agreements.<br><br>Refer to the critical accounting estimates and judgments and disclosures of investments in notes 10, 12, 29 and 32 to the consolidated financial statements. |

## 2. Acquisition of Credit Management business and the recognition and subsequent measurement of goodwill

| Key audit matter | How the key audit matter was addressed in the audit |
|---|---|
| The Group completed the acquisition of the debt management business of 3i Group plc during the current year (subsequently renamed as Investcorp Credit Management). This was achieved through the acquisition of 100% of the share capital of 3i Debt Management Investments Limited and 3i Debt Management US LLC (together the DM entities), for a total cash consideration of US$316.4 million.<br><br>Accounting for the acquisition is a complex and judgemental exercise, requiring determination of the fair value of acquired assets and liabilities and the determination of the acquisition date goodwill. The purchase price was allocated to the various assets and liabilities of the DM entities resulting in goodwill of US$49.3 million. | Our audit work included a review of the purchase agreements relating to the acquisition of the DM entities and verification of the consideration paid. We evaluated the fair values of the identifiable assets and liabilities acquired and the resulting goodwill.<br><br>Refer to the disclosures in note 2 to the consolidated financial statements. |

## 3. Early adoption of IFRS 9

| Key audit matter | How the key audit matter was addressed in the audit |
|---|---|
| The International Accounting Standards Board issued '*IFRS 9 – Financial Instruments*' which replaces '*IAS 39 – Financial Instruments*' in three phases as follows:<br><br>Phase 1 – Classification and measurement of financial assets and liabilities;<br>Phase 2 – Impairment methodology; and<br>Phase 3 – Hedge Accounting.<br><br>Effective July 1, 2016, the Group has early adopted IFRS 9 (Phase 1 and Phase 2) ahead of its mandatory effective date of January 1, 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.<br><br>The net difference between previously reported carrying amounts of financial instruments as of June 30, 2016 and new carrying amounts as of July 1, 2016 amounting to US$3.5 million has been recognized in the opening retained earnings.<br><br>The key change arising from the early adoption of Phase 1 of IFRS 9 is the classification of certain of the Group's co-investments as Fair Value through Other Comprehensive Income (FVOCI), where these were earlier classified as Fair Value Through Profit or Loss (FVTPL) and, hence, the re-classification of the related gain/loss to other comprehensive income.<br><br>The key change arising from early adoption of Phase 2 of IFRS 9 is that the Group's credit losses are now based on an expected loss model rather than an incurred loss model. | With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised of the following:<br><br>▪ We assessed compliance of the Group's policy for classification and measurement of financial assets and financial liabilities with the requirements of IFRS 9;<br><br>▪ For debt instruments, we:<br>– discussed the underlying business rationale;<br>– obtained an understanding and assessed the Group's business model assessment; and<br>– engaged internal specialists to audit management's cash flow projections for the underlying instruments, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test];<br><br>▪ We tested financial assets classified as FVOCI to ensure that these meet the requirements of IFRS 9;<br><br>▪ For those financial assets and financial liabilities where there is no change in classification following the early adoption of IFRS 9, we have checked that no adjustments were made; and<br><br>▪ We checked the opening balance adjustments. |

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

| Key audit matter | How the key audit matter was addressed in the audit |
|---|---|
| | Since the majority of the Group's financial assets are classified either as FVTPL or FVOCI (equity instruments), our audit procedures with regard to impairment were limited to the remaining financial assets and comprised of the following:<br>▪ We assessed compliance of the Group's impairment provisioning policy, impairment models, methodologies, policies and procedures with the requirements of IFRS 9;<br>▪ We checked the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;<br>▪ For Probability of Default (PD) and forward looking assumptions used by the Group in its Expected Credit Loss (ECL) calculations, we held discussions with management and corroborated the PDs using internally developed and publicly available information;<br>▪ We engaged internal specialists to review cash flow and loss projections underlying the principal and interest repayments;<br>▪ We checked the completeness of balances included in the ECL calculations; and<br>▪ We checked the opening balance adjustments.<br>Refer to the accounting policies, critical accounting estimates and judgments and disclosures in notes 5, 14, 28 and 32 to the consolidated financial statements. |

## Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we have obtained the following sections of the 2017 Annual Report, and the remaining sections are expected to be made available to us after that date.

- Report of the Board of Directors
- Business highlights
- Business environment
- Discussion of results
- Investment and realizations
- AUM and fundraising
- Portfolio performance
- CI portfolio listing

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

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

### Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

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

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

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

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

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

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

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

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

### Report on Other Legal and Regulatory Requirements

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

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

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

(c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended June 30, 2017 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

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

Ernst + Young

Partner's registration no. 145
August 8, 2017
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended June 30, 2017

| $000s | 2017 | 2016 | Notes | Page |
|---|---|---|---|---|
| **FEE INCOME** | | | | |
| AUM fees | **135,541** | 97,370 | | |
| Deal fees | **181,004** | 210,097 | | |
| **Fee income** | **316,545** | 307,467 | 4 | 122 |
| **ASSET-BASED INCOME** | | | | |
| Corporate investment | **19,189** | 100,773 | | |
| Alternative investment solutions | **15,784** | (27,664) | | |
| Real estate investment | **23,436** | (1,513) | | |
| Credit management investment | **33,476** | – | | |
| Treasury and other asset based income | **13,296** | 4,415 | | |
| **Asset-based income** | **105,181** | 76,011 | 4 | 122 |
| **Gross operating income** | **421,726** | 383,478 | 4 | 122 |
| Provisions for impairment | **(4,114)** | (8,216) | 14 | 137 |
| Interest expense | **(57,480)** | (60,947) | 4 | 122 |
| Operating expenses | **(239,873)** | (224,262) | 6 | 131 |
| **PROFIT FOR THE YEAR** | **120,259** | 90,053 | | |
| Basic earnings per ordinary share ($) | **1.28** | 0.97 | 24 | 142 |
| Fully diluted earnings per ordinary share ($) | **1.25** | 0.94 | 24 | 142 |

NEMIR A. KIRDAR
Chairman

MOHAMMED ALARDHI
Executive Chairman

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

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended June 30, 2017

| $000s | 2017 | 2016 | Notes | Page |
|---|---|---|---|---|
| **PROFIT FOR THE YEAR** | **120,259** | 90,053 | | |
| Other comprehensive income that will be recycled to statement of profit or loss | | | | |
| Fair value movements – available for sale investments | **–** | (101) | 23 | 141 |
| Fair value movements – cash flow hedges | **(3,059)** | 8,415 | 23 | 141 |
| Other comprehensive income that will not be recycled to statement of profit or loss | | | | |
| Movements – Fair value through other comprehensive income investments | **(26,828)** | – | | |
| **Other comprehensive (loss)/income** | **(29,887)** | 8,314 | | |
| **TOTAL COMPREHENSIVE INCOME** | **90,372** | 98,367 | | |

NEMIR A. KIRDAR
Chairman

MOHAMMED ALARDHI
Executive Chairman

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

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017

| $000s | June 30, 2017 | June 30, 2016 | Notes | Page |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and short-term funds | **44,517** | 292,214 | | |
| Placements with financial institutions and other liquid assets | **517,406** | 133,234 | | |
| Positive fair value of derivatives | **62,069** | 90,210 | 25 | 142 |
| Receivables and prepayments | **277,085** | 320,612 | 7 | 132 |
| Advances | **85,582** | 105,243 | 8 | 133 |
| Underwritten investments | **460,394** | 493,484 | 9 | 133 |
| **Co-investments** | | | | |
| Corporate investment | **538,989** | 602,640 | 10 | 134 |
| Alternative investment solutions | **236,331** | 315,827 | 11 | 135 |
| Real estate investment | **79,115** | 104,412 | 12 | 136 |
| Credit management investment | **258,712** | – | 13 | 136 |
| Total co-investments | **1,113,147** | 1,022,879 | | |
| Premises, equipment and other assets | **37,711** | 39,277 | | |
| Intangible assets | **58,072** | – | 15 | 137 |
| **TOTAL ASSETS** | **2,655,983** | 2,497,153 | | |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Call accounts | **249,203** | 129,987 | 16 | 137 |
| Term and institutional accounts | **184,681** | 124,113 | 17 | 138 |
| Payables and accrued expenses | **155,394** | 201,390 | 18 | 138 |
| Negative fair value of derivatives | **43,645** | 49,480 | 25 | 142 |
| Medium-term debt | **381,733** | 403,081 | 19 | 139 |
| Long-term debt | **409,539** | 478,981 | 20 | 139 |
| Deferred fees | **86,575** | 92,878 | 21 | 140 |
| **TOTAL LIABILITIES** | **1,510,770** | 1,479,910 | | |
| **EQUITY** | | | | |
| Preference share capital | **223,239** | 223,239 | 22 | 140 |
| Ordinary shares at par value | **200,000** | 200,000 | | |
| Reserves | **320,321** | 282,250 | | |
| Treasury shares | **(3,229)** | (45,449) | | |
| Retained earnings | **367,028** | 313,482 | | |
| *Ordinary shareholders' equity excluding proposed appropriations and other reserves* | **884,120** | 750,283 | | |
| Proposed appropriations | **44,087** | 44,611 | 24 | 142 |
| Other reserves | **(6,233)** | (890) | 23 | 141 |
| **TOTAL EQUITY** | **1,145,213** | 1,017,243 | | |
| **TOTAL LIABILITIES AND EQUITY** | **2,655,983** | 2,497,153 | | |

NEMIR A. KIRDAR
Chairman

MOHAMMED ALARDHI
Executive Chairman

The attached Notes 1 to 32 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, 2017

| | | | Reserves | | | |
|---|---|---|---|---|---|---|
| $000s | Preference share capital | Ordinary share capital | Share premium | Statutory reserve | Fair value reserve | Total |
| **Balance at July 1, 2015** | 225,000 | 200,000 | 159,166 | 100,000 | – | 259,166 |
| Total comprehensive income | – | – | – | – | – | – |
| Preference shares purchased during the period | (1,761) | – | – | – | – | – |
| Depreciation on revaluation reserves 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 | – | – | – | – | – | – |
| Proposed appropriations for fiscal 2016 | – | – | – | – | – | – |
| **Balance at June 30, 2016** | 223,239 | 200,000 | 182,250 | 100,000 | – | 282,250 |
| **Balance at July 1, 2016** | 223,239 | 200,000 | 182,250 | 100,000 | – | 282,250 |
| Restatement arising from early adoption of IFRS 9 | – | – | – | – | 2,054 | 2,054 |
| **Balance at July 1, 2016 (Restated)** | 223,239 | 200,000 | 182,250 | 100,000 | 2,054 | 284,304 |
| Total comprehensive income | **–** | **–** | **–** | **–** | **(26,828)** | **(26,828)** |
| Transferred to retained earnings upon derecognition | **–** | **–** | **–** | **–** | **19,335** | **19,335** |
| Depreciation on revaluation reserves transferred to retained earnings | **–** | **–** | **–** | **–** | **–** | **–** |
| Treasury shares sold/vested during the year – net of purchases | **–** | **–** | **(878)** | **–** | **–** | **(878)** |
| Gain on sale of treasury shares – net of loss on vesting | **–** | **–** | **44,388** | **–** | **–** | **44,388** |
| Approved appropriations for fiscal 2016 paid | **–** | **–** | **–** | **–** | **–** | **–** |
| Proposed appropriations for fiscal 2017 | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at June 30, 2017** | **223,239** | **200,000** | **225,760** | **100,000** | **(5,439)** | **320,321** |

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

| | | | Other Reserves | | | | |
|---|---|---|---|---|---|---|---|
| Treasury shares | Retained earnings | Proposed appropriations | Available for sale investments | Cash flow hedges | Revaluation reserve on premises and equipment | Total | Total equity |
| (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) | – |
| 81,202 | – | – | – | – | – | – | 81,201 |
| (23,084) | – | – | – | – | – | – | – |
| – | – | (42,288) | – | – | – | – | (42,288) |
| – | (44,611) | 44,611 | – | – | – | – | – |
| (45,449) | 313,482 | 44,611 | 2,054 | (7,848) | 4,904 | (890) | 1,017,243 |
| (45,449) | 313,482 | 44,611 | 2,054 | (7,848) | 4,904 | (890) | 1,017,243 |
| – | (3,521) | – | (2,054) | – | – | (2,054) | (3,521) |
| (45,449) | 309,961 | 44,611 | – | (7,848) | 4,904 | (2,944) | 1,013,722 |
| **–** | **120,259** | **–** | **–** | **(3,059)** | **–** | **(3,059)** | **90,372** |
| **–** | **(19,335)** | **–** | **–** | **–** | **–** | **–** | **–** |
| **–** | **230** | **–** | **–** | **–** | **(230)** | **(230)** | **–** |
| **86,608** | **–** | **–** | **–** | **–** | **–** | **–** | **85,730** |
| **(44,388)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **–** | **–** | **(44,611)** | **–** | **–** | **–** | **–** | **(44,611)** |
| **–** | **(44,087)** | **44,087** | **–** | **–** | **–** | **–** | **–** |
| **(3,229)** | **367,028** | **44,087** | **–** | **(10,907)** | **4,674** | **(6,233)** | **1,145,213** |

CONSOLIDATED FINANCIAL STATEMENTS: INVESTCORP BANK B.S.C.

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

| $000s | 2017 | 2016 | Notes | Page |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Profit for the year | **120,259** | 90,053 | | |
| Adjustments for non-cash items in net income | | | | |
| Depreciation | **5,189** | 4,927 | 6 | 131 |
| Provisions for impairment | **4,114** | 8,216 | 14 | 137 |
| Amortization of transaction costs of borrowings and intangible assets | **6,624** | 5,914 | | |
| Employee deferred awards | **25,627** | 22,183 | | |
| Operating profit adjusted for non cash items | **161,813** | 131,293 | | |
| **Changes in:** | | | | |
| Operating capital | | | | |
| Placements with financial institutions and other liquid assets (non-cash equivalent) | **(103,385)** | (24,474) | | |
| Receivables and prepayments | **41,757** | (59,097) | 7 | 132 |
| Advances | **17,507** | 3,682 | 8 | 133 |
| Underwritten and warehoused investments | **74,090** | (405,979) | 9 | 133 |
| Call accounts | **119,216** | 28,960 | 16 | 137 |
| Payables and accrued expenses | **(74,399)** | (37,780) | 18 | 138 |
| Deferred fees | **(6,303)** | (7,412) | 21 | 140 |
| Co-investments | | | | |
| Corporate investment | **63,651** | 64,498 | 10 | 134 |
| Alternative investments solutions | **79,496** | 105,229 | 11 | 135 |
| Real estate investment | **(1,532)** | 38,485 | 12 | 136 |
| Credit management investment | **(30,002)** | – | 13 | 136 |
| Fair value of derivatives | **(48,248)** | 132,021 | | |
| Other assets | **51** | (84) | | |
| **NET CASH FROM/(USED IN) OPERATING ACTIVITIES** | **293,712** | (30,658) | | |
| **FINANCING ACTIVITIES** | | | | |
| Term and institutional accounts | **60,568** | 86,434 | 17 | 138 |
| Medium-term debt repaid – net of transaction costs | **(29,058)** | (14,021) | 19 | 139 |
| Treasury shares sold – net | **72,586** | 65,595 | | |
| Preference shares purchased | **–** | (2,037) | | |
| Dividends paid | **(41,641)** | (39,788) | | |
| Charitable contributions paid | **(2,970)** | (2,500) | | ` |
| **NET CASH FROM FINANCING ACTIVITIES** | **59,485** | 93,683 | | |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of subsidiaries | **(316,406)** | – | | |
| Investment in premises and equipment | **(3,674)** | (1,362) | | |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(320,080)** | (1,362) | | |
| Net increase in cash and cash equivalents | **33,117** | 61,663 | | |
| Cash and cash equivalents at beginning of the year | **400,974** | 339,311 | | |
| Cash and cash equivalents at end of the year | **434,091** | 400,974 | | |
| **Cash and cash equivalents comprise of:** | | | | |
| Cash and short-term funds | **44,517** | 292,214 | | |
| Placements with financial institutions and other liquid assets with an original maturity of three months or less | **389,574** | 108,760 | | |
| | **434,091** | 400,974 | | |

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

| Additional cash flow information $000s | 2017 | 2016 |
|---|---|---|
| Interest paid | **(56,757)** | (61,882) |
| Interest received | **10,486** | 12,439 |

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

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 1. ORGANIZATION

### (i) Incorporation

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

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

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

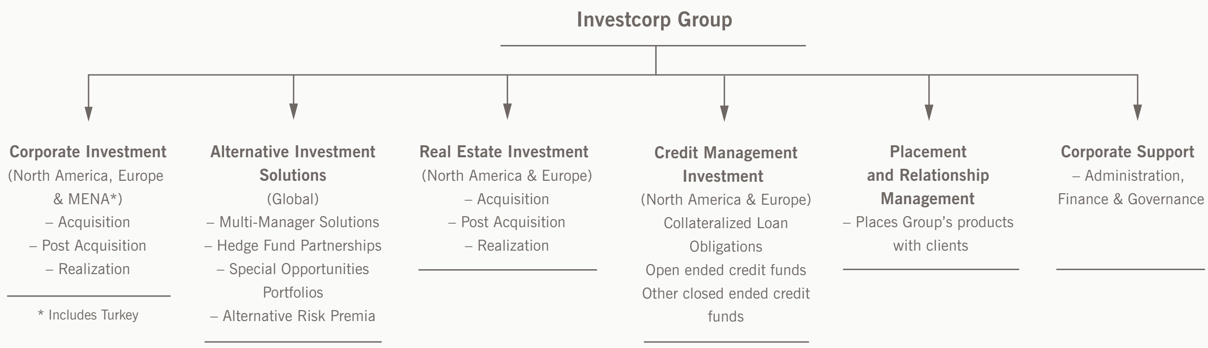
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411-1 issued by the Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain.

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

### (ii) Activities

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

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

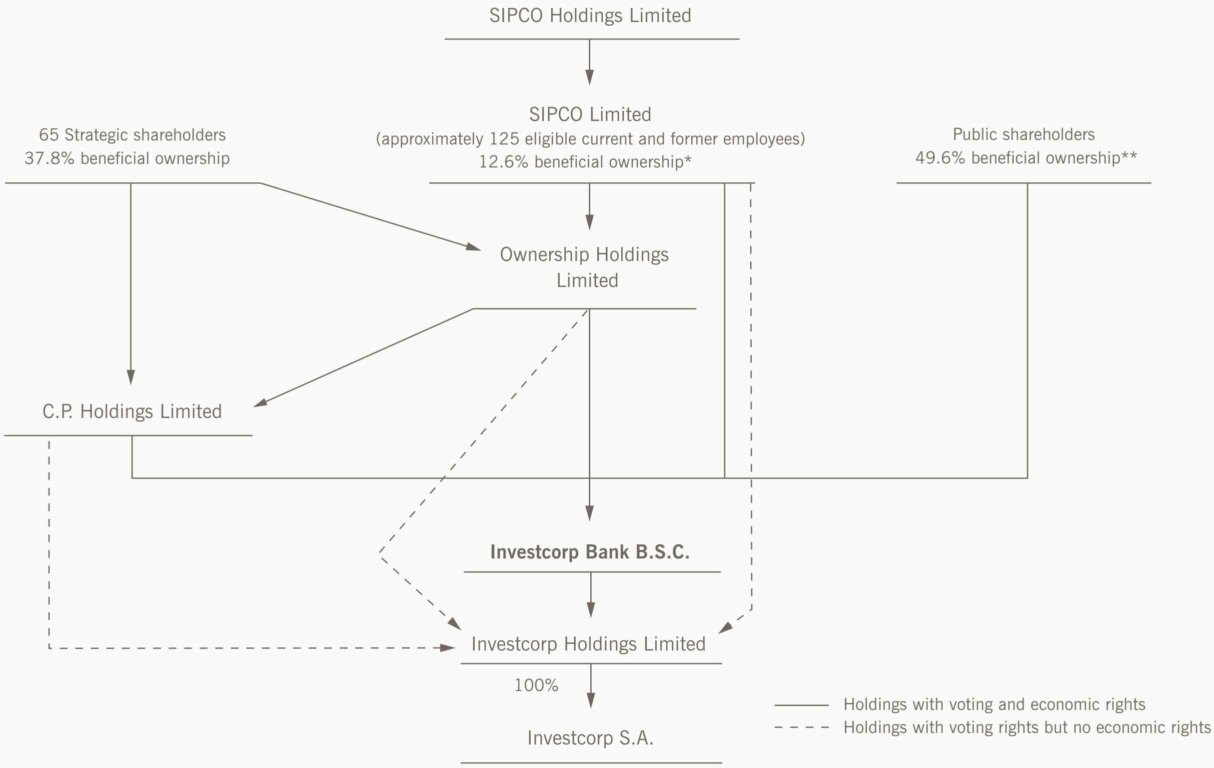


INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## (iii) Ownership




* Includes 0.4% granted but not acquired under the various Employee Share Ownership Plans. The Bank has approval from the Central Bank of Bahrain ('CBB') to hold up to 40% of its shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

** Includes 0.1% beneficial ownership held in the form of unlisted Global Depositary Receipts.

The Bank is controlled by Ownership Holdings Limited ('OHL'), through OHL's shareholding directly, and its shareholding indirectly through C.P. Holdings Limited ('CPHL'), and its largest shareholder SIPCO Limited ('SIPCO') through its direct ownership, of the issued ordinary shares of the Bank. SIPCO, a subsidiary of SHL, is the entity through which employees own beneficial interests in the Bank's ordinary shares. As a result of the Bank's ownership structure, the directors of SIPCO, comprised of certain of the Bank's directors and senior executive officers who are also the directors of OHL's sole director, which is a Cayman Islands corporation, have the ability to control the voting of 50.4% 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 to facilitate the investment protection mechanism described in the 2017 Annual Report. Please see Ownership Structure, Corporate Governance and Regulation. The ordinary shares and Series A preference shares of IHL carry voting rights.

IHL in turn has a 100% economic and voting interest in 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 and acts as a small AIFM, regulated by the UK FCA and SEC. |
| | Investcorp International Holdings Inc. (USA) | The Group's holding company in the United States of America. |
| | Investcorp International Inc. (USA) | Employs the Group's United States-based employees. |
| | N A Investcorp LLC (USA) | Company is a SEC registered broker dealer that provides marketing services in the United States for the AIS and real estate funds and investment banking services for M&A transactions. |
| | Investcorp Investment Advisers LLC (USA) | Company that provides investment management and advisory services in the United States for investment funds, including AIS, and is an SEC registered investment advisor. |
| | Investcorp Credit Management US LLC | Company that provides investment management and advisory services to various debt funds in the US and is an SEC registered investment adviser. |
| | Investcorp Credit Management EU Limted (UK) | Company that provides investment managment and advisory services to various debt funds in the UK and is regulated by the UK FCA. |
| | 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. |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 2. BUSINESS COMBINATION

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

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

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

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

## 3. ASSETS UNDER MANAGEMENT

The Group's clients participate in products offered under its four alternative investment asset classes. Total assets under management ('AUM') in each product category at the year end are as follows:

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

* Stated at gross value of the underlying exposure. Also, includes $2.0 billion (June 30, 2016: $2.5 billion) of hedge fund partnerships (including exposure through multi–manager solutions) managed by third party managers and assets subject to a non-discretionary advisory mandate where Investcorp receives fees calculated on the basis of AUM.

INVESTCORP BANK B.S.C.
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

In the above table all alternative investment solutions exposures, and Investcorp's co-investment amounts for corporate investment and real estate investment are stated at current fair values while the other categories are stated at their carrying cost.

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

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

## 4. SEGMENT REPORTING

### A. REPORTING SEGMENTS

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

#### (i) Fee Business

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

#### (ii) Co-investment Business

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

### 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<br>Closed-end fund(s) |
| (2) Alternative investment solutions | Multi-manager solutions<br>Hedge fund partnerships<br>Alternative risk premia<br>Special opportunities portfolios |
| (3) Real estate investment | Deal-by-deal offerings<br>Closed-end fund(s) |
| (4) Credit management investment | Open-end fund(s)<br>Closed-end fund(s) |

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

### (i) Corporate Investment 'CI'

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

### (ii) Alternative Investment Solutions 'AIS'

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

### (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 statement of financial position. Further, the Group also provides its investor base with mezzanine investment opportunities through fund structures, with the Group retaining a small portion as a co-investment on its own consolidated statement of financial position. The real estate investments are held until realization.

### (iv) Credit Management Investment 'CM'

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

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

## C. REVENUE GENERATION

### (i) Fee income

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

### AUM fees

AUM fees consist of:

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

### Deal fees

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

Activity fees comprise fees earned by the Group from investee companies in connection with new CI or RE acquisitions. This includes part of the placement fees earned by the Group from clients at the time of placing a new investment with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing consulting services.

Performance fees on CI and RE deals are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle performance/rate.

### (ii) Asset based income

This includes realized as well as unrealized gains and losses on co-investments in CI, RE and AIS which are measured at Fair Value Through Profit or Loss ('FVTPL'), cash or pay-in-kind interest net of impairment from various CI, RE and CM debt investments carried at amortized cost and rental income distributions from real estate co-investments.

All other income that is common to the Group (such as income arising from the deployment of the Group's excess liquidity and interest earned on other advances) is treated as treasury and other asset based income.

## D. SEGREGATION OF ASSETS

Assets directly attributable to the Co-investment Business are primarily in the form of co-investments by the Group in each asset class, and any associated working capital items. All other assets, including cash and receivables relating to realization or redemption from a co-investment, are recorded under the Fee Business.

## E. ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

Total equity allocated to the Fee Business is determined by the amount of economic capital needed to support ongoing underwriting activity and associated working capital requirements. The remaining amount of total equity is allocated to the Co-investment Business. Revaluation reserves and other components of equity are allocated to the relevant reporting segment on the basis of the asset or liability to which they relate.

Having determined the assets directly attributable to each reporting segment, and the economic capital requirements, the Group allocates liabilities (debt funding) to each reporting segment based on the relative maturity profile of the segment's assets. Long-term debt and a proportion of drawn medium-term debt, including loans secured by co-investments in AIS, are allocated to the Co-investment Business to the extent possible with the residual being allocated to Fee Business. 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 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. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS

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

| $000s | 2017 | 2016 |
|---|---|---|
| **FEE BUSINESS** | | |
| AUM fees | | |
| Corporate investment | **92,870** | 75,453 |
| Alternative investment solutions | **12,024** | 9,564 |
| Real estate investment | **15,301** | 12,353 |
| Credit management investment | **15,346** | – |
| Total AUM fees | **135,541** | 97,370 |
| Deal fees | | |
| Corporate investment | **134,905** | 148,271 |
| Alternative investment solutions | **804** | 3,265 |
| Real estate investment | **45,295** | 58,561 |
| Total deal fees | **181,004** | 210,097 |
| Treasury and other asset based income | **13,296** | 4,415 |
| **Gross income attributable to fee business (a)** | **329,841** | 311,882 |
| Provisions for impairment | **(4,114)** | (8,216) |
| Interest expense (b) | **(35,336)** | (31,005) |
| Operating expenses attributable to fee business (c) | **(212,829)** | (208,118) |
| **FEE BUSINESS PROFIT (d)** | **77,562** | 64,543 |
| **CO-INVESTMENT BUSINESS** | | |
| **Asset-based income** | | |
| Corporate investment | **19,189** | 100,773 |
| Alternative investment solutions | **15,784** | (27,664) |
| Real estate investment | **23,436** | (1,513) |
| Credit management investment | **33,476** | – |
| Asset based income | **91,885** | 71,596 |
| **Gross income attributable to co-investment business (e)** | **91,885** | 71,596 |
| Interest expense (f) | **(22,144)** | (29,942) |
| Operating expenses attributable to co-investment business (g) | **(27,044)** | (16,144) |
| **CO-INVESTMENT BUSINESS PROFIT (h)** | **42,697** | 25,510 |
| **PROFIT FOR THE YEAR (d) + (h)** | **120,259** | 90,053 |
| **Gross operating income (a) + (e)** | **421,726** | 383,478 |
| **Gross operating expenses (c) + (g)** | **(239,873)** | (224,262) |
| **Interest expense (b) + (f)** | **(57,480)** | (60,947) |

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2016: nil).

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

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

None of the Group's customers have generated 10% or more of the Group's total revenues reported above.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues and cashflows by region has not been presented. Notes 9, 10, 12, 13 and 28 (iv) present the geographical split of assets and off-balance sheet items.

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

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

| | June 30, 2017 | | |
|---|---|---|---|
| $000s | Co-investment Business | Fee Business | Total |
| **Assets** | | | |
| Cash and short-term funds | – | 44,517 | 44,517 |
| Placements with financial institutions and other liquid assets | – | 517,406 | 517,406 |
| Positive fair value of derivatives | – | 62,069 | 62,069 |
| Receivables and prepayments | 28,716 | 248,369 | 277,085 |
| Advances | – | 85,582 | 85,582 |
| Underwritten investments | – | 460,394 | 460,394 |
| **Co-investments** | | | |
| Corporate investment | 538,989 | – | 538,989 |
| Alternative investment solutions | 236,331 | – | 236,331 |
| Real estate investment | 79,115 | – | 79,115 |
| Credit management investment | 258,712 | – | 258,712 |
| Premises, equipment and other assets | – | 37,711 | 37,711 |
| Intangible assets | – | 58,072 | 58,072 |
| **Total assets** | 1,141,863 | 1,514,120 | 2,655,983 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Call accounts | – | 249,203 | 249,203 |
| Term and institutional accounts | – | 184,681 | 184,681 |
| Payables and accrued expenses | 5,820 | 149,574 | 155,394 |
| Negative fair value of derivatives | – | 43,645 | 43,645 |
| Medium-term debt | 13,792 | 367,941 | 381,733 |
| Long-term debt | 304,930 | 104,609 | 409,539 |
| Deferred fees | – | 86,575 | 86,575 |
| **Total liabilities** | 324,542 | 1,186,228 | 1,510,770 |
| **Total equity** | 817,321 | 327,892 | 1,145,213 |
| **Total liabilities and equity** | 1,141,863 | 1,514,120 | 2,655,983 |

| $000s | Co-investment Business | Fee Business | Total |
|---|---|---|---|
| | June 30, 2016 | | |
| **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 |

## 5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### (i) Early adoption of IFRS 9

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

*Financial Assets*

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

(b) Financial assets at Amortized Cost ('AC'); and

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

*Financial Liabilities*

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

(b) Financial liabilities at Amortized Cost ('AC').

Please refer to Note 32 for accounting policy changes with reference to IFRS 9.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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

| $000s | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying value under IAS 39 | Re-Measurement | New carrying value under IFRS 9 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term funds | Amortized cost | Amortized cost | 292,214 | (2) | 292,212 |
| Placements with financial institutions and other liquid assets | Amortized cost | Amortized cost | 133,234 | (24) | 133,210 |
| Receivables | Amortized cost | Amortized cost | 278,030 | (2,324) | 275,706 |
| Advances | Amortized cost | Amortized cost | 105,243 | (1,171) | 104,072 |
| **Co-investments** | | | | | |
| Corporate investment | | | | | |
| – FVTPL | FVTPL | FVOCI | 11,000 | – | 11,000 |
| – AFS | AFS | FVOCI | 15,015 | – | 15,015 |
| **Alternative investment solutions** | | | | | |
| – FVTPL | FVTPL | FVOCI | 29,807 | – | 29,807 |
| **Real estate investment** | | | | | |
| – FVTPL | FVTPL | FVOCI | 39,710 | – | 39,710 |
| **Total** | | | 904,253 | (3,521) | 900,732 |

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

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

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

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| $000s | FVTPL Investments | Items at amortized cost | FVOCI Investments | Derivatives | Total |
| **Financial assets** | | | | | |
| Cash and short-term funds | – | 44,517 | – | – | 44,517 |
| Placements with financial institutions and other liquid assets | – | 517,406 | – | – | 517,406 |
| Positive fair value of derivatives | – | – | – | 62,069 | 62,069 |
| Receivables | – | 227,400 | – | – | 227,400 |
| Advances | – | 85,582 | – | – | 85,582 |
| Underwritten investments | 460,394 | – | – | – | 460,394 |
| **Co-investments** | | | | | |
| Corporate investment | 494,158 | 20,431 | 24,400 | – | 538,989 |
| Alternative investment solutions | 217,619 | – | 18,712 | – | 236,331 |
| Real estate investment | | | | | |
| Debt | – | 3,654 | – | – | 3,654 |
| Equity | 60,704 | – | 14,757 | – | 75,461 |
| Credit management Investment | – | 258,712 | – | – | 258,712 |
| **Total financial assets** | 1,232,875 | 1,157,702 | 57,869 | 62,069 | 2,510,515 |
| **Non-financial assets** | | | | | |
| Prepayments | | | | | 49,685 |
| Premises, equipment and other assets | | | | | 37,711 |
| Intangible assets | | | | | 58,072 |
| **Total assets** | | | | | 2,655,983 |
| **Financial liabilities** | | | | | |
| Call accounts | – | 249,203 | – | – | 249,203 |
| Term and institutional accounts | – | 184,681 | – | – | 184,681 |
| Payables and accrued expenses | – | 155,394 | – | – | 155,394 |
| Negative fair value of derivatives | – | – | – | 43,645 | 43,645 |
| Medium-term debt* | – | 381,733 | – | – | 381,733 |
| Long-term debt* | – | 409,539 | – | – | 409,539 |
| **Total financial liabilities** | – | 1,380,550 | – | 43,645 | 1,424,195 |
| **Non-financial liabilities** | | | | | |
| Deferred fees | | | | | 86,575 |
| **Total liabilities** | | | | | 1,510,770 |

* Adjusted for related fair value hedges.

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

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

| | 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.

## 6. OPERATING EXPENSES

| $000s | 2017 | 2016 |
|---|---|---|
| Staff compensation and benefits | **150,179** | 143,843 |
| Other personnel and compensation charges | **10,548** | 8,051 |
| Professional fees | **23,983** | 22,612 |
| Travel and business development | **12,521** | 11,700 |
| Administration and research | **13,472** | 13,474 |
| Technology and communication | **6,227** | 4,590 |
| Premises | **10,930** | 11,065 |
| Depreciation | **5,189** | 4,927 |
| Taxation | **6,824** | 4,000 |
| **Total** | **239,873** | 224,262 |

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

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

| | 2017 | 2016 |
|---|---|---|
| United States | **40%** | 40% |
| United Kingdom | **20%** | 20% |
| Kingdom of Saudi Arabia | **24%** | 24% |
| Qatar | **10%** | 10% |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 7. RECEIVABLES AND PREPAYMENTS

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Subscriptions receivable | **114,879** | 89,881 |
| Receivables from investee and holding companies | **98,218** | 109,490 |
| Investment disposal proceeds receivable | **6,616** | 74,793 |
| AIS related receivables | **9,097** | 4,429 |
| Accrued interest receivable | **7,194** | 1,735 |
| Prepaid expenses | **49,685** | 42,582 |
| Other receivables | **1,906** | 2,759 |
| | **287,595** | 325,669 |
| Provisions for impairment (see Note 14) | **(10,510)** | (5,057) |
| **Total** | **277,085** | 320,612 |

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

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

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

Investment disposal proceeds receivable includes proceeds due from contracted disposals of corporate investments and real estate investments. They also include redemption proceeds receivable from underlying investment managers relating to the Group's AIS co-investments.

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

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

## 8. ADVANCES

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Advances to investment holding companies | **69,442** | 77,120 |
| Advances to employee investment programs | **17,036** | 25,829 |
| Advances to CI closed-end funds | **10,959** | 10,958 |
| Other advances | **985** | 2,020 |
| | **98,422** | 115,927 |
| Provisions for impairment (see Note 14) | **(12,840)** | (10,684) |
| **Total** | **85,582** | 105,243 |

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

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

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

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

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

## 9. UNDERWRITTEN INVESTMENTS

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

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

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

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 10. CORPORATE CO-INVESTMENTS

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

## 10. (a) CI CO-INVESTMENTS

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

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

The carrying values of the Group's CI co-investments at June 30, 2017 and June 30, 2016 are:

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

* Including Turkey.

## 10. (b) STRATEGIC AND OTHER INVESTMENTS

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

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

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

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

## 11. ALTERNATIVE INVESTMENT SOLUTIONS CO-INVESTMENTS

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

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

The net asset value of the Group's AIS co-investments is determined based on the fair value of the underlying investments of each fund as reported by the managers. Significant controls are built into the determination of the net asset values of the various investments, including the appointment of third party independent fund administrators, use of separate accounts for increased transparency and an independent verification of the prices of underlying securities through a dedicated operational risk group unit.

The valuations of the Group's AIS co-investments which are classified under Level 3 of the fair value hierarchy (see Note 29) are closely monitored by the Group. Management holds regular discussions with the investment managers and uses pricing which is reflective of the investment's fair value.

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

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

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

A portion of the Group's AIS co-investment is utilized to secure amounts drawn under a bi-lateral revolving facility. At June 30, 2017, $13.8 million was the drawn balance from the bi-lateral revolving facility (June 30, 2016: $41.7 million) (See Note 19).

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 12. REAL ESTATE CO-INVESTMENTS

On adoption of IFRS 9, the Group's co-investments in real estate are classified as follows:

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

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

Those investments that are developed and leased out are fair valued based on the estimated future cash flows from the underlying real estate assets and using prevailing capitalization rates for similar properties in the same geographical area, or Discounted Cash flow (DCF) analysis.

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

Debt investments in real estate properties carried at amortized cost amount to $3.7 million (June 30, 2016: $10.3 million). Strategic and other equity investments which are classified as FVOCI investments amount to $14.8 million (June 30, 2016: Nil). For FVOCI investments, during the year, $21.5 million of losses were recognized in other comprehensive income and loss of $19.3 million was recycled to retained earnings on derecognition. All other investments are classified as FVTPL.

The carrying values of the Group's co-investments in real estate portfolios, which as at June 30, 2017 were located in the United States and Europe and at June 30, 2016, were all located in the United States are:

| $000s<br>Portfolio Type | **June 30, 2017** | June 30, 2016 |
|---|---|---|
| Core/Core Plus | **71,829** | 92,294 |
| Debt | **3,654** | 3,736 |
| Opportunistic | **1,453** | 1,831 |
| Strategic | **2,179** | 6,551 |
| **Total** | **79,115** | 104,412 |

## 13. CREDIT MANAGEMENT INVESTMENTS (CM)

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

The Group's co-investments in CM investment represents co-investments in collateralized loan obligations (CLOs) managed by the CM team and are classified as debt instruments carried at amortized cost. Interest income on these debt instruments is recognized using the effective interest rate ('EIR'). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instruments or, when appropriate a shorter period, to the net carrying amount of the debt instruments at the reporting date. The amortized cost of the CLO debt instrument will be adjusted if there is a revision in estimates of projected cash flows from the underlying CLO investments. The adjusted amortized cost is calculated based on the latest re-estimated EIR. The accrual based on EIR and any losses arising from impairment of such investments are included in asset based income in the statement of profit or loss.

## 14. PROVISIONS FOR IMPAIRMENT

Impairment provisions are as follows:

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

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

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

* Includes $2 million of portfolio provision.

## 15. INTANGIBLE ASSETS

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

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

## 16. CALL ACCOUNTS

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Investment holding companies accounts | **166,848** | 100,013 |
| Other call accounts | **30,800** | 11,291 |
| Discretionary and other accounts | **51,555** | 18,683 |
| **Total** | **249,203** | 129,987 |

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.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 17. TERM AND INSTITUTIONAL ACCOUNTS

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Institutional accounts on call | **166,300** | 95,873 |
| Term deposits | **18,381** | 28,240 |
| **Total** | **184,681** | 124,113 |

All these balances bear interest at market rates.

## 18. PAYABLES AND ACCRUED EXPENSES

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Accrued expenses – employee compensation | **76,056** | 56,188 |
| Vendor and other payables | **48,875** | 29,466 |
| Unfunded deal acquisitions | **19,504** | 105,000 |
| Investment related payables | **1,868** | 2,368 |
| Accrued interest payable | **9,091** | 8,368 |
| **Total** | **155,394** | 201,390 |

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

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

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

## 19. MEDIUM-TERM DEBT

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

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

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

All medium-term facilities, except for the 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.

## 20. LONG-TERM DEBT

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

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

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 21. DEFERRED FEES

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

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

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

During the current financial year, income recognized through amortization of deferred fees amounted to $49.1 million (2016: $36.2 million).

## 22. SHARE CAPITAL AND RESERVES

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

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | No. of shares | Par value $ | $000 | No. of shares | Par value $ | $000 |
| **Authorized share capital** | | | | | | |
| – Ordinary shares | **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** | 223,239 | 1,000 | 223,239 |
| | | | **423,239** | | | 423,239 |

### Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Bahrain (see Note 27).

### Statutory reserve

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

### Fair value reserve

On adoption of IFRS 9, certain of the Group's CI, RE and AIS co-investments in equity instruments have been classified as FVOCI. The gains and losses arising on fair valuation of such investments is recorded in the fair value reserve account. Any gain or loss on realization is recycled to retained earnings.

### Treasury shares

352,418 (June 30, 2016: 6,084,183) ordinary shares were held as treasury shares, which includes 352,418 shares (June 30, 2016: 615,952 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 1,560,821 shares (June 30, 2016: 2,373,169 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2017, are not counted as treasury shares (see Note 30). During the year, a gain of $43.5 million (2016: $23.1 million) was realized on the sale of treasury shares.

### Preference share capital

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

These preference shares are callable, at the 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.

## 23. OTHER RESERVES

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

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

Movements relating to other reserves are set out below:

| $000s | Available-for-sale investments | Cash flow hedges | Revaluation reserve on premises and equipment | Total |
|---|---|---|---|---|
| Balance at June 30, 2015 | 2,155 | (16,263) | 5,134 | (8,974) |
| Net realized gain recycled to statement of profit or loss | – | (2,656) | – | (2,656) |
| Net unrealized (losses)/gains for the year | (101) | 11,071 | – | 10,970 |
| Transfer of depreciation to retained earnings | – | – | (230) | (230) |
| **Balance at June 30, 2016** | 2,054 | (7,848) | 4,904 | (890) |
| Restatement arising from early adoption of IFRS 9 | (2,054) | – | – | (2,054) |
| **Balance at July 1, 2016 (Restated)** | – | (7,848) | 4,904 | (2,944) |
| Net realized loss recycled to statement of profit or loss | – | 5,253 | – | 5,253 |
| Net unrealized losses for the year | – | (8,312) | – | (8,312) |
| Transfer of depreciation to retained earnings | – | – | (230) | (230) |
| **Balance at June 30, 2017** | **–** | **(10,907)** | **4,674** | **(6,233)** |

## 24. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

| | 2017 | 2016 |
|---|---|---|
| Profit for the year ($000s) | **120,259** | 90,053 |
| Less: Preference shares dividend – proposed ($000s) | **(24,972)** | (23,901) |
| Less: Preference shares dividend and premium – paid on redemptions ($000s) | **–** | (276) |
| Profit attributable to ordinary shareholders ($000s) | **95,287** | 65,876 |
| Weighted average ordinary shares for basic earnings per ordinary share | **74,335,611** | 67,762,620 |
| Basic earnings per ordinary share – on weighted average shares ($) | **1.28** | 0.97 |
| Weighted average ordinary shares for fully diluted earnings per ordinary shares | **76,123,430** | 70,176,413 |
| Fully diluted earnings per ordinary share – on weighted average diluted shares ($) | **1.25** | 0.94 |
| *Proposed appropriations:* | | |
| Ordinary shares dividend ($000s) | **19,115** | 17,740 |
| Preference shares dividend ($000s) | **24,972** | 23,901 |
| Charitable contributions by shareholders ($000s) | **–** | 2,970 |
| | **44,087** | 44,611 |

The proposed ordinary share dividend is 24 cents (2016: 24 cents) per share payable only on issued shares (excluding treasury shares), that are held on the record date.

The proposed preference share dividend of $25.0 million (2016: $23.9 million) represents an annual dividend on issued preference shares.

The book value per ordinary share at the year end date is calculated by dividing the ordinary shareholders' equity (excluding unrealized changes relating to cash flow hedges, the revaluation reserve and proposed appropriations) by the number of ordinary shares outstanding at year end (taking into account the beneficial interest of management in all acquired unvested shares issued at year end). The fully diluted book value per ordinary share is $11.10 per share (June 30, 2016: $10.15 per share).

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

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group currently applies IAS 39 for hedge accounting. The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

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

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

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

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

### Other derivatives

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

### Valuation of derivatives

The Group values the majority of its derivative financial instruments using internal models. The models use market observable inputs including interest rate curves and both forward and spot prices for currencies. Derivative assets and liabilities included in Level 2 (see Note 29) represent interest rate swaps, cross currency swaps, currency forwards and option contracts. For derivatives that are not valued using internal models, the Group's policy is to rely on third party valuations, whilst benchmarking them against observable market data.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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

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

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

Interest rate swaps, classified as hedging derivatives include notional value of $38.3 million (June 30, 2016: $41.8 million) of credit contingent swaps, which are cancellable if the Group defaults on its CHF 125 million 4.75% notes due in 2019.

Cross currency swaps, classified as other derivatives, include notional value of $119.9 million (June 30, 2016: $123.5 million) of credit contingent swaps, which are cancellable if the Group defaults on its CHF 125 million 4.75% notes due in 2019.

Total return swaps classified as other derivatives, which are in aggregate notional value of $108.1 million (June 30, 2016: $23.3), are transactions with a financial counterparty where the economic returns under the swap are linked to the Group's $250 million 8.25% notes due 2017.

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

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | 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 | 280,029 | – | – | – | 280,029 |
| Interest rate swaps | – | 250,000 | 70,941 | 417,084 | 738,025 |
| **Derivatives held as cash flow hedges:** | | | | | |
| Forward foreign exchange contracts | 54,895 | 60,119 | – | – | 115,014 |
| Interest rate swaps | – | – | – | 25,000 | 25,000 |
| **Other Derivatives:** | | | | | |
| Interest rate swaps | 414,145 | – | – | 50,000 | 464,145 |
| Total return swaps | – | 108,072 | – | – | 108,072 |
| Forward foreign exchange contracts | 1,590,835 | 118,267 | – | – | 1,709,102 |
| Cross currency swaps | – | – | 436,988 | – | 436,988 |
| | 2,339,904 | 536,458 | 507,929 | 492,084 | 3,876,375 |

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | 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 |

## Fair value hedges

Loss arising from fair value hedges during the year ended June 30, 2017 were $86.9 million (2016: losses of $80.4 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were $88.9 million (2016: gains of $80.7 million). These gains and losses are included in treasury and other asset based income or interest expense, as appropriate, in the consolidated statement of profit or loss. Additionally, during the current financial year, there was a loss of $1.9 million (2016: $0.5 million) on derivative instruments classified as other derivatives.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## Undiscounted cash flows for forecasted items hedged

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

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| $000s | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | Over 5 years | Total |
| **Currency risk*** | | | | | |
| Coupon on long-term debt | **(5,777)** | **(5,777)** | **(46,215)** | **(92,430)** | **(150,199)** |
| Operating expenses | – | **(18,217)** | – | – | **(18,217)** |
| Fee income | – | **31,205** | – | – | **31,205** |
| **Interest rate risk*** | | | | | |
| Interest on liabilities | **(2,103)** | **(2,373)** | **(18,149)** | **(46,951)** | **(69,576)** |
| | **(7,880)** | **4,838** | **(64,364)** | **(139,381)** | **(206,787)** |

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

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

The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of profit or loss for the year ended June 30, 2017 was a loss of $5.3 million (2016: gain of $2.7 million).

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Non-cancellable 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' ongoing 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.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## 27. REGULATORY CAPITAL ADEQUACY

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

| | June 30, 2017 | | June 30, 2016 | | |
|---|---|---|---|---|---|
| $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 | **44,517** | **44,517** | 292,214 | 292,214 | |
| Placements with financial institutions and other liquid assets | **517,406** | **517,406** | 133,234 | 133,234 | |
| Positive fair value of derivatives | **62,069** | **62,069** | 90,210 | 90,210 | |
| Receivables | **227,400** | **227,400** | 278,030 | 278,030 | |
| Advances | **85,582** | **85,582** | 105,243 | 105,243 | |
| Underwritten investments | **460,394** | **460,394** | 493,484 | 493,484 | |
| Co-investments – retention | | | | | |
| Corporate investment | **538,989** | **538,989** | 602,640 | 602,640 | |
| Alternative investment solutions | **236,331** | **236,331** | 315,827 | 315,827 | |
| Real estate investment | **79,115** | **79,115** | 104,412 | 104,412 | |
| Credit management investment | **258,712** | **258,712** | – | – | |
| Prepayments | **49,685** | **49,685** | 42,582 | 42,582 | |
| Premises, equipment and other assets | **37,711** | **28,536** | 39,277 | 29,694 | |
| Intangible assets | **58,072** | **–** | – | – | |
| Goodwill | **–** | **49,329** | – | – | |
| Other Intangibles* | **–** | **17,918** | – | 9,583 | *F* |
| **Total assets** | **2,655,983** | **2,655,983** | 2,497,153 | 2,497,153 | |
| **Liabilities and Equity** | | | | | |
| **Liabilities** | | | | | |
| Call accounts | **249,203** | **249,203** | 129,987 | 129,987 | |
| Term and institutional accounts | **184,681** | **184,681** | 124,113 | 124,113 | |
| Payables and accrued expenses | **155,394** | **155,394** | 201,390 | 201,390 | |
| Negative fair value of derivatives | **43,645** | **43,645** | 49,480 | 49,480 | |
| Medium-term debt | **381,733** | **381,733** | 403,081 | 403,081 | |
| Long-term debt | **409,539** | **409,539** | 478,981 | 478,981 | |
| Deferred fees | **86,575** | **86,575** | 92,878 | 92,878 | |
| **Total liabilities** | **1,510,770** | **1,510,770** | 1,479,910 | 1,479,910 | |
| **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 | **(3,229)** | **(3,229)** | (45,449) | (45,449) | *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 | **225,760** | **225,760** | 182,250 | 182,250 | *C2* |
| Fair value reserve | **(5,439)** | **(5,439)** | – | – | *C3* |
| Retained earnings | **246,769** | **246,769** | 223,429 | 223,429 | *B1* |
| Current cumulative net income | **120,259** | **120,259** | 90,053 | 90,053 | *B2* |
| Proposed appropriations | **44,087** | **44,087** | 44,611 | 44,611 | *B3* |
| Available for sale revaluation reserve | **–** | **–** | 2,054 | 2,054 | *C3* |
| Cash flow hedge reserve | **(10,907)** | **(10,907)** | (7,848) | (7,848) | *C4* |
| Of which form part of Additional Tier 1 (AT1) | | | | | |
| Preference share capital | **223,239** | **223,239** | 223,239 | 223,239 | *D* |
| Fixed asset revaluation reserve | **4,674** | **4,674** | 4,904 | 4,904 | *E* |
| **Total equity** | **1,145,213** | **1,145,213** | 1,017,243 | 1,017,243 | |
| **Total liabilities and equity** | **2,655,983** | **2,655,983** | 2,497,153 | 2,497,153 | |

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

| $000s | June 30, 2017 PIR | June 30, 2017 Amounts subject to Pre-2015 Treatment | June 30, 2016 PIR | June 30, 2016 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 | **196,771** | | 154,551 | | *A1+A2* |
| Retained earnings | **411,115** | | 358,093 | | *B1+B2+B3* |
| Accumulated other comprehensive income (and other reserves) | **309,414** | | 276,456 | | *C1+C2+ C3+C4* |
| **CET1 capital before regulatory adjustments** | **917,300** | | 789,100 | | |
| **Less regulatory adjustments to CET1** | | | | | |
| Intangibles | **(10,751)** | **17,918** | (3,833) | 9,583 | *F* |
| Goodwill | **(49,329)** | | – | | |
| General loan loss | **1,920** | | – | | |
| Cash-flow hedge reserve | **10,907** | | 7,848 | | *C4* |
| **Total regulatory adjustments to Common Equity Tier 1** | **(47,253)** | | 4,015 | | |
| **Common Equity Tier 1 capital (CET1)** | **870,047** | | 793,115 | | |
| **Additional Tier 1 capital (AT1): instruments** | | | | | |
| Directly issued qualifying Additional Tier 1 instruments | **223,239** | | 223,239 | | *D* |
| **Additional Tier 1 capital before regulatory adjustments** | **223,239** | | 223,239 | | |
| **Total regulatory adjustments to Additional Tier 1 capital** | **–** | | – | | |
| **Additional Tier 1 capital (AT1)** | **223,239** | | 223,239 | | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **1,093,286** | | 1,016,354 | | |
| **Tier 2 capital (T2)** | | | | | |
| Fixed asset revaluation reserve | **4,674** | | 4,904 | | *E* |
| **Tier 2 capital before regulatory adjustments** | **4,674** | | 4,904 | | |
| **Total regulatory adjustments to Tier 2 capital** | **–** | | – | | |
| **Tier 2 capital (T2)** | **4,674** | | 4,904 | | |
| **Total capital (TC = T1 + T2)** | **1,097,960** | | 1,021,258 | | |

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 methodology by asset class

| **Asset class segment** | **Basel III Methodology June 30, 2017** |
|---|---|
| Corporate investments | Standardized approach ('STA') |
| Real estate investments | Standardized approach ('STA') |
| Alternative Investment Solutions | Standardized approach ('STA') |
| Credit management investments | Standardized approach ('STA') |
| CI and RE underwriting | Standardized approach ('STA') |
| Operational risk | Basic indicator approach ('BIA') |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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

| $000s | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Tier 1 capital | **1,093,286** | 1,016,354 |
| Tier 2 capital | **4,674** | 4,904 |
| **Regulatory capital base under Basel III (TC = T1 + T2)** | **1,097,960** | 1,021,258 |

| | June 30, 2017 | | June 30, 2016 | |
|---|---|---|---|---|
| **Risk weighted exposure** $000s | **Principal/ Notional amounts** | **Risk-weighted equivalents** | Principal/ Notional amounts | Risk-weighted equivalents |
| **Credit risk** | | | | |
| Claims on sovereigns | **15,982** | | 47,812 | - |
| Claims on banks | **385,426** | **195,260** | 354,822 | 182,210 |
| Claims on corporates | **470,520** | **426,520** | 404,236 | 404,236 |
| Co-investments (including underwriting) | **1,573,541** | **2,084,154** | 1,516,363 | 2,116,965 |
| Other assets | **100,645** | **156,516** | 61,466 | 90,357 |
| **Off-balance sheet items** | | | | |
| Commitments and contingent liabilities | **99,717** | **39,889** | 64,761 | 19,994 |
| Derivative financial instruments | **78,136** | **42,496** | 102,920 | 57,369 |
| Credit risk weighted exposure | | **2,944,835** | | 2,871,131 |
| **Market risk** | | | | |
| Market risk weighted exposure | | **631** | | 1,882 |
| **Operational risk** | | | | |
| Operational risk weighted exposure | | **521,719** | | 500,122 |
| **Total risk weighted exposure (RWE)** | | **3,467,185** | | 3,373,135 |
| **Tier 1 capital ratio (T1)/(RWE)** | | **31.5%** | | 30.1% |
| **Capital adequacy ratio (TC)/(RWE)** | | **31.7%** | | 30.3% |
| Minimum required as per CBB regulatory guidelines under Basel III | | **12.5%** | | 12.5% |
| Capital cushion over minimum required as per CBB guidelines | | **664,562** | | 599,616 |

Fair value unrealized losses on fair valued investments amounting to $10.1 million (June 30, 2016: gains of $59.1 million) are reflected in retained earnings, which is part of Tier 1 Capital.

## 28. RISK MANAGEMENT

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

The Group's primary risk management objective is to support its business objectives with sufficient economic capital. The Group employs risk models to determine the capital needed to cover unexpected losses from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 27). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently aggregated to determine the total economic capital. This total economic capital is then stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

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

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

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

### (i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 25). With respect to the counterparty credit risk exposure arising from other financial assets, the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate counterparty credit risks, where possible, through documented netting and margin arrangements with counterparties, under ISDA and CSA agreements.

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

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

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

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

Internal rating categories are summarized as follows:

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

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

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received. During the current and previous year, none of the advances (refer note 8) were restructured.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired (a) | | Past due but not impaired (b) | Impaired (c) | Provisions (d) | Maximum credit risk (a+b+c+d) |
| | Stage 1 | | Stage 2 | Stage 3 | | |
| | Credit risk rating | | | | | |
| $000s | High | Standard | | | | |
| Short-term funds | 82 | 44,296 | – | – | (2) | 44,376 |
| Placements with financial institutions and other liquid assets | 206,184 | 311,246 | – | – | (24) | 517,406 |
| Positive fair value of derivatives | 62,069 | – | – | – | – | 62,069 |
| Receivables | – | 144,295 | 83,829 | 9,786 | (10,510) | 227,400 |
| Advances | – | 86,752 | – | 11,670 | (12,840) | 85,582 |
| Co-investments – debt | – | 284,008 | – | – | (993) | 283,015 |
| Guarantees | – | 10,000 | – | – | – | 10,000 |
| **Total** | 268,335 | 880,597 | 83,829 | 21,456 | (24,369) | 1,229,848 |

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

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

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

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

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are over-collateralized by all other assets under management on behalf of these clients. The collateral is revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2017 amounts to $156.0 million (June 30, 2016: $776.7 million).

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

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

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

## (ii) Credit Risk Measurement

### Significant increase in credit risk

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

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

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

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

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

### Measurement of ECL

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

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

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

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

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

### (iii) Funding liquidity risk

Funding liquidity risk is the risk that the Group will be unable to fund increases in assets and meet obligations when they fall due, without incurring unacceptable losses. To mitigate this risk, the Group implements a comprehensive liquidity risk management framework, which includes use of risk limits, monitoring systems and scenario analyzes 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, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|
| $000s | Up to 3 months | >3 months up to 1 year | Sub-Total up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Non-cash items | Total |
| **Assets** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and short-term funds | 44,517 | – | 44,517 | – | – | – | – | 44,517 |
| Placement with financial institutions and other liquid assets | 396,823 | 116,783 | 513,606 | 3,800 | – | – | – | 517,406 |
| Positive fair value of derivatives | 5,266 | 1,818 | 7,084 | 8,034 | 511 | 46,440 | | 62,069 |
| Receivables | 141,390 | 3,710 | 145,100 | 82,300 | – | – | – | 227,400 |
| Advances | 4,194 | 5,252 | 9,446 | 76,136 | – | – | – | 85,582 |
| Underwritten investments | 393,381 | 67,013 | 460,394 | – | – | – | – | 460,394 |
| *Co-investments* | | | | | | | | |
| Corporate investment | 23,722 | 48,633 | 72,355 | 466,634 | – | – | – | 538,989 |
| Alternative investment solutions | 89,806 | 77,989 | 167,795 | 68,536 | – | – | – | 236,331 |
| Real estate investment | – | – | – | 79,115 | – | – | – | 79,115 |
| Credit management Investment | 9,883 | 28,743 | 38,626 | 155,176 | 64,910 | – | – | 258,712 |
| **Total financial assets** | 1,108,982 | 349,941 | 1,458,923 | 939,731 | 65,421 | 46,440 | – | 2,510,515 |
| **Non-financial assets** | | | | | | | | |
| Prepayments | – | – | – | – | – | – | 49,685 | 49,685 |
| Premises, equipment and other assets | – | – | – | – | – | – | 37,711 | 37,711 |
| Intangibles | – | – | – | – | – | – | 58,072 | 58,072 |
| **Total assets** | 1,108,982 | 349,941 | 1,458,923 | 939,731 | 65,421 | 46,440 | 145,468 | 2,655,983 |
| **Liabilities** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Call accounts | 30,398 | – | 30,398 | 218,805 | – | – | – | 249,203 |
| Term and institutional accounts | 44,960 | 48,833 | 93,793 | 90,888 | – | – | – | 184,681 |
| Payables and accrued expenses | 123,403 | 15,249 | 138,652 | 16,742 | – | – | – | 155,394 |
| Negative fair value of derivatives | 14,467 | 6,145 | 20,612 | 10,025 | – | 13,008 | – | 43,645 |
| Medium-term debt | 2,720 | 250,000 | 252,720 | 129,013 | – | – | – | 381,733 |
| Long-term debt | – | – | – | – | – | 409,539 | – | 409,539 |
| **Total financial liabilities** | 215,948 | 320,227 | 536,175 | 465,473 | – | 422,547 | – | 1,424,195 |
| **Non-financial liability** | | | | | | | | |
| Deferred fees | – | – | – | – | – | – | 86,575 | 86,575 |
| **Total liabilities** | 215,948 | 320,227 | 536,175 | 465,473 | – | 422,547 | 86,575 | 1,510,770 |
| Net gap | 893,034 | 29,714 | 922,748 | 474,258 | 65,421 | (376,107) | 58,893 | 1,145,213 |
| Cumulative liquidity gap | 893,034 | 922,748 | 922,748 | 1,397,006 | 1,462,427 | 1,086,320 | 1,145,213 | |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

| | 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 | |

## Contractual maturity of financial liabilities on an undiscounted basis

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

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| $000s | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Total |
| Financial liabilities | | | | | | |
| Call accounts | 33,634 | 6,010 | 225,143 | – | – | 264,787 |
| Term and institutional accounts | 47,143 | 52,421 | 93,783 | – | – | 193,347 |
| Payables and accrued expenses | 123,402 | 15,249 | 16,743 | – | – | 155,394 |
| Medium-term debt | 13,717 | 266,510 | 136,678 | – | – | 416,905 |
| Long-term debt | 7,797 | 7,797 | 62,375 | 77,969 | 436,989 | 592,927 |
| | 225,693 | 347,987 | 534,722 | 77,969 | 436,989 | 1,623,360 |
| Derivatives: | | | | | | |
| Contracts settled on a gross basis: | | | | | | |
| Contractual amounts payable | 1,536,084 | 124,979 | 300,754 | – | – | 1,961,817 |
| Contractual amounts receivable | (1,531,323) | (123,252) | (312,671) | – | – | (1,967,246) |
| Contracts settled on a net basis: | | | | | | |
| Contractual amounts payable (receivable) | 1,501 | (9,037) | (31,713) | (31,861) | (15,836) | (86,946) |
| Commitments | 14,559 | 35,340 | 28,876 | 10,941 | – | 89,716 |
| Guarantees | – | – | – | 10,000 | – | 10,000 |
| **Total undiscounted financial liabilities** | 246,514 | 376,017 | 519,968 | 67,049 | 421,153 | 1,630,701 |

| | 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 accounts | 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 |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## (iv) Concentration risk

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

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

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| $000s | Assets exposed to credit risk | Off-balance sheet items exposed to credit risk | Total credit risk exposure | Assets exposed to credit risk | Off-balance sheet items exposed to credit risk | Total credit risk exposure |
| **Geographical Region** | | | | | | |
| North America | **792,849** | **–** | **792,849** | 730,366 | 3,500 | 733,866 |
| Europe | **357,037** | **10,000** | **367,037** | 157,207 | – | 157,207 |
| MENA* | **69,962** | **–** | **69,962** | 43,792 | – | 43,792 |
| **Total** | **1,219,848** | **10,000** | **1,229,848** | 931,365 | 3,500 | 934,865 |

* Including Turkey.

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| $000s | Assets exposed to credit risk | Off-balance sheet exposed to credit risk | Total credit risk exposure | Assets exposed to credit risk | Off-balance sheet exposed to credit risk | Total credit risk exposure |
| **Industry Sector** | | | | | | |
| Banking and Finance | **931,631** | **–** | **931,631** | 570,237 | – | 570,237 |
| Consumer products | **25,014** | **–** | **25,014** | 82,969 | – | 82,969 |
| Consumer services | **98,099** | **–** | **98,099** | 47,542 | – | 47,542 |
| Industrial / business services | **12,585** | **10,000** | **22,585** | 1,065 | – | 1,065 |
| Industrial products | **45,437** | **–** | **45,437** | 85,556 | – | 85,556 |
| Real estate | **59,058** | **–** | **59,058** | 52,560 | 3,500 | 56,060 |
| Technology and Telecom | **42,861** | **–** | **42,861** | 88,844 | – | 88,844 |
| Others | **5,163** | **–** | **5,163** | 2,592 | – | 2,592 |
| **Total** | **1,219,848** | **10,000** | **1,229,848** | 931,365 | 3,500 | 934,865 |

## (v) Market price risk

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

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

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

### (v) (a) Foreign currency risk

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

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

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

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of those rates. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk. However, 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 | 2017 | 2016 |
|---|---|---|
| Average FX VaR | **7** | 9 |
| Year end FX VaR | **9** | 31 |
| Maximum FX VaR | **31** | 43 |
| Minimum FX VaR | **1** | 1 |

The foreign exchange loss recognized in the statement of profit or loss as a result of incidental unhedged positions and costs of hedging against foreign exchange risk amounts to $1.9 million (2016: gain of $0.3 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

## (v) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards floating rates and with exposure limits that are approved by the Board of Directors. The Group does not take interest rate trading positions and all of its interest rate risk is typically in the banking book where hedge accounting applies. The Group also utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

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

- Investments amounting to $20.8 million (June 30, 2016: $29.1 million), which earn interest at an effective rate approximating 13.0% (June 30, 2016: 14.8%) per annum.
- Credit management Investments amounting to $258.7 million (June 30, 2016: Nil), which earn interest at an effective rate ranging between 6% to 15% (June 30, 2016: Nil) per annum.
- Term and institutional accounts amounting to $18.4 million (June 30, 2016: $28.2 million) on which interest is paid at an effective rate of 2.1% (June 30, 2016: 2.53%) 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 year end.

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

| $000s | Sensitivity to profit/(loss) for +200 basis points | Sensitivity to profit/(loss) 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 |

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

### (v) (c) Equity price risk

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

### Co-investments in corporate investment and real estate investment

The Group manages the equity price risk of its co-investments in corporate investment and real estate investment on a portfolio basis as well as at the individual investment level.

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

**June 30, 2017**

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

June 30, 2016

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

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

### Co-investments in alternative investment solutions

The Group manages the market price risk in its AIS portfolio through its market risk management framework that uses the VaR technique. VaR techniques produce estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

The table below sets out the VaR, at a 99% confidence level and a one-month time horizon, for the Group's Alternative Investment Solutions exposure.

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

### (vi) Operational risk

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

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

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

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, on the basis that market participants act in their economic best interest.

The Group has established guidelines for the valuation of its investments which are reviewed by the Board of Directors and abides by guidelines issued under IFRS on valuation of investments and guidelines recommended by the International Private Equity and Venture Capital Association. The Group performs valuations of its corporate and real estate investments on a quarterly basis. The business support teams work along with deal teams to prepare valuation packages in accordance with the valuation guidelines of the Group. The valuation packages are then presented to the Valuation Committee which is comprised of senior members of the Finance team and investing lines of business. The Valuation Committee has the final responsibility of reviewing and approving the fair value of all investments.

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value adjustments arise from re-measurement of liabilities which are hedged, investments and derivatives. Nonetheless the actual amount that is realized in a future transaction may differ from the current estimate of fair value, given the inherent uncertainty surrounding valuations of unquoted investments.

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values except for certain assets and liabilities carried at amortized cost. The fair value of CLO co-investments amounts to $258.5 million (June 30, 2016: nil) as compared to the carrying value of $258.7 million (June 30, 2016: nil). The fair value of medium and long term debt amounts to $783.9 million (June 30, 2016: $814.3 million) as compared to the carrying value of $805.8 million (June 30, 2016: $901.2 million). The fair value of medium and long term debt is based on inputs from third party banks and falls under Level 3 of the fair value hierarchy described below.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

Level 2: input other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

During the current financial year, there was a transfer of $1.8 million from Level 3 to Level 1 (2016: $15.5 million) under co-investments in corporate investments. This represents the listing on a stock exchange of previously unquoted investments. Additionally, under alternative investment solutions, an exposure of $18.7 million (June 30, 2016: $29.8 million) is comprised of illiquid side pocket investments which are classified as Level 3. The year to date fair value changes on this AIS exposure amounts to a loss of $4.3 million (June 30, 2016: loss of $6.5 million) and the net redemptions amounts to $6.8 million (June 30, 2016: $15.3 million).

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques which are explained in Notes 10, 11, 12 and 25 to the financial statements.

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

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

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

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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

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

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

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

* Includes $0.7 million fair value gain on available-for-sale investments and unrealized fair value gains of $16.4 million.
** Other movements include add-on funding and foreign currency translation adjustments.

## 30. EMPLOYEE COMPENSATION

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

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

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

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

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

Under certain legacy co-investment programs, the Group provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2017 is $17.0 million (June 30, 2016: $25.8 million).

A portion of the deferred remuneration awarded to eligible employees is also in the form of co-investment exposures. These awards have different vesting conditions and are not transferable. An expense charge of $11.4 million (2016: $13.0 million) was taken by the Group based on management's best estimate of the likely vesting of the awards.

### Employee Share-Linked Plans

SHL sponsors various employee share-linked plans under which a portion of the deferred remuneration awarded to eligible employees is in the form of SIPCO shares or phantom SIPCO shares or performance-linked SIPCO share based awards that represent a beneficial interest in the ordinary shares of 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 $19 million (2016: $15.7 million). The start and end date of the vesting period for each grant varies from plan to plan and is based on continued employment (unless employment is terminated due to death, disability or retirement) as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognized as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

An expense charge of $13.3 million (2016: $15.6 million) was taken by the Group based on management's best estimate of the number of shares that are likely to vest. The grant date value of shares vested during the year amounted to $13.9 million (2016: $15.5 million). The details of shares granted, vested and forfeited during the year are as follows:

| Number of shares | 2017 | 2016 |
|---|---|---|
| Granted during the year | **1,970,781** | 1,760,177 |
| Vested during the year | **1,962,632** | 2,309,689 |
| Forfeited during the year | **33,309** | 48,378 |

## 31. RELATED PARTY TRANSACTIONS

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

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

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

| $000s | | **June 30, 2017** | June 30, 2016 |
|---|---|---|---|
| AUM fees | Investee and investment holding companies | **86,496** | 64,741 |
| Deal fees | Investee and investment holding companies | **116,502** | 152,835 |
| Asset based income | Investee companies | **32,873** | 22,502 |
| Provisions for impairment | Employee investment programs | **(959)** | (1,560) |
| Interest expense | Investment holding companies | **(1,357)** | (313) |
| Operating expenses | Directors' remuneration | **(1,680)** | (1,320) |
| Operating expenses | Professional fees | **(1,680)** | (1,680) |

Of the staff compensation for the year set out in Note 30, $70.1 million (2016: $70.3 million) is attributable to senior management (including a director who was an employee during the year). Of the above mentioned remuneration of senior management, $48.4 million (2016: $47.2 million) is in the form of salaries and other short term benefits.

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

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

## 32. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

### Standards issued but not yet effective

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

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

Annual Improvements to IFRS Standards 2014-2016 Cycle.

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

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

### (i) Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IAS 39 applicable for the period before July 1, 2016 and under IFRS 9 applicable for the period after July 1, 2016 and revaluation of premises and equipment.

### (ii) Going concern

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

### (iii) Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the 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 profit or loss from the effective date of formation or acquisition. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

### (iv) Business Combinations

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

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

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

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

### (v) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to:

(a) The determination of the fair values of FVPTL co-investments in corporate investments and real estate investments (see Notes 10 and 12), the determination of performance fees on assets under management, impairment provisions for financial assets other than FVTPL investments and FVOCI equity investments (see Note 14) and allocation of placement fee to the performance obligations as described later.

(b) The determination of cash flows which is the basis for performing the assessment of solely payments of principal and interest test on CLO co-investments which are being carried as debt instruments at amortized cost (see Note 13).

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

### (vi) Early adoption of IFRS 9

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

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

(b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previously designated financial assets as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as FVOCI.

### (vii) Classification of financial assets

#### (a) Investments

Upon early adoption of IFRS 9, the group classifies the financial assets into various categories as set out in Note 5(i).

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

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

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

#### Prior year accounting policy

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

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

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

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

#### (b) Other liquid assets

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

### (viii) Co-investments in alternative investment solutions

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

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

### Prior year accounting policy

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

### (ix) Co-investments in corporate investment and real estate investment

The Group's co-investments in corporate investment and real estate investment are primarily classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each reporting date, with resulting unrealized gains or losses being recorded as fair value changes in the consolidated statement of profit or loss. Consequently, there are no impairment provisions for such investments.

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

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

### Prior year accounting policy

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

### (x) Co-investments in credit management investment

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

### (xi) Impairment and un-collectability of financial assets

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

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

1. debt investment securities that are determined to have low credit risk at the reporting date; and

2. other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

### Prior year accounting policy

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

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

### (xii) De-recognition of financial instruments

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

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

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

### Prior year accounting policy

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

### (xiii) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the Statement of Financial Position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of profit or loss under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of profit or loss.

Foreign currency differences arising from the translation of investments in respect of which an election has been made to present subsequent changes in FVOCI are recognized in other comprehensive income. Prior to July 1, 2016, foreign currency differences arising from the translation of AFS equity instruments were also recognized in OCI.

### (xiv) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment.

### (xv) Advances

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

### (xvi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the 'trade date' accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

### (xvii) Premises and equipment

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

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

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

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

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

### (xviii) Intangible assets

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

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

### (xix) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 30).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### (xx) Unfunded deal acquisitions

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

### (xxi) Cash and cash equivalents

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

### (xxii) Borrowings

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

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

### (xxiii) Treasury shares

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

### (xxiv) Share awards

Share awards to employees are accounted and expense recognized over the vesting period. The determination of the amount to be recognized is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

### (xxv) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

### (xxvi) Offsetting

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

### (xxvii) Derivative financial instruments

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

Derivatives that qualify for hedge accounting are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 25.

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

### (xxviii) Income

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Asset based income from all FVTPL investments is recognized on the basis of realized and unrealized changes in fair value as at the end of the reporting period.

Fee income is recognized when services are rendered. Performance fees are recognized when earned.

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

### Revenue from contracts with customers

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

Investcorp has reviewed and analyzed the terms of the contracts that it has entered into with its investors arising from the placement of its investments. Based on this review, the Group has determined the following two types of performance obligations that Investcorp is expected to satisfy:

(i) services provided by Investcorp during the period from purchase to the placement of the investment with investors, including deal identification, funding, underwriting, maintaining a placement infrastructure, preparing the marketing materials for each deal etc; and

(ii) services provided over the period of the investment as agreed with the investor at the time of placement.

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

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

### (xxix) Expenses

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

### (xxx) Taxation of foreign operations

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign subsidiaries is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate and are included under operating expenses.

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

# MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

MANAGING DIRECTORS, SENIOR 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)

**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)

**Tarek Al Mahjoub**
Placement and Relationship Management
Joined Investcorp: 2008
Prior experience: Standard Chartered Bank (5), Al Ahli Bank of Kuwait (1), National Bank of Fujairah (1.5), Mashreqbank (5)

**Mohammed E. Al-Shroogi**
Co-Chief Executive Officer
Joined Investcorp: 2009
Prior experience: Citigroup (33)

**Gabriel Aractingi**
Placement and Relationship Management
Joined Investcorp: 2016
Prior experience: Morgan Stanley (6), Lombard Odier (6), Asset Management.com (3), Ernst & Young (5), Union Européenne (3)

**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)

Numbers in brackets indicate years of experience.
List reflects staff employed at July 31, 2017.

**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)

**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)

**Firas El-Amine**
Corporate Communications
Joined Investcorp: 2007
Prior experience: Dubai Holding (3), Alsalam Holding (2), Impact & Echo (2)

**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)

**Jonathan Feeney**
Alternative Investment Solutions
Joined Investcorp: 2003
Prior experience: Cazenove Fund Management (3), Mummert & Partner (2), The Kuwait Investment Office (3)

**John Franklin**
Alternative Investment Solutions
Joined Investcorp: 1997
Prior experience: Citicorp (4)

**John Fraser**
Investcorp Credit Management
Joined Investcorp: 2017
Prior experience: 3i (4), Fraser Sullivan Investment Management (7), Angelo, Gordon & Co. (8), Merrill Lynch Asset Management (6), Continental Bank (3), Chase Manhattan Bank (5)

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## MANAGING DIRECTORS (continued)

**Jeremy Ghose**
Investcorp Credit Management
Joined Investcorp: 2017
Prior experience: 3i (6), Mizuho (23)

**Peter Goody**
Investcorp Credit Management
Joined Investcorp: 2017
Prior experience: 3i (6), Mizuho (2.5), Royal Bank of Scotland (22)

**Carsten Hagenbucher**
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)

**Walid Majdalani**
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)

**Steve Miller**
Corporate Investment – North America
Joined Investcorp: 2007
Prior experience: Credit Suisse (2)

**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)

Numbers in brackets indicate years of experience.
List reflects staff employed at July 31, 2017.

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## MANAGING DIRECTORS (continued)

**Mohamed Sammakia**
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)

**James Tanner**
Corporate Investment – MENA
Joined Investcorp: 2008
Prior experience: Aviva Investors (3), HSBC (2),
Morgan Stanley (19)

**David Tayeh**
Corporate Investment – North America
Joined Investcorp: 2015
Previous experience: CVC Capital Partners (4),
Investcorp International Inc. (11),
Donaldson Lufkin & Jenrette. (4)

**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, 2017.

## SENIOR AND PROFESSIONAL STAFF

**Ghassan Abdulaal**
Placement & Relationship Management

**Habib Abdur-Rahman**
Administration & Corporate Development

**Edmond AbiSaleh**
Corporate Investment – MENA

**Omar Abu Khadra**
Placement & Relationship Management

**Shrooq Abualif**
Placement & Relationship Management

**Ankit Agrawal**
Alternative Investment Solutions (AIS)

**Affan Ahmed**
Real Estate (RE)

**Fahad Ahmed**
Financial Management

**Muna Ahmed**
Legal & Compliance

**David Ahn**
Alternative Investment Solutions (AIS)

**Naweed Akram**
Applications

**Khalifa Al Jalahma**
Corporate Investment – MENA

**Ayman Al-Arrayed**
Operations & Internal Controls

**Manal AlAlaiwat**
Local Administration-Bahrain

**Ahmed AlAlawi**
Operations & Internal Controls

**Khalid Alalawi**
Placement & Relationship Management

**Loai Alarayedh**
Placement & Relationship Management

**Ashraf Alaydi**
Legal & Compliance

**Abdulla AlBastaki**
Human Resources

**Yousef Alhozaimy**
Placement & Relationship Management

**Yasser Alkhaja**
Placement & Relationship Management

**Manaf AlMenaifi**
Placement & Relationship Management

**Hasan AlNajjar**
Placement & Relationship Management

**Ali AlRahma**
Placement & Relationship Management

**Mohammed AlSada**
Placement & Relationship Management

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**Aala AlSaleh**
Corporate Investment – MENA

**Naser Alshakhoori**
Operations & Internal Controls

**Hasan AlShuwaikh**
Corporate Investment – MENA

**Mosaad Alsudairy**
Placement & Relationship Management

**Ahmed AlZayani**
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**Russell Arco**
Real Estate (RE)

**Shweta Arora**
Business support – RE

**Talha Azhar**
Financial Management

**Gaurav Babbar**
Investcorp Credit Management

**Gene Basov**
Investcorp Credit Management

**Ryan Bassett**
Real Estate (RE)

**Julian Bennet**
Corporate Investment – Technology

**Greg Berman**
Alternative Investment Solutions (AIS)

**Vincent Berthelemy**
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**Hemali Bhandari**
Investcorp Credit Management

**Sunil Bhilotra**
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**Melissa Bockelmann**
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**Vitali Bourchtein**
Corporate Investment – North America

**Aleks Bozic**
Corporate Investment – Europe

**James Brailey**
Investcorp Credit Management

**Jesse Brundige**
Real Estate (RE)

**Michael Busacco**
Data Center

**James Butler**
Compensation Programs Administration

**Jeffrey Campaz**
Data Center

List reflects staff employed at July 31, 2017.

**Camilla Campion-Awwad**
Investcorp Credit Management

**Kieran Carmody**
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**Chris Carolan**
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**Enrique Casafont**
Corporate Investment – North America

**Francis Chang**
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**Ed Coatman**
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**Matthew Coleman**
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**Anthony Colon**
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**Darryl D'Souza**
Business support – NYLON

**Khaled Daair**
Business Analysis and Planning

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**Andrew Davis**
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**Pierre De La Rochefoucauld**
Real Estate Europe

**Mikael De Pedro Nejjai**
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End-User Computing

**Dale Didulo**
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**Merime Durakovic**
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**Sean Elliott**
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**Maximilian Elliott-Taylor**
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**Michael Emmet**
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**David Endler**
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MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**William Estes**
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**Shirin Faqihi**
Human Resources

**Nicola Ferraris**
Corporate Investment – Europe

**Sean Ferris**
Investcorp Credit Management

**David Fewtrell**
Investcorp Credit Management

**Lyn Fiel**
Office Of Chief Executive

**Melanie Figgener**
Corporate Investment – Europe

**Kirk Fleischer**
Corporate Investment – North America

**Masaaki Fudeuchi**
Investcorp Credit Management

**David Fuss**
Corporate Investment – Europe

**Sunil Gaglani**
Alternative Investment Solutions (AIS)

**Amit Gaind**
Corporate Investment – North America

**Johannes Glas**
Placement & Relationship Management

**Luis Gonzalez**
Corporate Investment – Europe

**Amit Gupta**
Applications

**Fredrik Guster**
Alternative Investment Solutions (AIS)

**Sadeq Habib**
Compensation Programs Administration

**Wassim Hammoude**
Corporate Investment – MENA

**Ian Hansford**
Human Resources

**Mansoor Hasan**
End-User Computing

**Luis Hernaiz**
Data Center

**Shaun Hill**
Internal Audit and Controls

**Celia Ho**
Business support – RE

**Nahar Houthan**
Placement & Relationship Management

List reflects staff employed at July 31, 2017.

**Abdulnabi Hussain**
Treasury

**Sebastian Inger**
Corporate Investment – Europe

**Ahmed Isa**
Operations & Internal Controls

**Bahija Ismail**
Operations & Internal Controls

**Ayman Jaafar**
Investment Admin.

**Milos Janicic**
Alternative Investment Solutions (AIS)

**Kevin Jay**
Corporate Investment – North America

**Jay Jena**
Applications

**Lisa Johnson**
Investcorp Credit Management

**Raewyn Johnston**
Legal & Compliance

**Rosanne Johnston**
Legal & Compliance

**Jonathan Joyce**
Alternative Investment Solutions (AIS)

**Rahim Kandanuru**
Applications

**James Keary**
Real Estate (RE)

**Richard Keast**
Investcorp Credit Management

**Timothy Kelly**
Real Estate (RE)

**Asif Khaja**
Investcorp Credit Management

**Fawzia Khalid**
Alternative Investment Solutions (AIS)

**Shahbaz Khan**
Legal & Compliance

**Jay Kislak**
Investcorp Credit Management

**Nathalie Klein**
Alternative Investment Solutions (AIS)

**Warren Knapp**
Corporate Investment – North America

**Georg Knoflach**
Corporate Investment – Technology

**Sanjay Kohli**
Investcorp Credit Management

**Mihir Kothari**
Placement & Relationship Management

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**Murali Krishna**
Alternative Investment Solutions (AIS)

**Fahad Kurdi**
Placement & Relationship Management

**Nilesh Ladha**
Alternative Investment Solutions (AIS)

**Pak Lam**
Financial Management

**Barry Lane**
Investcorp Credit Management

**Jonathan Lay**
Legal & Compliance

**Angela Leson**
Alternative Investment Solutions (AIS)

**Sweeny Lewis**
Corporate Investment – MENA

**Owen Li**
Corporate Investment – Europe

**Yi Lu**
Alternative Investment Solutions (AIS)

**Damien Lui**
Investcorp Credit Management

**Sehar Mahmood**
Investcorp Credit Management

**Gabriel Mairzadeh**
Alternative Investment Solutions (AIS)

**Amin Majed**
Operations & Internal Controls

**Patrick Maloney**
Investcorp Credit Management

**Michael Malvarosa**
Alternative Investment Solutions (AIS)

**Chinmoy Mandal**
Applications

**Robin Mansour**
Corporate Investment – MENA

**Ali Marhoon**
Operations & Internal Controls

**Benjamin Marino**
Corporate Investment – Europe

**Tom Martin**
Real Estate Europe

**Jakob Mattsson**
Investcorp Credit Management

**Matthew McCann**
Alternative Investment Solutions (AIS)

**Rajat Mehrotra**
Business Analysis and Planning

List reflects staff employed at July 31, 2017.

**Ishaque Memon**
Financial Management

**Shane Miller**
Investcorp Credit Management

**Masooma Mohammed**
Placement & Relationship Management

**Michael Moriarty**
Real Estate (RE)

**Vijender Mucha**
Data Center

**Dylan Murphy**
Real Estate (RE)

**Brian Murphy**
Legal & Compliance

**Heather Mutterperl**
Real Estate (RE)

**David Nadeau**
Investcorp Credit Management

**Rupesh Naik**
Risk Management

**Rohit Nanda**
Investment Admin.

**Mark Newman**
Investcorp Credit Management

**Timothy Ng**
Corporate Investment – North America

**Hani Obaid**
Placement & Relationship Management

**Natsumi Okamoto**
Investcorp Credit Management

**Jeanie Olson**
Human Resources

**Oguz Oner**
Corporate Investment – MENA

**Thomas Page**
Investcorp Credit Management

**Jay Patel**
Investcorp Credit Management

**Maria Patrao**
Corporate Investment – Technology

**Vicente Perez Camara**
Placement & Relationship Management

**Jose Pfeifer**
Corporate Investment – Europe

**Sami Qasimi**
Legal & Compliance

**Shaima Radhi**
Placement & Relationship Management

**Najib Rahal**
Data Center

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**Zahra Rajab**
Operations & Internal Controls

**Vats Rajagopalan**
Risk Management

**Nelson Ramos**
Alternative Investment Solutions (AIS)

**Elena Ranguelova**
Alternative Investment Solutions (AIS)

**Neil Rickard**
Investcorp Credit Management

**Abbas Rizvi**
Financial Management

**Marina Rodrigues**
Alternative Investment Solutions (AIS)

**Zach Rosen**
Real Estate (RE)

**Joanne Roulson**
Compensation Programs Administration

**Abdulrahim Saad**
Placement & Relationship Management

**Rasha Sabkar**
Legal & Compliance

**V Saju**
Applications

**Biman Sarma**
Applications

**Alan Sawyer**
Investcorp Credit Management

**Pierre Schaeffer**
Corporate Investment – Europe

**Julie Schubiner**
Corporate Investment – North America

**Gaurav Sharma**
Corporate Investment – North America

**Rajiv Sheth**
Corporate Investment – North America

**Craig Sinfield-Hain**
Business Analysis and Planning

**Venkat Singam**
Applications

**Khalid Soufi**
Placement & Relationship Management

**David Stanbrook**
Investcorp Credit Management

**Andrew Strong**
Investcorp Credit Management

**Babak Sultani**
Placement & Relationship Management

**James Sweeting**
Internal Audit and Controls

**Aya Taha**
Placement & Relationship Management

**Molina Talleyrand**
Human Resources

**Murat Tasci**
Corporate Investment – MENA

**Lilia Teplova**
Business support – NYLON

**Devindra Thakur**
Risk Management

**Dina Treanor**
Corporate Investment – North America

**Arne Uekotter**
Corporate Investment – Europe

**Larisa Vandenko**
Business support – NYLON

**Davide Vassena**
Corporate Investment – Europe

**Roberta Vezzoli**
Corporate Investment – Europe

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