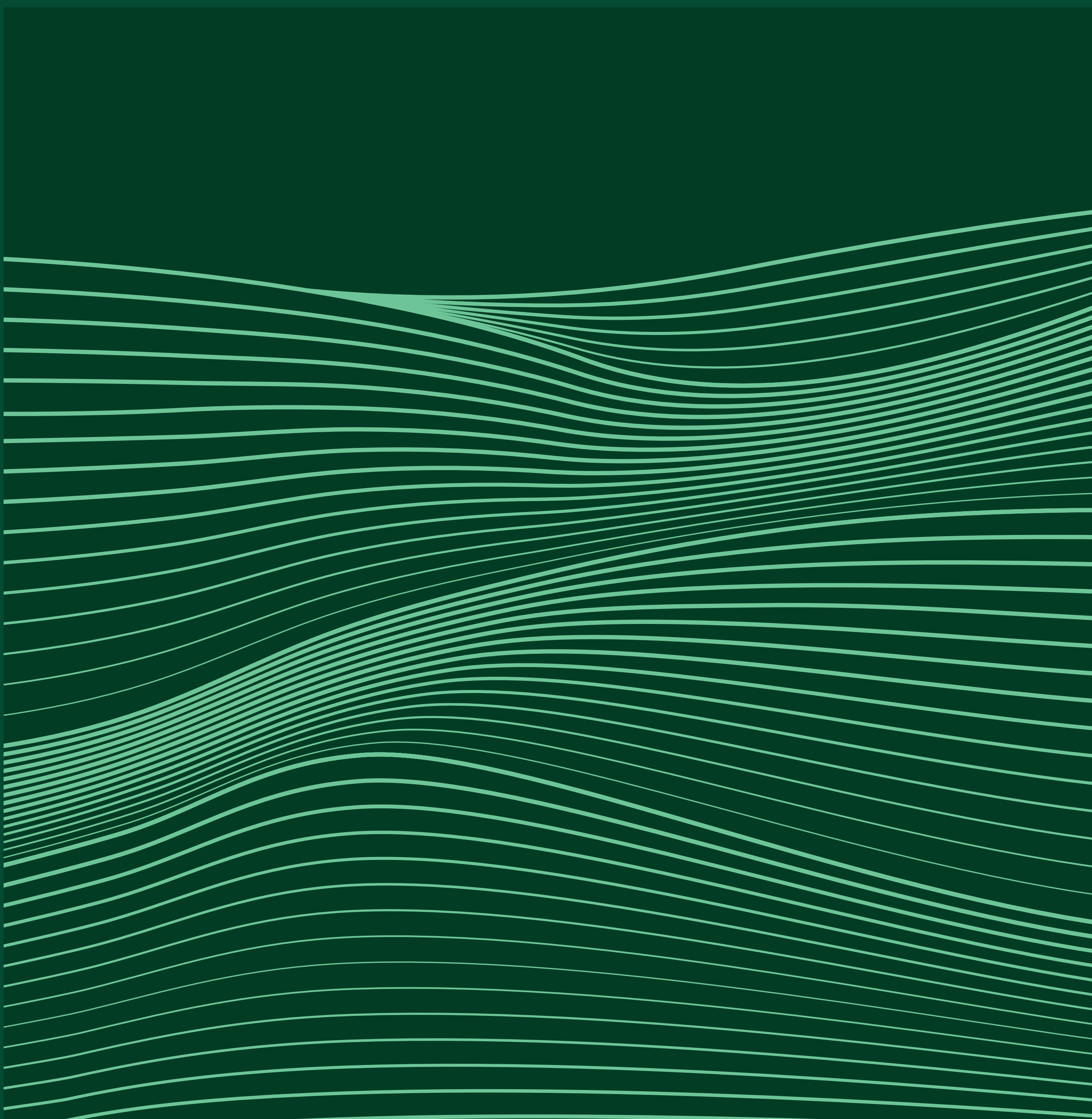
INVESTCORP

# NEW FRONTIERS

INVESTCORP ANNUAL REPORT 2019



**OVER THE PAST YEAR, INVESTCORP ENTERED NEW GEOGRAPHIES, INVESTED IN NEW ASSET CLASSES, EXPANDED ITS INSTITUTIONAL CLIENT BASE AND LAUNCHED NEW PRODUCTS. FROM OUR PRESENCE IN INDIA AND SINGAPORE, TO LAUNCHING A GP STAKES BUSINESS AND MOVING INTO THE INFRASTRUCTURE SPACE, WE ENTERED NEW FRONTIERS TO FULFILL OUR VISION OF PROVIDING A TRULY GLOBAL AND DIVERSE PLATFORM FOR OUR INVESTORS. LOOKING FORWARD, WE WILL CONTINUE TO FIND NEW ANGLES FOR OPPORTUNITIES AND DELIVER BEST-IN-CLASS SERVICES AND SOLUTIONS IN 2020 AND BEYOND.**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# MESSAGE TO SHAREHOLDERS

**The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 36th fiscal year ended June 30, 2019.**

Dear Shareholders,

We are pleased to report that it has been another positive year for Investcorp. The last 12 months have seen strong growth momentum across the business in the face of increasing trade and geopolitical tensions amidst the slowing macroeconomic backdrop. Our full-year results evidence Investcorp's resilience and commitment to driving both inorganic and organic growth across the business, despite challenging market conditions.

Our robust financial performance was underpinned by healthy levels of investment activity, continued high levels of fundraising, the completion of several key acquisitions and the successful launch of other organic initiatives collectively representing milestones in our ambitious growth journey. Earnings per ordinary share rose to $1.47 per share, up by 13% from $1.30 in FY18, while total comprehensive income of $124 million for FY19 was 3% higher than $121 million in FY18. We have proposed a dividend of $0.30 per share, which marks a 25% increase from $0.24 in the previous fiscal year.

## Growth Strategy Continues to Gather Momentum …

Increased assets under management (AUM) and net profit serve as strong indicators of our continued progress in delivering the strategic objective of reaching AUM of $50 billion over the medium term via both organic and inorganic initiatives. FY19 saw the delivery of solid performance across all of Investcorp's business lines, with AUM growth of $1.9 billion to $28.2 billion and net income reaching $131 million for the year, up by 5% from FY18.

These achievements are evidence of our strong commitment to globalizing our products and distribution platform, while remaining responsive to our clients' demands and needs. This past year has been record-breaking in terms of delivering on strategic initiatives and internationalizing our distribution platform, with fundraising outside of the Gulf comprising more than $4.3 billion out of total fundraising of $5.7 billion. We have continued to expand our global footprint, and our Asian presence is bigger than ever. We now have operations in Singapore as well as in Mumbai, through the acquisition of the real estate and private equity businesses from IDFC in India, and have launched our debut investment in China with the offering of a Chinese tech investment fund in partnership with China Everbright.

Our market presence has also continued to grow through expansion into new product lines, such as private banking, direct lending and infrastructure. The acquisition of a strategic minority stake in Banque Pâris Bertrand marked our investment in the private banking sector, and we launched our first GCC infrastructure fund through a joint venture with Aberdeen Standard Investments.

# INVESTCORP

## GROWING THE BUSINESS THROUGH A GLOBAL LENS


**TOTAL ASSETS**

**Achieved through Organic Growth and Strategic Investments**
Despite the challenging macroeconomic backdrop, Investcorp increased assets under management by 7% this year through strategic investments and organic growth of our platform, such as expanding our European private equity and US credit management capabilities and raising our inaugural infrastructure fund in the Gulf, among others.

**PRIVATE EQUITY**

**Completed 16 successful transactions, including the exit of The Wrench Group and SecureLink** Investcorp completed 16 transactions over the past year, building on our 30 years' experience of successfully investing across North America, Europe, MENA, and now also in India and China.

**REAL ESTATE INVESTMENT**

**Expanded Multifamily, Industrial and Office Portfolio** Across the US and Europe, the Real Estate Investment business invested in attractive sectors in key markets, with a focus on multifamily, industrial and office properties.

CREDIT MANAGEMENT

**Expanded Capabilities through Strategic Hire and Acquisition**

Investcorp Credit Management further expanded through the acquisition of CM Investment Partners, which marked the business's expansion into the US middle-market lending space.

ABSOLUTE RETURN INVESTMENTS

**Established Strategic Capital Partners**

The Absolute Return Investments business launched its Strategic Capital Partners business, which focuses on GP minority stake investments in established alternative asset managers, and announced a partnership with merchant bank Dock Square Capital, founded by former Governor Jeb Bush.

INFRASTRUCTURE

**Entered Asset Class through Joint Venture**

By launching a joint venture with Aberdeen Standard Investments, a leading global asset manager, Investcorp is now looking to invest in social and core infrastructure projects across Gulf countries.

Additional highlights from the past year include the creation of a European private equity buyout fund with Coller Capital as an anchor investor; the acquisition, subject to regulatory approvals, of Mercury Capital Advisors, one of the world's leading institutional capital-raising and investment-advisory enterprises; further expansion of Investcorp's Credit Management division through the agreement to acquire a majority stake in CM Investment Partners, which remains subject to receipt of third-party approvals; and European real estate AUM surpassing $600 million.

Our expansion into new geographies and products is mirrored by similar ambitions in diversifying our client base, both by geography and segment, and these efforts have continued to yield positive results. We achieved a record level of deal-by-deal placement of $1,416 million, up by 29% compared to $1,099 million in FY18, reflecting strong client demand in both private equity and real estate. Gross operating income was $465 million compared to $454 million in FY18, and fee income rose to $376 million, up by 17%. AUM fees grew by 5%, from $173 million to $181 million, and deal fees increased to $195 million, up by 32%.

Overall, the Firm is well positioned to capitalize on growth opportunities for the future, as we remain focused on delivering profitability, while retaining a prudent approach to balance sheet and liquidity management. Total assets as of June 30, 2019 stood at $2.4 billion, down by 5% from $2.5 billion as of June 30, 2018, with total equity of $1,145 million as of June 30, 2019, up by 2% compared to $1,123 million as of June 30, 2018. Total accessible liquidity increased from $1.0 billion to $1.1 billion. Our capital adequacy ratio is currently 33.8%, up by 230 basis points compared to June 30, 2018, and significantly in excess of the requirements of the Central Bank of Bahrain (12.5%).

As previously announced, Investcorp has been working toward an organizational structure more aligned with its global asset management peers and believed to be better suited to support our business strategy and clients. The Central Bank of Bahrain recently issued its final approval on the delicensing of the wholesale bank (Investcorp Bank B.S.C.) and the process of converting into a holding company, and the voluntary surrender of the Bahrain wholesale bank license was completed in the summer of 2019.

## Strong Performance across All Business Lines

Investcorp's Private Equity business witnessed strong levels of activity over the year; investment activity rose to $750 million, up by 37%, while placement and fundraising activity increased by 222% to $1,869 million from $580 million in FY18. Distributions increased by 184% from $789 million to $2,242 million, and AUM grew by 21% to $5,781 million. In addition to completing a number of key acquisitions, we have also undergone significant de-risking of the balance sheet profile through secondary private equity transactions with Coller Capital and HarbourVest. These strategic balance sheet initiatives and other realizations have led to a 19% reduction in private equity co-investments, to $505 million from $625 million as of FY18.

Following Investcorp's expansion into the European real estate market in 2017, 2019 was a landmark year for the division as European real estate AUM surpassed $600 million. In a span of only two years, the portfolio has grown to include four German office assets and 27 logistic and light industrial assets in the United Kingdom. With AUM of over $5 billion across nearly 200 properties, the US Real Estate Investment business continues to represent the bulk of our Real Estate business. In FY19, total investment activity across the United States and Europe increased by 19% to $670 million, while placement and fundraising reached $639 million, an increase of 12%. The division experienced AUM growth of 4%, to $6,126 million. Distributions were $662 million, down by 7% from $713 million in FY18.

For our Absolute Return Investments business, AUM increased by 2% to $3,800 million as of June 30, 2019. Total fundraising more than doubled to $1,212 million from $563 million. The lower growth in AUM reflects a higher rate of redemptions during the year, which was largely attributable to the anticipated roll-off of older, less profitable AUM.

The Credit Management (ICM) business has continued on its growth trajectory despite the impact of a weakening macroeconomic environment on the credit markets. Investcorp successfully issued four new CLOs across Europe and the US and increased placement and fundraising activity to $2.0 billion, from $1.8 billion in FY18. AUM also increased by 4% to $11,870 million compared to $11,466 million in the previous year. Despite difficult market conditions, investment activity remained strong at $1,470 million, down by 13% compared to $1,695 million in FY18. Net refinancing and reset activity declined from $3.9 billion to $127 million, as the team has already refinanced and/or reset any eligible CLOs under management in FY18, taking advantage of strong markets.

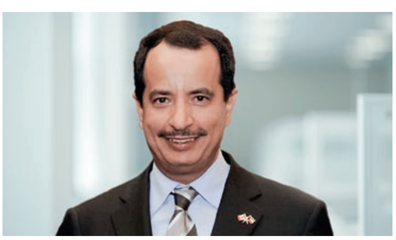
Asia has continued to play a key role in our growth strategy both in terms of fundraising and placement as well as a source of investment opportunities. Through leveraging our hub in Singapore, expanding our operational presence to include India and launching our debut investment in China, we have established new client relationships that have already translated into incremental fundraising. The appointment of Professor Frederick Ma Si-Hang, the former Chairman of MTR Corporation, to the Firm's International Advisory Board will further strengthen our abilities to capitalize on investment opportunities in the region.

## Outlook

We are pleased that Investcorp has continued to grow across a range of key performance measures and is on track to reaching its strategic growth objective of becoming a $50 billion AUM firm. We are beginning fiscal 2020 with solid momentum and are better positioned than ever to serve our international client base with its rapidly growing needs. Geopolitical and economic challenges are likely to continue impacting markets moving forward, but we are confident that our global presence, combined with local expertise, particularly in volatile markets, means we are well placed to navigate any challenging market conditions ahead.

We view European real estate as a strong growth area for us, and the private equity market continues to present opportunities in key markets such as UK, Germany, Spain and Italy, where we have a strong track record. We have entered the Indian market at an important time in its growth trajectory, and factors such as rising incomes, strong growth and stable policies make the region attractive for investment. Equally, China is increasingly attractive for private equity investing, particularly in the technology sector, due to the country having the world's highest number of internet users and being home to some of the fastest-growing 'unicorn' technology companies valued at more than $1 billion.

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 great deal over the past 12 months, and we firmly believe that we can build on this to have another successful year in 2020.



**Dr. Yousef Hamad Al-Ebraheem**
Chairman of the Board of Directors

**Mohammed Bin Mahfoodh Bin Saad Alardhi**
Executive Chairman

# A BOLDER VISION

## NAVIGATING UNCHARTED GEOGRAPHIES

| | | |
|---|---|---|
| $2.7B | 8 | 26 |
| of Asian client AUM | offices globally | employees across Asia |

## By building a local presence in India and Singapore, in addition to extending our footprint across the US, Europe, Gulf and parts of Asia, we introduced investors to entirely new opportunity sets this year.

As a global organization, we sought to solidify our presence across the globe by building our capabilities in new geographies and expanding our existing ecosystem of relationships. This year, we made our debut private equity investment in China in partnership with China Everbright Limited, a publicly listed sovereign-backed cross-border asset manager. This investment captured our conviction in the opportunities we see in the world's second largest economy and the technological innovation we expect to continue in the market.

We also established our footing in India through the acquisition of the private equity and real estate investment management businesses of IDFC Alternatives Limited, a publicly listed company in India and Bombay. By entering these geographies, we delivered on our commitment of being a truly global alternative investment provider, offering our investors access to a wider range of attractive investment opportunities worldwide.

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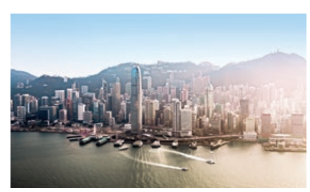
**Investcorp Expanded Capabilities in India** By acquiring IDFC Alternatives Limited's real estate and private equity business, we secured immediate access to opportunities in these asset classes in India through their experienced team of 21 seasoned professionals.

**Investcorp Inaugurated India Office** Through the launch of Investcorp India Asset Managers Limited, we opened our eighth global office with a team of 21 dedicated investment professionals in India.

$2.7B

**Asia AUM Grew to $2.7 Billion** As a result of the successful roadshow held by our senior executive team in Hong Kong, Jakarta, Dhaka and Singapore, Asia now accounts for 11% of our global client AUM.

**Senior Leadership Meets with Asian Economy Leaders** A group of senior executives led by Mohammed Alardhi, met with investors across emerging Asian economies, including Hong Kong, Jakarta, Dhaka and Singapore, including HE Sheikh Hasina, Prime Minister of Bangladesh.



**Debut Investment in China** In partnership with Everbright, Investcorp made its first-ever private equity investment in China through an investment of up to $150 million during the second-round funding of the China Everbright Limited New Economy Fund L.P.

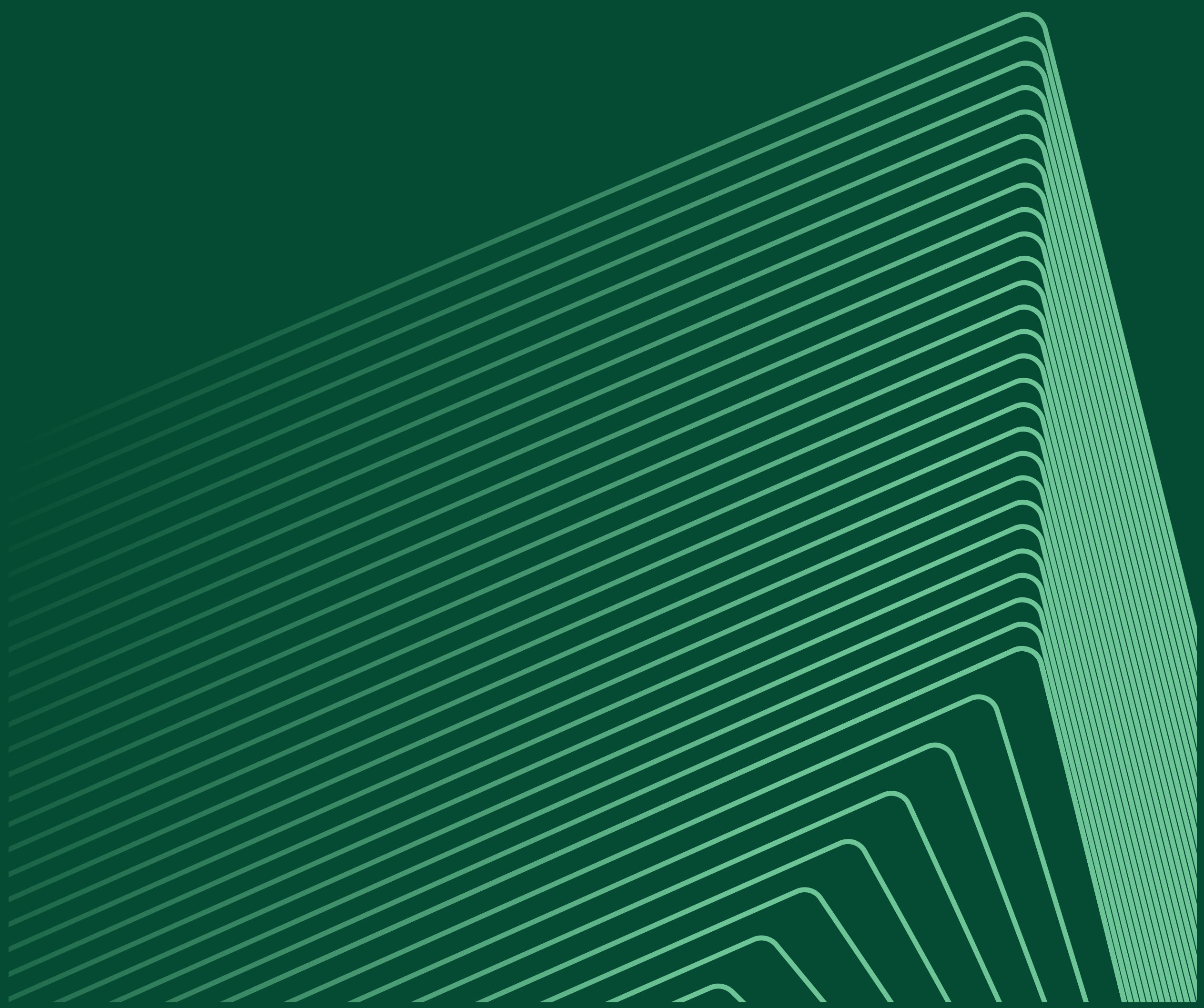
# GREATER EXPERTISE

## EXPANDING ASSET CLASS OFFERINGS

**14%**
increase in transactions across business lines

**16**
private equity transactions

**$6.1B**
total value of global real estate portfolio



## Expanding into new asset classes allowed us to strengthen our existing platform and offer a more holistic solution across the alternatives spectrum.

This past year, we continued to see strong performance across our businesses and, as a result, further expanded the types of transactions and investments made within each business line. In Absolute Return Investments, our seeded manager Nut Tree Capital Management reached $1 billion in AUM, which marked a significant milestone in just three years, and demonstrated our ability to identify superior emerging hedge funds. Investcorp Credit Management acquired a majority ownership interest in CM Investment Partners, which established our entry into middle-market lending in the US.

Our private equity teams in North America, Europe, MENA and Asia executed eight new investments and eight exits over the past year. These included three new investments and two exits in North America, three new investments and one exit in Europe, two exits in MENA, and two new investments and three exits in Asia.

Within Real Estate Investment, we reached a number of milestones and continued to grow our portfolio in key growth verticals, including our largest US multifamily portfolio in the past 10 years. Outside the US, we also began investing in office campuses in Europe and made our third real estate investment in Germany.

# $1B AUM

**Nut Tree Capital Management Reached $1 Billion in AUM**
After our Hedge Fund Partnership platform first established a strategic relationship with Nut Tree Capital Management in 2015, Investcorp announced that the opportunistic alternative credit manager had reached $1 billion in AUM.

**Credit Management Entered US Middle-Market Lending**
Earlier this year, Investcorp announced the acquisition of CM Investment Partners, the investment adviser to CM Finance. Through this acquisition, we marked our entry into the US mid-market lending space, further adding to our global credit capabilities.


**Investcorp Acquired Its Largest Multifamily Portfolio in the Past 10 Years** Investcorp acquired its largest US multifamily portfolio in the past 10 years and continued to add to its growing portfolio of properties across the multifamily, student housing, industrial and office sectors in US and Europe, for a total value of $6.0 billion.

**Leejam Sports Company Listed on the Saudi Stock Exchange**
Marking Investcorp's second successful public offering on the Tadawul, Investcorp announced the listing of Leejam Sports Company on the Saudi Stock Exchange.

**First Private Equity Deal Completed under Growth Strategy** The sale of The Wrench Group illustrated our ability to execute on every step of the value creation cycle, from selecting the right management team and institutionalizing key processes to capitalizing on both organic and inorganic acquisitions.

# BROADER IMPACT

## DELIVERING NEW SOLUTIONS

**4**

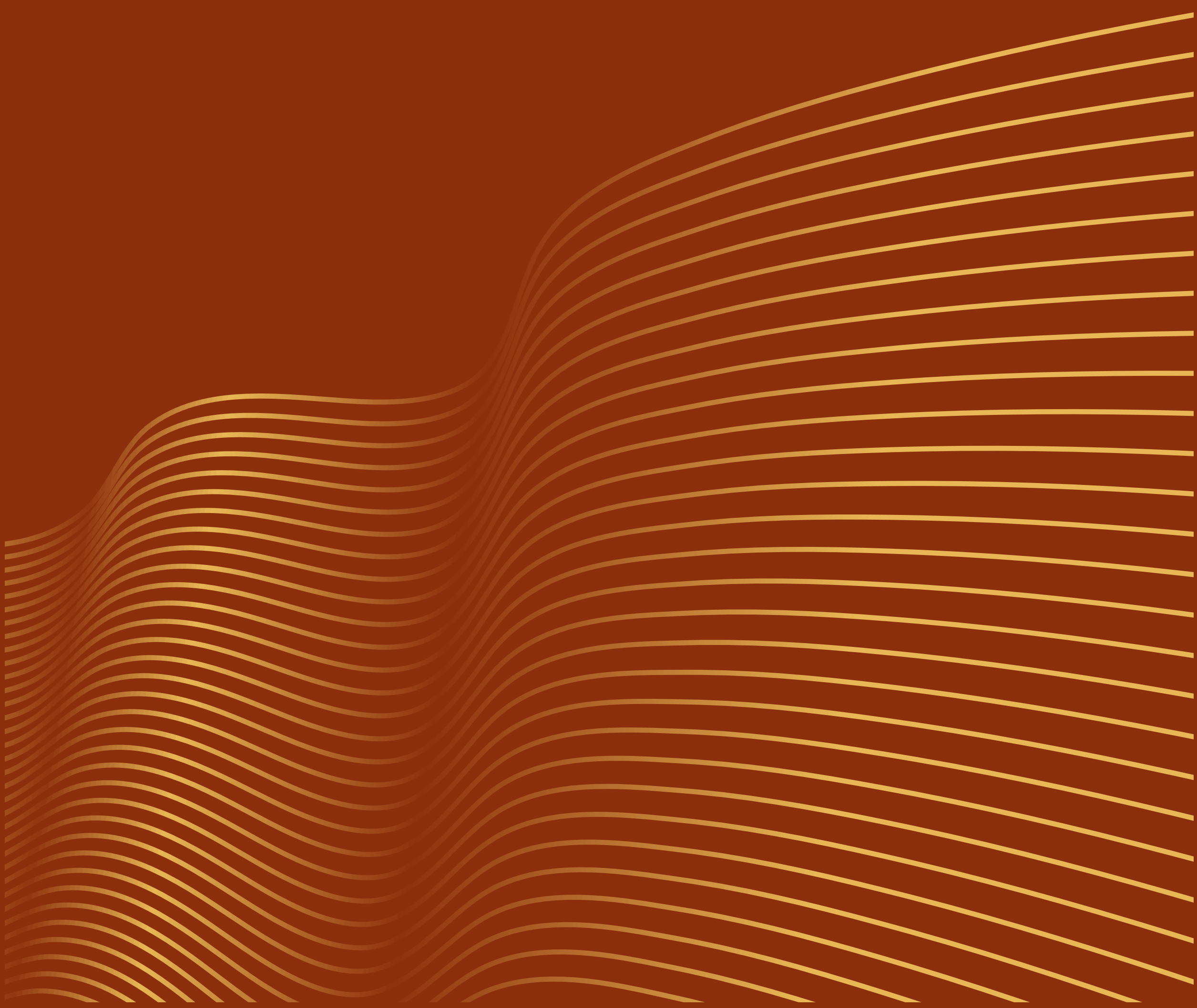
new investment strategies launched

**7%**

AUM growth since 2018

**222%**

increase in placement and fundraising activities



## In pursuit of our ambitious global growth plans, we continued to scale and strengthen our business. We broadened our reach by diversifying our offerings, pursuing new solutions and achieving even greater milestones.

As we expanded our business, we did so strategically, by seeking out only the best opportunities that we believed would deliver maximum value for our clients and investors over the long term. This past year, we focused on some of the most unique and highly sought-after investments. We also strengthened our global distribution capabilities with the addition of a dedicated team and the acquisition of Mercury Capital Advisors, which we expect to support further business growth and innovation in this area.

Alongside our expanding distribution capabilities, we simultaneously grew our international footprint through new, complementary solutions that were built on the deep expertise we established across business lines since our founding. In the Gulf, we added a focus on infrastructure investing; in the US, we expanded our Absolute Return Investments business with the addition of a GP staking team; and, in Europe, we amplified our Private Equity business with a new European buyout fund.

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**Entry into Gulf Infrastructure Investing**
In partnership with Aberdeen Standard Investments, Investcorp launched a joint venture to invest in social and core infrastructure projects across Gulf countries. The joint venture actively targets greenfield and brownfield social and core essential infrastructure assets across a range of sectors.

**Strategic Investment in Mercury Capital Advisors**
Investcorp announced its strategic acquisition of Mercury Capital Advisors, one of the world's leading institutional capital-raising and investment-advisory enterprises, to unlock new investment opportunities and honor our long-term mission to offer investors worldwide an attractive array of alternative investment opportunities.

$1B

**European Private Equity Buyout Fund** Through a partnership with London-based Coller Capital, Investcorp signed a landmark transaction in the secondary private equity market, which marked the formation of a $1 billion fund focused on investing in mid-market buyout transactions across Europe.

**GP Investment Business Launched**
This past year, Investcorp launched its Strategic Capital Partners strategy, which focuses on minority equity investments in established, mid-sized alternative asset managers. The Strategic Capital Group further expanded its expertise by establishing a partnership with former Governor Jeb Bush's advisory and merchant bank Dock Square Capital.

**Minority Stake in Banque Pâris Bertrand** In support of Investcorp's global growth goals, we acquired a strategic minority investment in Banque Pâris Bertrand, an independent Swiss-regulated private bank in Geneva and Luxembourg. The investment aligned with our strategy to selectively partner with companies that would complement and grow our international footprint.

# STRONGER TIES

## CULTIVATING OUR GLOBAL NETWORK

**130**

attended Strategic Partners Conference in Paris

**3rd**

Annual Credit Symposium in New York City

**60**

future leaders hosted at Investcorp Leadership Program

## As our international presence continued to grow, our global network expanded in tandem, reflecting the critical role that diverse perspectives played in shaping the future of our business.

Throughout the last year, we grew our international reach both by building new relationships and strengthening existing ones. From our Credit Symposium in New York City to our Strategic Partners Conference in Paris, we convened leaders from our network to engage in discussions around the challenges, opportunities and potential solutions impacting our global economy, which today continues to be more interconnected than ever. Our truly global perspective and reach also led us to partnerships with leading academic institutions, such as Oxford University and IMD Business School, where we leveraged our resources to support our future generation of leaders and inspire the best emerging minds in our field.

We also expanded our network of advisors by further growing our International Advisory Board with economic, business and academic leaders. Our senior executives also had a voice on the global stage alongside CEOs and C-suite executives from the world's preeminent organizations at the Milken Institute's Global Conference in Los Angeles, Abu Dhabi, London and Singapore, the World Economic Forum in Davos, the Bloomberg New Economy Forum in Singapore and the Boao Forum for Asia in Beijing.

**Strategic Partners Conference in Paris** World-renowned speakers joined more than 130 of Investcorp's key global partners and shared insights on the current state of the world economy at our Strategic Partners Conference in Paris, France. The event culminated with a reception hosted by the French Prime Minister, Édouard Philippe, at his official residence in the Hôtel de Matignon.

**International Advisory Board Expanded** During the year, we made strategic additions to our International Advisory Board, adding diverse perspectives in alignment with our growing global footprint. Appointments included Sir Michael Fallon, a British Member of Parliament and former Secretary of State for Defense; Dr. Ann-Kristin Achleitner, a business economist and Professor of Entrepreneurial Finance Studies at the Technical University of Munich; and Professor Frederick Ma Si-Hang, the former Chairman of MTR Corporation.

**Third Annual Credit Symposium** Investcorp convened more than 120 global leaders from across the alternative investment industry in New York City for its Third Annual Credit Symposium, hosted by the Credit Management business. The event featured distinguished speakers, including Dr. Mohamed El-Erian, Chief Economic Advisor at Allianz and a member of Investcorp's International Advisory Board.

**Emerging Leaders Program in Switzerland** More than 60 future young leaders from across Asia, Europe and the Gulf attended the Investcorp Leadership Program at IMD Business School's Lausanne, Switzerland campus. Sessions during the program explored topics ranging from blockchain and asset allocation to entrepreneurship and management.

**Annual Dinner in New York City** The Executive Chairman Mohammed Alardhi hosted the Investcorp Annual Dinner in New York City, which gathered leaders in finance, business and politics, with Michael Milken as the guest speaker.

## AT A GLANCE

# OUR BUSINESS

**Investcorp is a leading, global alternative investment manager for individuals, families and institutional investors. Since our founding in 1982, we have built a global reputation for superior performance, innovation and service. Guided by our uniquely global vision, we have embarked on an ambitious, albeit prudent, growth strategy. Through a disciplined investment approach across each of our four lines of business, we continue to focus on generating investor and shareholder value.**

AUM increased by 7% to

$28.2B

Fully Diluted EPS up by 13%

$1.47

10%

Annual growth in Book Value per Share over last 4 years

Stable cost-to-income ratio of

65%

## PRIVATE EQUITY

We are one of the most active global mid-market private equity firms, with over 30 years' experience of successfully investing across North America, Europe and the MENA region. With more than $42 billion in transaction value, our past and present portfolios include more than 190 investments across a range of sectors.

## REAL ESTATE INVESTMENT

We focus on core and core-plus opportunities in the US and European commercial real estate markets, targeting properties that generate current cash flow and have potential for capital appreciation through value-add initiatives. Over the past 23 years, we have completed more than 675 transactions totaling more than $17 billion. We rank among the most active foreign real estate investors in the US, with annual transaction volumes of greater than $1.5 billion per year. Combined with our European real estate activities, our annual transaction volumes are approximately $2 billion per year.

## ABSOLUTE RETURN INVESTMENTS

We manage assets across customized multi-manager solutions, hedge fund partnerships, alternative risk premia and special opportunities portfolios. Through our Strategic Capital Partners strategy, we also focus on making minority equity investments in established, mid-sized alternative asset managers. Today we manage approximately $3.8 billion across the business.

## CREDIT MANAGEMENT

With approximately $11.9 billion in assets under management, we are a leading global credit manager based in London, New York and Singapore. We manage funds that invest primarily in senior secured corporate debt issued by mid- and large-cap corporates in Western Europe and the US. We have also entered the US middle-market lending space through our acquisition of CM Investment Partners.

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BUSINESS REVIEW

**"Our strong full-year results and ability to deliver on several strategic initiatives demonstrate Investcorp's resilience and focus on strategic growth and profitability goals, despite various economic and geopolitical challenges. This is attributable to our relentless efforts in globalizing our products and distribution platform, while remaining responsive to our clients' demands and needs. Our expansion into new geographies, such as China and India, and new products, such as direct lending and infrastructure, is mirrored by similar ambitions in diversifying our client base, both by geography and segment.**

**Our ambitious growth strategy of reaching $50 billion in AUM over the medium term is unchanged as we remain focused on delivering profitable growth, while retaining a prudent approach to balance sheet and liquidity management. We are well-positioned to continue delivering superior shareholder value and interesting investment opportunities for our clients."**

**Mohammed Alardhi, Executive Chairman**

## GROWTH INITIATIVES

A number of strategic initiatives have been completed and several are well underway to realize Investcorp's medium-term objective of more than doubling assets under management, including:

**Inorganic growth:**

- Completed the acquisition of a strategic minority stake in Banque Pâris Bertrand, an independent private bank based in Geneva and Luxembourg
- Opened an office in India with the launch of Investcorp India Asset Managers Limited, following the acquisition of the private equity and real estate funds businesses of IDFC Alternatives Limited in India
- Announced the acquisition of a majority interest in CM Investment Partners, an investment advisor focused on middle market lending in the United States (expected to close in FY20, subject to receipt of relevant regulatory approval)
- Announced a definitive agreement to acquire Mercury Capital Advisors, one of the world's leading institutional capital raising and investment advisory enterprises (expected to close in FY20, subject to receipt of relevant regulatory approval)

**Fundraising platform:**

- Placed first private equity deal, United Talent Agency, wholly in the United States
- Successfully closed a $185 million continuation vehicle with HarbourVest
- Closed a secondary transaction with Coller Capital to create a European private equity buyout fund of approximately $1 billion
- Completed the $403 million final close of the Firm's fourth technology fund

**Investment platform:**

- Announced the Firm's first private equity investment in China, in partnership with China Everbright Limited
- Successfully launched a joint venture with Aberdeen Standard Investments, that will invest in social and core infrastructure projects in the Gulf and MENA region

**Investment activity ($m)**


**Robust levels of activity with $2.9 billion of aggregate investment across Investcorp's businesses, a 2% year-on-year increase**

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


**A record level of deal-by-deal placement of $1.4 billion was achieved, reflecting strong client demand in both private equity and real estate**

**Realizations and distributions ($m)**


**Distributions to Investcorp and its clients from investment realizations and other distributions increased to $4.0 billion**

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


**The rise in profit for the year is predominantly attributable to higher fee income and lower interest expense partially offset by lower asset-based income and an increase in operating expenses**

BUSINESS REVIEW

**Fee income ($m)**


Fee income is up 17% versus fee income for the prior year, with growth in both AUM fees as well as in deal fees

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


Asset-based income decreased to $106 million primarily driven by lower private equity returns

**Cost-to-income**


Interest expense decreased by 9% due to a combination of lower average drawn balances and a lower spread.

The cost-to-income ratio remained stable at 65% with operating expenses increasing in line with income

## FY19 KEY BUSINESS HIGHLIGHTS

### Shareholder KPIs

$1.47 — Fully diluted EPS

12% — Return on equity

$13.26 — Book value per share

### Balance sheet KPIs

| Jun-18 | Jun-19 | |
|---|---|---|
| $2.5b | $2.4b | **Total assets** decreased primarily due to lower co-investments driven by exits |
| $1.1b | $1.1b | **Total equity** stable |
| $1.0b | $1.1b | **Accessible liquidity** substantially covers all outstanding medium-term debt |
| 0.5x | 0.4x | **Net leverage** remains well below 1.0x |
| 31.5% | 33.8% | **Basel III regulatory capital** well above CBB minimum requirements |
| 0.7x | 0.5x | **Co-investments/permanent & long-term capital** well below 1.0x |

## BUSINESS REVIEW

**Fundraising ($m)**

| | |
|---|---|
| $1,869 | Private equity |
| $639 | Real estate |
| $1,212 | Absolute returns investments |
| $2,007 | Credit management |

Total fundraising was **$5.7 billion** (FY18: $3.5 billion)

**$742 million** placed with clients in private equity investments, including the Firm's first China- and India-focused offerings

**$77 million** raised for the fourth technology fund, $1.1 billion raised through two secondary transactions with Coller Capital and HarbourVest Partners

**$639 million** placed with clients across six new real estate portfolios

**$1.2 billion** of new subscriptions for ARI

**$1.8 billion** raised for four new CLOs

**$125 million** of inflows for senior secured loan funds

**$86 million** for a CLO Risk retention vehicle

**$35 million** for a new Credit Opportunities Portfolio product

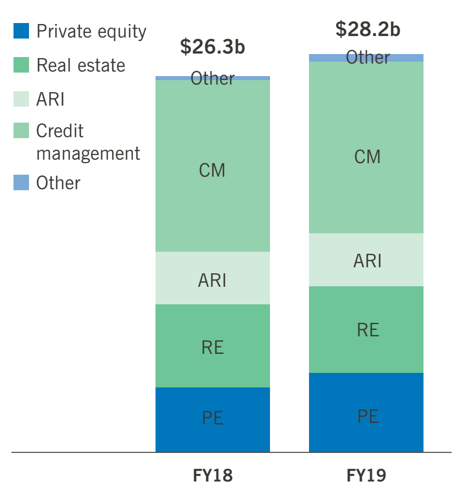
Private equity AUM has increased 21% to $5.8 billion, reflecting the well supported deal-by-deal fundraising during the year, including for the Firm's first China- and India-focused investment offerings

Real estate AUM increased by 4% during the year to $6.1 billion primarily due to the strong fundraising for new portfolios partially offset by a good pace of realizations of older properties. During the course of the year the Firm adopted prevailing market practices for calculating AUM for the real estate business by considering the market value of the managed assets

ARI AUM has increased by 2% to $3.8 billion, primarily due to strong fundraising for the Firm's hedge fund partnerships partially offset by the anticipated roll off of older, less profitable AUM

Credit management AUM increased by 4% to $11.8 billion primarily due to the issuance of four new CLO's and subscriptions into open-ended funds

**Total AUM ($b)**



## INVESTMENT ACTIVITY

**$750 million...**

...the aggregate capital deployed in **six new private equity investments, one special opportunity portfolio investment, IDFC Private Equity Fund IV** and five existing portfolio companies





**$670 million...**

...the aggregate capital deployed in five new **real estate portfolios**

| | | | |
|---|---|---|---|
| Jamestown CLO XI<br>(Warehoused from FY18)<br>**$71 million** | Jamestown CLO XII<br>(Warehoused from FY18)<br>**$366 million** | Harvest CLO XX<br>(Warehoused from FY18)<br>**€252 million** | Harvest CLO XXI<br><br>**€398 million** |

| | | |
|---|---|---|
| Jamestown XIV<br>(Warehoused)<br>**$40 million** | Harvest CLO XXII<br>(Warehoused)<br>**€200 million** | Harvest CLO XXIII<br>(Warehoused)<br>**€34 million** |

**$1.5 billion...**

...the aggregate investment in three carried forward CLO's & four new CLO's for the credit management business

BUSINESS REVIEW

## EXITS & DISTRIBUTIONS

Private equity exits included the sale of **Nobel Learning Communities**, a leading provider of private education in the US; the sale of **Gulf Cryo**, a leading manufacturer, distributor and services provider of industrial gases; the sale of **The Wrench Group**, a national leader in home maintenance and repair services in the US; the IPO of **Leejam**, a leading fitness chain operator in Saudi Arabia; the signing of an agreement to sell **SecureLink Group**, a leading cybersecurity infrastructure and managed services provider in Europe; the sale of three companies – **ATC Telecom Infrastructure Limited, Deepak Cables (India) Limited and Manipal Integrated Services** – from the portfolio of the newly acquired Indian business; and the secondary sale of the remaining portfolio companies in **Investcorp Technology III L.P** to HarbourVest (Investcorp Technology Partners will continue to manage the assets).

Significant real estate exits included the realizations of six portfolios: **2015 Residential I Portfolio** (with the sale of Fairways at Towson); **National Hotel Portfolio** (with the sale of Newark Hilton); **2014 Office and Industrial Portfolio** (with the sale of Highlands Campus Tech); **2013 Commercial Properties Portfolio** and **2014 Office** (with the sale of Oracle & International Centre); and **Villas at Green Valley**

Total realization proceeds and other distributions to Investcorp and its clients were $4.0 billion, including $1.0 billion related to the credit management business.

## INVESTCORP'S KEY PERFORMANCE INDICATORS*:

| | FY15 | FY16 | FY17 | FY18 | **FY19** | 5-year view (FY15-FY19) | |
|---|---|---|---|---|---|---|---|
| Fee income ($m) | 308 | 307 | 320 | 321 | **376** | 1632 | (cumulative) |
| Asset-based income ($m) | 73 | 76 | 102 | 133 | **106** | 494 | (cumulative) |
| Gross operating income ($m) | 381 | 383 | 422 | 454 | **465** | 2105 | (cumulative) |
| Cost-to-income ratio | 64% | 71% | 65% | 65% | **65%** | 66% | (average) |
| Return on average assets | 5% | 4% | 5% | 5% | **5%** | 5% | (average) |
| Return on ordinary shareholders' equity | 16% | 10% | 12% | 11% | **12%** | 12% | (average) |
| Diluted earnings per share ($)* | 1.29 | 0.94 | 1.25 | 1.30 | **1.47** | 6.25 | (cumulative) |
| Book value per share ($)* | 9.00 | 10.15 | 11.10 | 12.13 | **13.26** | 47% | (cumulative growth) |
| Dividend per ordinary share ($)* | 0.15 | 0.24 | 0.24 | 0.24 | **0.30** | 1.17 | (cumulative) |

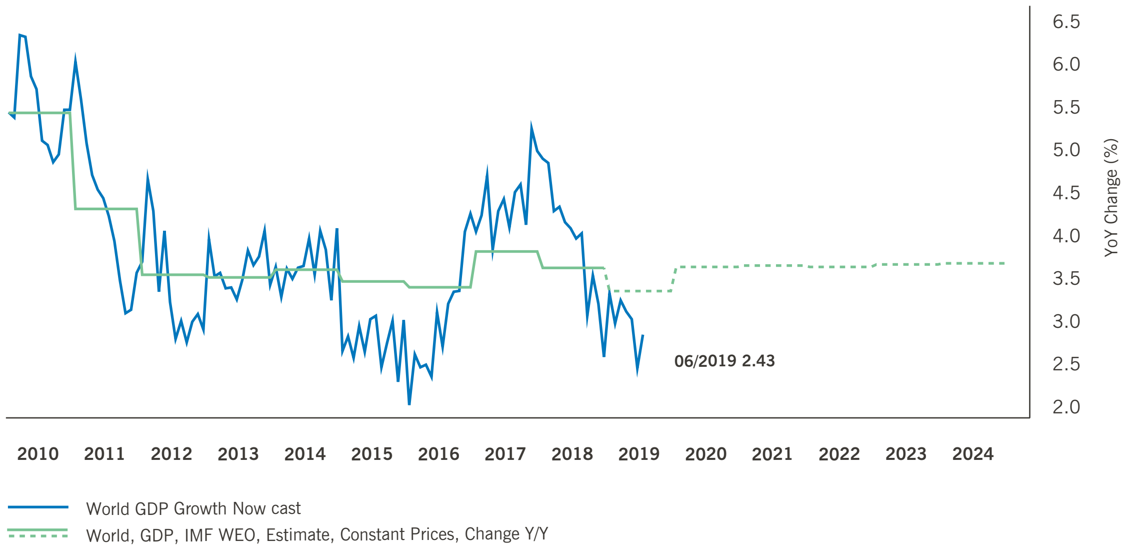
* The weighted average ordinary shares and the resulting metrics for FY15 have been realigned to reflect the share split executed in FY16.

BUSINESS REVIEW

## BUSINESS ENVIRONMENT

Measures of global economic activity have continued to decelerate since March 2019, as can be seen below. Global growth for 2019 is now expected to be slightly above 2.5%, significantly below IMF forecasts for the year. The slowdown has been particularly acute in the manufacturing and traded sectors, where the lagged effect of heightened policy uncertainty, last year's Chinese deleveraging, and higher US interest rates is taking its toll on sentiment and business investment decision-making.

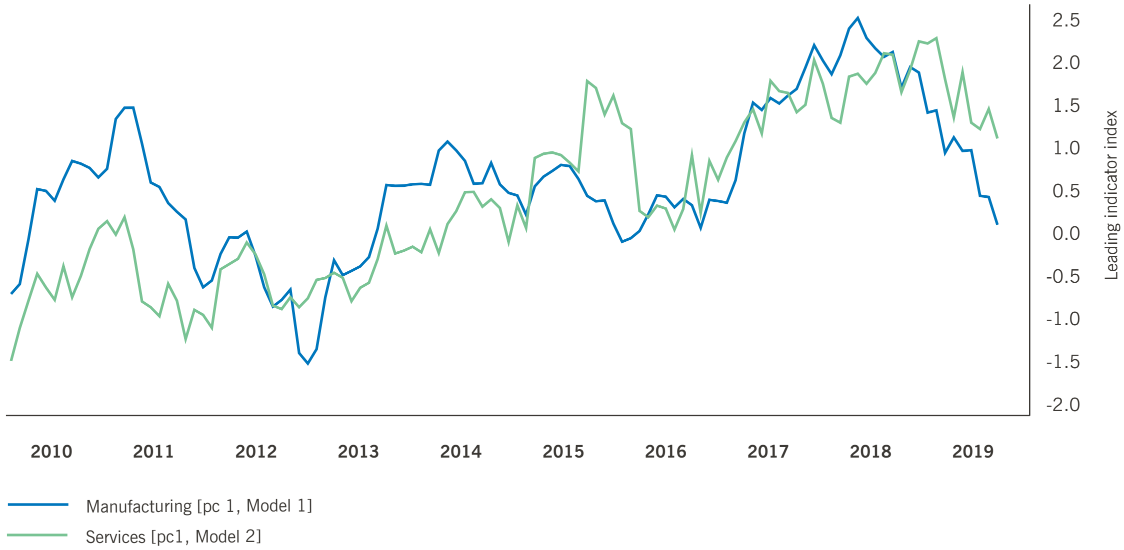
**Global GDP Aggregate Nowcast**




Source: Investcorp, Goldman Sachs, Morgan Stanley & Macrobond

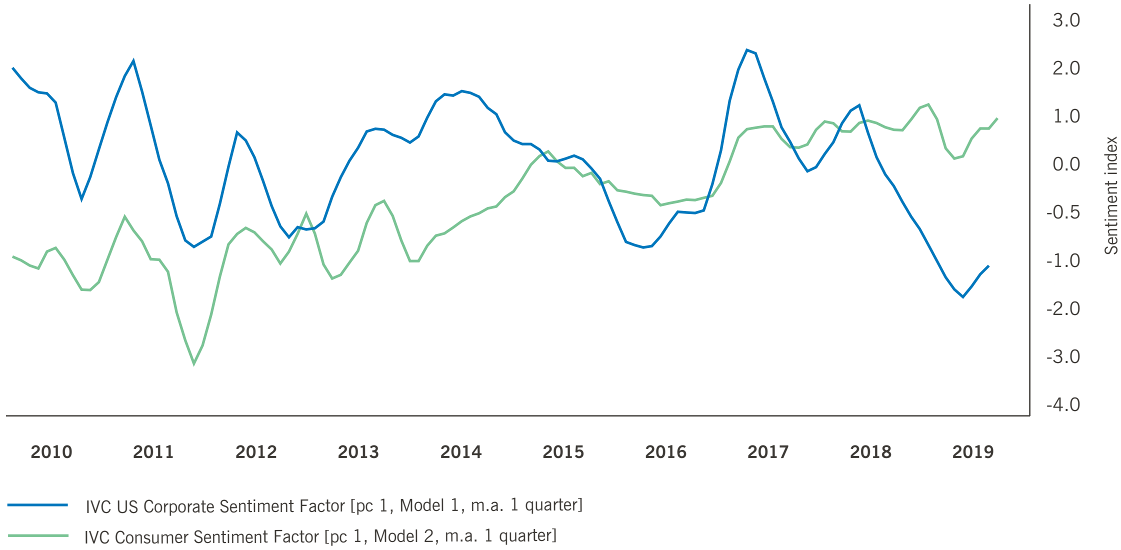
The services sector, in contrast, has been somewhat buoyant, bolstered by the resilient US consumer, as indicated by the two charts below. Low unemployment, decent real-wage growth, and a high savings ratio remain tailwinds for the segment. Still, a sustained downtrend in manufacturing could have a more far-reaching effect, which may already be evident in the recent services gauge decline. That said, this year's policy shifts by the Federal Reserve and the Chinese leadership may well brighten the outlook for manufacturing, assuming the rising US trade frictions do not tip the sector into outright recession first. Should this happen, it could be expected that the rest of the economy would likely fall into line and hopes for a further extension of the current cycle could quickly evaporate.

**US Leading Economic Indicators – Manufacturing vs. Services**




Source: Investcorp

**US Economic Leading Indicators – Consumer vs. Corporate**



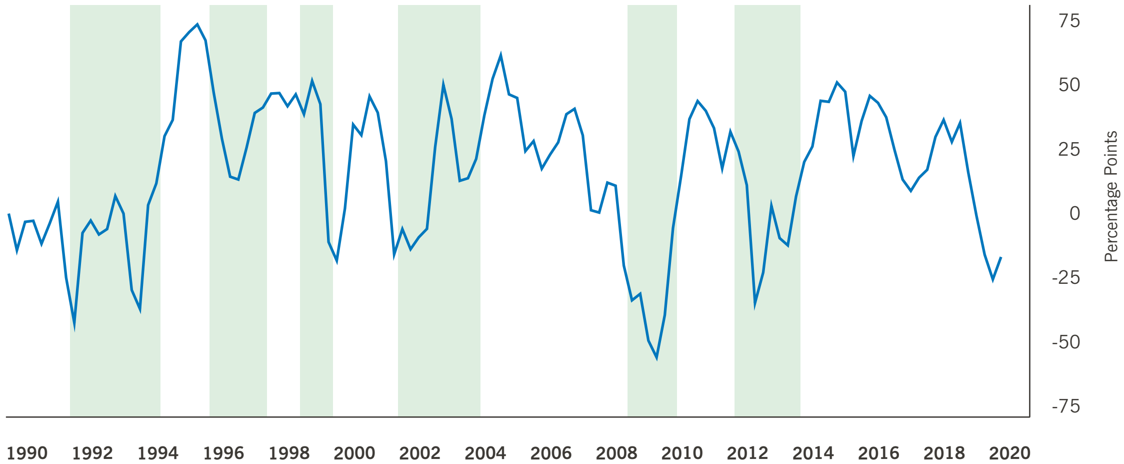

Source: Investcorp

In Europe, the ongoing slide in macroeconomic momentum is showing tentative signs of reaching its nadir; as can be seen in the following chart, capital spending expectations have recently staged a slight rebound. Nevertheless, the situation remains fragile and the calendar going forward is laden with potential negative catalysts. Among other things, the ratification of Boris Johnson as the UK's next Prime Minister has raised the risk of a disorderly 'no deal' Brexit, while in Italy, the summer lull could prove short-lived when the government begins negotiations in the fall regarding its 2020 budget.

BUSINESS REVIEW

**Europe Capex Expectations**

Euro area, Economic Situation Surveys, Ifo, World Economic Climate, Economic situation in the next 6 months.

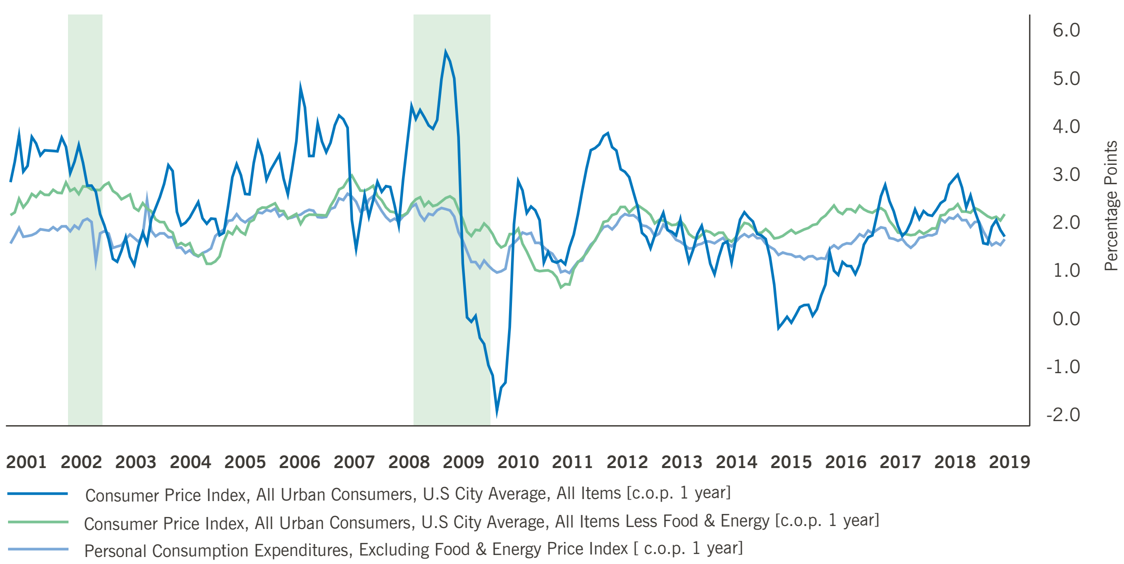



Source: Investcorp

Finally, the risks of further trade-related woes have not disappeared. President Donald Trump has kept his options open regarding the previously announced Section 232 investigation into Europe's automobile sector, while measures aimed at retaliation against increased European taxation and regulation of large US tech firms are also on the table.

With respect to global inflation dynamics – the US gauge is featured below – Investcorp anticipates that expectations will stabilize and gradually firm from where they are now. As evidenced by communications from the Federal Reserve and other central banks, policymakers are committed to engineering, through whatever means are necessary, a reflationary process that will alleviate some of the risks associated with rates being pegged near the zero-lower bound.

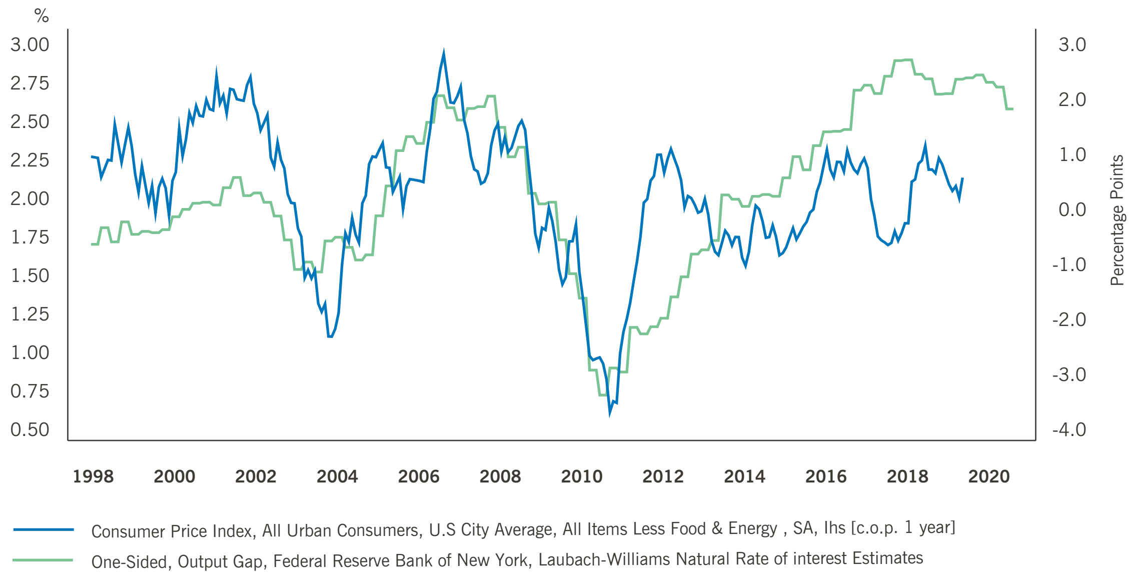
**US Inflation Measures**




Source: Investcorp

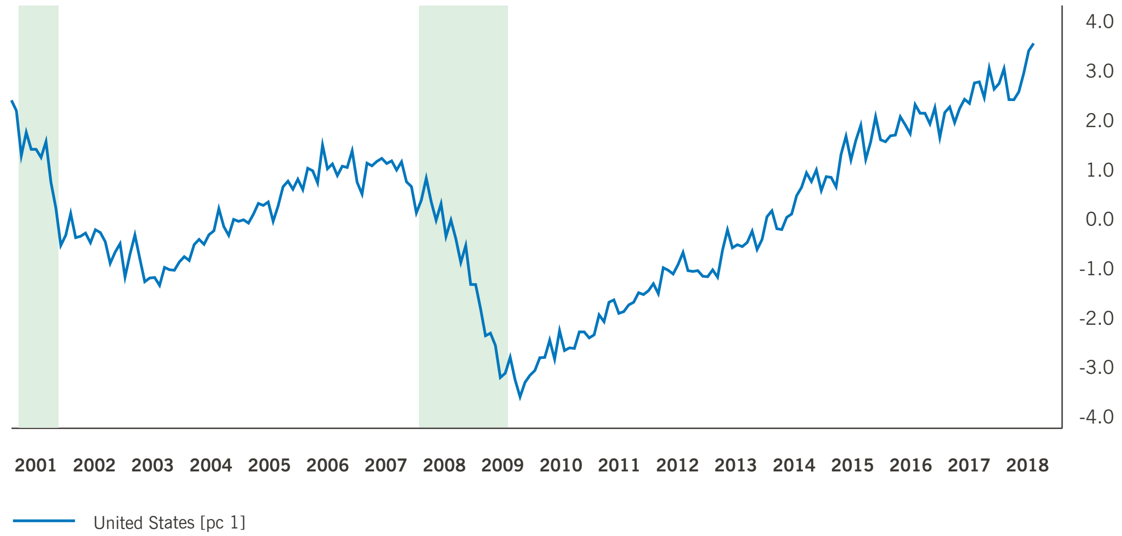
Lending further weight, output gaps in the US, highlighted in the first chart below, as well as globally, remain in or near positive territory, and industry surveys continue to point to limited slack in the economy. The US job market, in particular, is nearing historically high levels of tightness, as can be seen in the second chart. Even assuming that the Phillips curve becomes flatter, these factors will likely spur, in the medium term, a normalization of inflation toward the US central bank's target. Moreover, the suggestion in recent policymaker communications of a willingness to run the economy 'hot' and allow for an overshoot of targets to compensate for persistent undershooting in the past suggests that central bankers are more sanguine than normal about the risks to the upside, at least in the near term. Against this backdrop, it appears that central banks will seek to target an average inflation rate throughout the cycle, allowing for periodic overshoots following downturns.

### US CPI and Output Gap




Source: Investcorp

### US Labour Market Tightness Indicator




Source: Investcorp

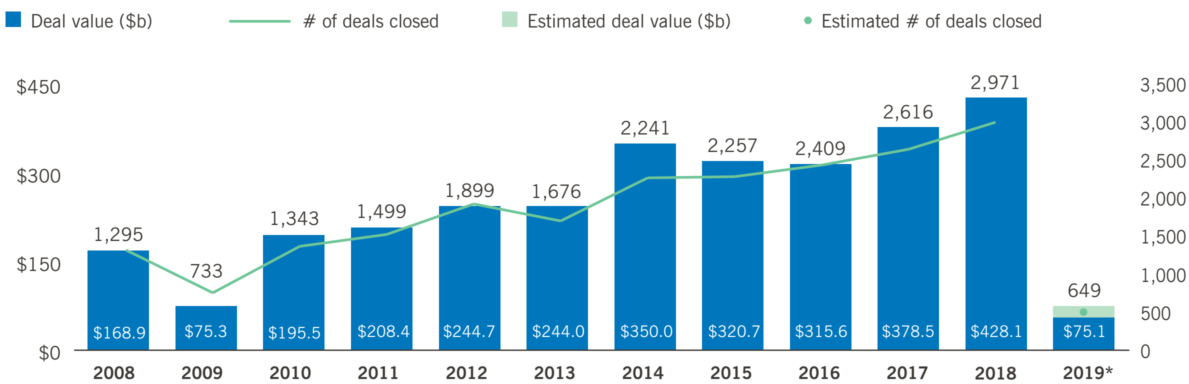
BUSINESS REVIEW

Despite the more dovish stance, it is yet to be seen whether the new framework will spur a reorientation of long-term inflation expectations. Inflation still faces structural headwinds that are difficult to quantify, including the effects of technological innovation and globalization. Taken together, however, Investcorp believes the various dynamics will engender a slightly higher path for inflation in coming quarters. Such an outcome will likely be welcomed by developed market central banks and governments alike, especially in Europe, where social disturbances in France and Italy continue to suggest a need to ease the pressures through higher nominal wages. These are expected to feed into higher prices down the line.

## PRIVATE EQUITY – NORTH AMERICA AND EUROPE

In the US, 2018 was another record-setting year for both deal value and transaction count. In Q1 2019, 649 middle market transactions were completed, totaling $75.1 billion in deal value – a 17.9% decrease in number of transactions and a 32.6% decrease in total value compared to the prior year. The large decrease in total value signals a shift toward smaller transactions being completed. The median middle market deal size was $155.0 million in Q1 2019, down from the $192.0 million median middle market deal size for the full year 2018. Investment in technology continues to grow and accounted for 27.1% of total deal value in Q1 2019. Multiples in the US remain high due to increased competition among PE firms in the middle-market space.

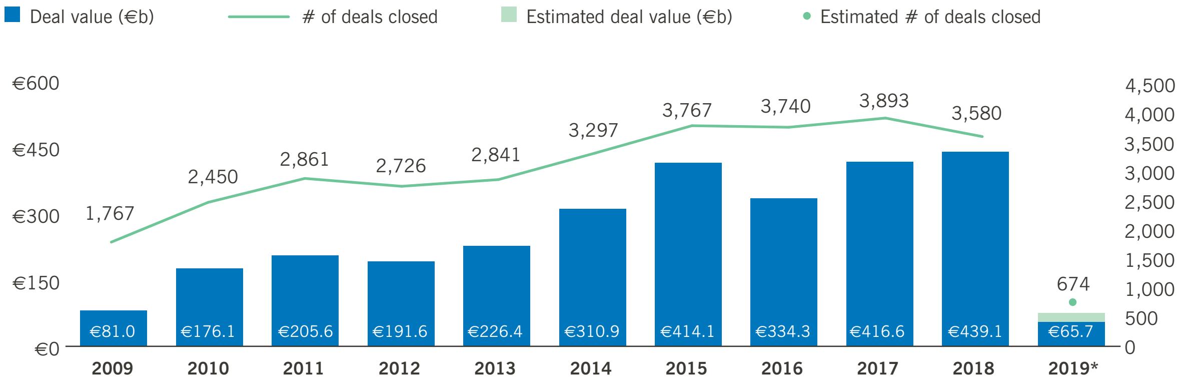
**US PE deal flow by year**




*As of March 31, 2019. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2019 US Breakdown Report

According to Pitchbook, in Europe, deal flow in Q1 2019 continued to slow down after 2018's record showing. With 674 deals estimated to be completed and totaling €65.7 billion during the first three months of the year, overall count is down approximately 26.8% compared to the same period in 2018. Deal value also decreased by 34.2%, caused by lower count as well as the downtrend in mega-deals (€1 billion or higher). While many of the deals closed in Q1 2019 were priced in Q4 2018, when public equities were expected to put a downward pressure on pricing, multiples remained raised and the median European buyout multiple was with 11.5x the highest figure on record. In addition to M&A activities, buyouts in the software space have been driving European deal activities. 15.4% of deals in the first quarter of 2019 were targeted and closed transactions in the software segment. This trend is being enforced by European regulations such as the May 2019 enacted GDPR law, which fosters the next generation of software targets.

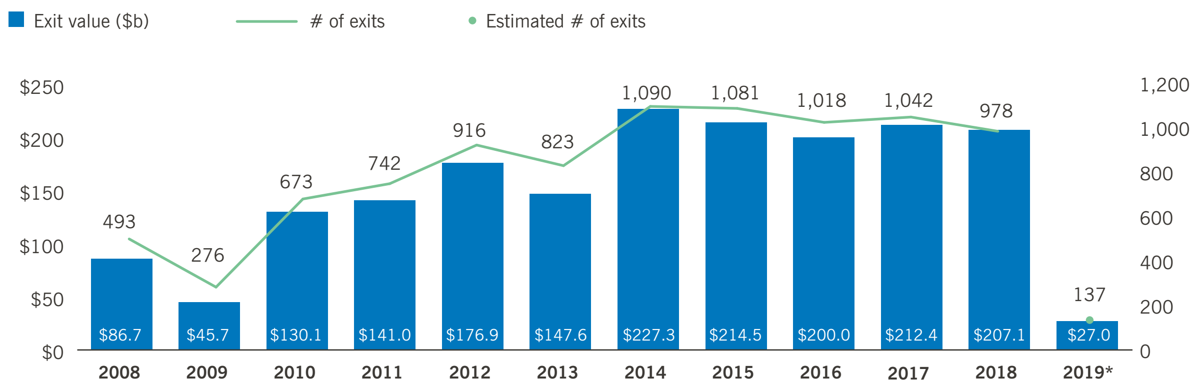
**Europe PE deal flow**




*As of March 31, 2019. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2019 European Breakdown Report

The US exit market was at its lowest level in six years in the first three months of 2019, with 137 transactions and an exit volume of $27.1 billion – representing year-over-year declines of 41.8% and 46.3%, respectively. This trend is expected to continue as the majority of companies acquired from 2014-2016 still are not ready for sale. Investment holding periods have lengthened to 6.8 years on average – with fewer than 50% of middle market exits now occurring in under five years. IPO activity continues to decline as secondary buyouts and corporate acquisitions offer more competitive pricing. IT deal exits follow a pattern similar to deal flow, with IT deals now accounting for a larger proportion of PE-backed exits (32.1%).

**US PE-backed exits**

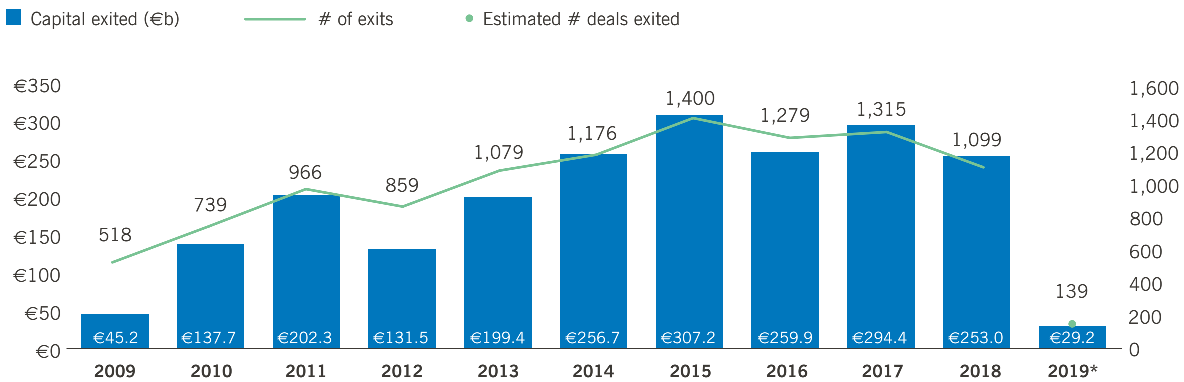



*As of March 31, 2019. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2019 US Breakdown Report

The number of European PE-backed exits in Q1 2019 decreased significantly, totaling €29.2 billion across 139 transactions, a decline of 50.1% and 52.7% year-on-year respectively. While this decline is visible across all deal types, secondary buy outs continue to account for the majority of exits. The drop in exit value is also caused by a lack of larger transactions, a trend continued from 2018. The share of IT exits continued to grow from 12.6% in 2018 to 18.7% in Q1 2019. This is not an unexpected development given the increase of deal activity in this sector over the past five years. IT investments tend to be scalable assets which often appreciate rapidly and exit activity in this sector is expected to grow moving forward.

BUSINESS REVIEW

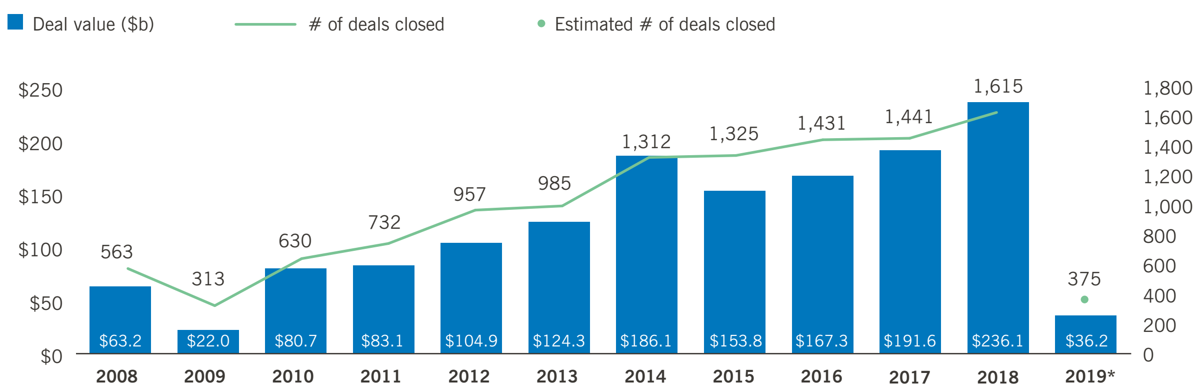
### European PE exit activity




*As of March 31, 2019. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2019 European Breakdown Report

US add-on investment activity hit a record in 2018 with 1,615 transactions totaling $236.1 billion – representing more than half of all buyout activity. The heightened add-on activity in recent years is largely being driven by prolific buyers that pursue numerous add-ons per platform. More than 25% of add-ons are now being acquired by platforms with at least five total add-on deals. It takes time to execute deals and integrate businesses; as such, the median time to exit tends to be about a year longer for companies that undergo at least one add-on investment.

### US PE add-on activity

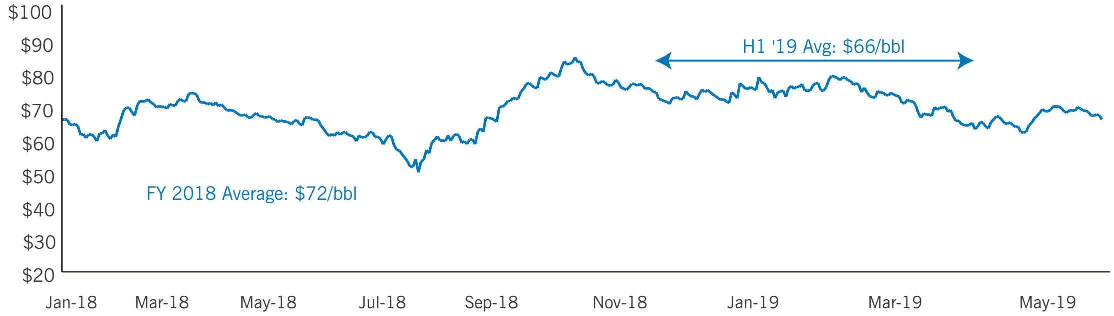



*As of March 31, 2019. Unknown values are estimated based on known figures.
Source: Pitchbook 1Q 2019 US Breakdown Report

## PRIVATE EQUITY – MENA

Crude oil prices increased from January through April 2019, driven by the efforts of OPEC and its non-OPEC partners to remove excess oil supplies from the market, further augmented by falling oil output from Iran and Venezuela due to a combination of political turmoil, as well as by lower supplies from Canada due to pipeline bottlenecks. The months of May to June 2019 registered a decline in oil prices on the back of global geopolitical tensions and concerns over a global slowdown. Overall, crude oil prices averaged $66 per barrel during the first half of 2019 ('H1 2019') compared to $72 per barrel in FY 2018. The U.S. Energy Information Administration projects oil prices to average $67 per barrel in 2019.

**Brent Crude Oil Price, January 1, 2018 – June 30, 2019 ($/bbl)**




Source: Bloomberg

The overall GCC real GDP growth in calendar year ('CY') 2019 is expected to pick up slightly to 2.1%, up from 2.0% in CY 2018. Non-oil GDP growth is expected to grow to 2.9% in 2019 compared to 2.3% in 2018. Government spending and multiyear infrastructure plans are likely to support economic activity in Kuwait and Saudi Arabia, whereas the Expo 2020 related spending in Dubai and Abu Dhabi's three-year economic stimulus program of $13.6 billion are expected to support near-term growth in the UAE.

After recording a growth of 2.2% during 2018, the IMF expects the Saudi economy to grow at 1.9% in 2019 with the non-oil segment growth expected to be 2.9% in 2019 compared to 2.1% in 2018. Saudi Arabia recorded a budget surplus of $7.4 billion during the first quarter of 2019 ('Q1 2019'), the first surplus registered by the Kingdom since the decline of oil prices in 2014. The IMF projects the fiscal deficit to rise to 7% of GDP in 2019 compared to 5.9% in 2018 due to higher government spending expected in the remainder of the year.

Challenges remain especially in the Saudi labor market on the back of the Saudization program and levies on expatriate workers and dependents. During H1 2019, Saudi Arabia approved a $3 billion refund plan to ease the expat levies companies must pay, to help revive economic growth. In a bid to encourage more Saudi nationals to work in the private sector, the Human Resources Development Fund announced plans to provide certain eligible Saudi nationals an allowance in the initial three years of employment.

In H1 2019, Saudi Arabia also approved a 'Privileged Residency System' which would offer special permits to certain skilled expatriates and investors to own property and apply for unlimited or one-year renewable visas without the need for a local sponsor.

The region is also witnessing several Public Private Partnerships ('PPP') being announced and awarded across various sectors. In June 2019, Saudi Arabia's Ministry of Health opened tenders for its first PPP project involving the upgrade of radiology and medical imaging services at seven hospitals in Riyadh.

The Saudi Tadawul All Share Index was up approximately 13% during H1 2019, benefiting from foreign inflows following its inclusion in the FTSE Russell Emerging Markets Index in March 2019 and in the MSCI Index in May 2019. The phased addition of the Tadawul index to the MSCI Index will give its stocks a weighting of approximately 2.6% on a proforma basis. According to the Saudi Tadawul CEO, the inclusions are expected to result in strong inflows of around $15-20 billion in 2019. Owing to the generally positive sentiment in financial markets in Q1 2019, Saudi Arabia raised $7.5 billion in long-term bonds due in 2029 and 2050. The first half of 2019 also saw Saudi Aramco sell $12 billion of international bonds across five tranches in the most heavily oversubscribed emerging market bond issuance ($100 billion).

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UAE's GDP is forecasted at 2.8% in 2019 compared to 1.7% in 2018, driven by private consumption and an increase in investment flows. According to a recent report by Ernst & Young assessing the economic impact of Dubai's Expo 2020, the event is expected to contribute approximately 1.5% of UAE's annual GDP from October 2020 to April 2021.

In H1 2019, UAE approved the regulatory framework for the issuance of residence permits to investors, entrepreneurs and innovators following the decision in November 2018 to adopt a new system of entry visas for investors and professional talents by providing them with long-term visas.

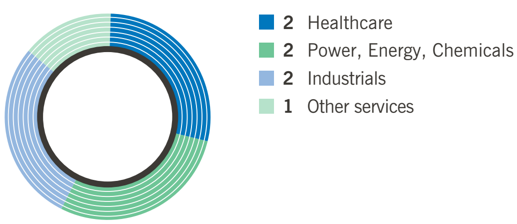
In H1 2019, Abu Dhabi enacted a new law designed to encourage private sector involvement in housing, infrastructure and education projects in the region, as part of the $13.6 billion three-year stimulus program to boost the economy. The law formalizes the creation of a government body, the Abu Dhabi Investment Office, to drive foreign direct investment and to lead the public-private partnership program.

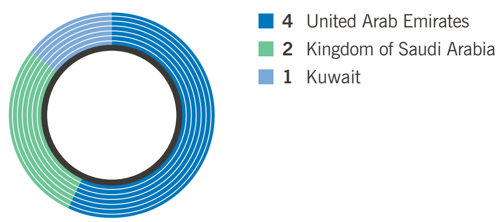
In summary, while uncertainties around oil prices remain, GCC governments overall remain committed to wide-ranging economic and social reforms to transform their economies away from the traditional reliance on oil and to create a more dynamic private sector.

During H1 2019, the GCC stock exchanges registered three IPOs and no REIT issuances with a total capital raised of approximately $920 million. This compares to one IPO and six REIT issuances in Saudi Arabia and two IPOs in Oman in H1 2018, with a total capital raised of approximately $850 million.

H1 2019 recorded 43 M&A transactions in the GCC region, compared to 56 transaction, in H1 2018 (-23%). Seven of these transactions were led by a financial buyer in H1 2019, compared to nine transactions in H1 2018. Healthcare, Power, Energy and Chemicals and Industrials were the most active sectors, with the UAE being the most active market. During the same period, there were six exits by a financial investor.

**Breakdown of GCC Private Equity Transactions in H1 2019 (January 1 – June 30)**




Source: Merger Market, Investcorp Analysis as of June 30, 2019

The Turkish economy witnessed a contraction of -2.6% year-on-year in Q1 2019 on the back of high inflation, pervasive consumer pessimism and currency weakness, further highlighted by slow consumer credit growth and ongoing weakness in the construction sector.

The Turkish Lira depreciated by approximately 9% during H1 2019 to reach TL5.79:US$1.0 as of June 30, 2019, due to concerns over heightened economic uncertainties and geopolitical tensions.

The Central Bank of the Republic of Turkey kept the benchmark interest rate unchanged at 24.00% for the sixth consecutive meeting, in line with market expectations. The Bank's decision was driven by the fact that weak domestic demand and tight monetary policy are feeding through to softer inflationary pressures. Inflation, which came in at a nine-month low of 18.7% in May 2019 has been on a general downward path since October 2018.

In April 2019, Turkey's 12-month cumulative current account deficit fell to its lowest level since 2009, narrowing to $8.6 billion (1.2% of GDP), down from $27.1 billion in December 2018 (3.4% of GDP). The decline was supported by price competitiveness and tourism owing to a weak lira and coupled with muted domestic demand.

The IMF predicts Turkey's real GDP to contract by 2.5% in 2019 compared to a growth of 2.6% in 2018 as the elevated inflation, a steep increase in borrowing costs and curtailed bank lending continue to weigh in on household purchasing power, private consumption and investment. Economists however predict that the economy should recover in 2020 as inflation softens and current account narrows, providing room for monetary policy easing.

While near term risks remain, the medium to long-term outlook for the Turkish economy remains 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.

There were no IPOs recorded in Turkey in H1 2019 owing to volatile market conditions coupled with weak investor appetite.

On the M&A front, Turkey recorded 37 M&A transactions in H1 2019 compared to 54 transactions in H1 2018 (-31%). Three out of these transactions were led by a financial buyer compared to eight transactions in H1 2018. During the same period, there were five exits by a financial investor.

## PRIVATE EQUITY – INDIA

Private equity deal activity was up 8.8% in terms of value from $25.7 billion in 2017 to $27.9 billion in 2018, but the number of deals declined by 19% to 1,057 from 1,307. Private equity buyouts continue to be the largest contributor to the total and made up slightly more than half of the total in 2018 with a volume of $14.1 billion.

In the first quarter of 2019 the number of deals continued to trend down to 209 in total from 238 in Q4 2018 and from 369 in Q1 2018. Deal volume remained relatively steady, however, at $8.4 billion and was up 20% compared to Q1 2018. The trend down in deal count reflects the caution of investors; however the high deal volume reflects a continued willingness to invest, but primarily in more established businesses.

**Table 1 – Deals Overview**


Source: VC Edge

The value of private equity exits increased 23% to $15.3 billion in 2018 from $12.5 billion in 2017, although the number of deals declined from 290 to 218. This reflects the influence of several large deals. The top deal (the sale of Flipkart to Walmart) contributed 48% of the total and the top 10 deals contributed approximately 79% of the total exit value.

Deal activity trended down in terms of number and value of deals in the last half of 2018 with a slight rebound in Q1 2019. The decline in activity can be at least partially attributed to the uncertainties around and the attention focused on the Indian elections in April-May 2019. Activity levels are expected to revert to more normalized levels now that the elections have taken place.

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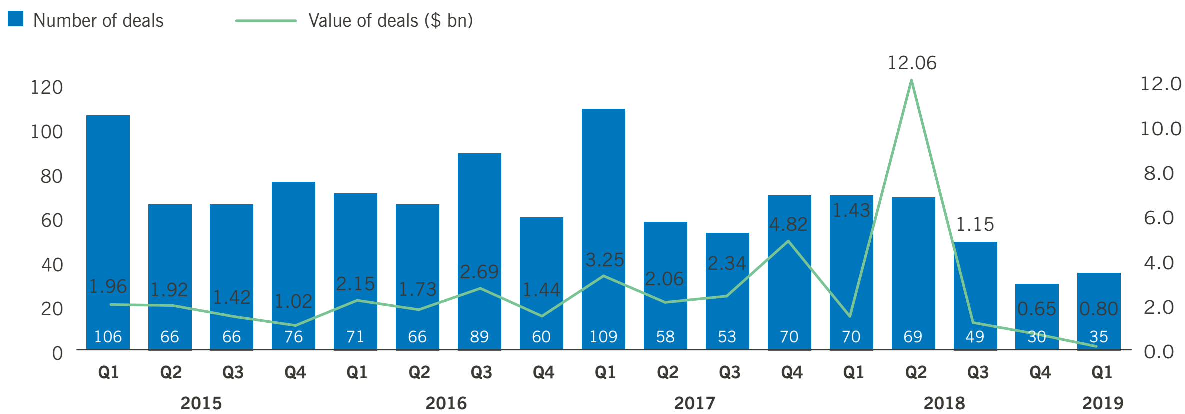
**Table 3 – PE Exits Overview**



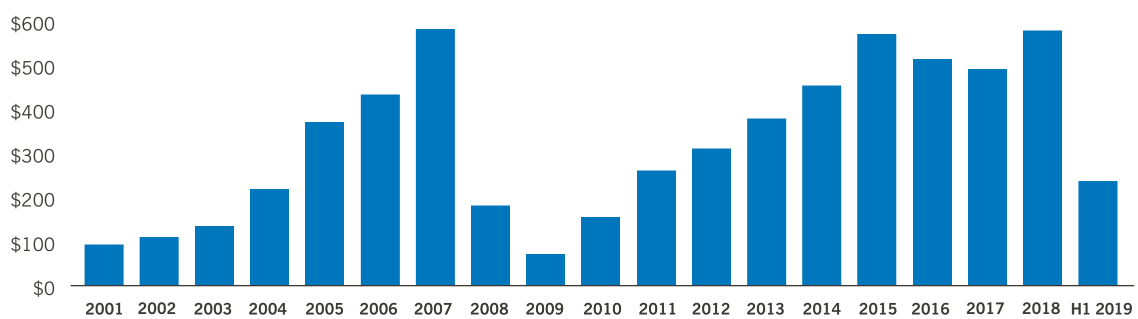

Source: VC Edge

## REAL ESTATE INVESTMENT – NORTH AMERICA

Commercial real estate market fundamentals in the US remain healthy across most asset classes in a majority of metropolitan areas. Uncertainty due to trade issues, policy uncertainty and the impact of tax changes made for a somewhat slow start to 2019. However, the US economy now seems more stable and is once again driving demand for US property with an increase in leasing activity, market rents and values. US employment levels continue to grow steadily, and the unemployment rate stands at 3.7% as of June 2019 (versus 4.0% in June 2018). These trends continue to have a favorable impact on the office, multifamily, student housing, retail, industrial and hospitality sectors.

US real estate transaction volume is up 2% year-over-year through June 2019 versus the same period last year. However, the growth was not uniform across property types. Office sector sales volume was up 30% year-over-year and multifamily volume was up 20% for the same period. Sales volume fell in the industrial sector in Q2 2019, down 13% year-over-year. Despite this decline, investors are still eagerly pursuing industrial investments. Overall prices continued to grow, although at a slower pace from a year earlier. Capitalization rates remain largely unchanged from a year ago. Further, operating fundamentals remain solid. Capital flows into the US are expected to 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. 2019

US **office market** fundamentals remained sound through Q1 2019. Office-using employment remained resilient and expanded in Q1 2019, with tech markets in the West and low-cost markets in the South continuing to see the highest office-using job growth. According to CBRE, office vacancy rates across the US remained at 12.5% in Q1 2019, the lowest level since 2007. Downtown vacancy rates increased to 10.5%, while suburban vacancy rates decreased. San Francisco maintained the lowest vacancy rate in the US in Q1 2019 at 4.7%, due to continued strong tech-tenant demand. According to CBRE, rent growth has accelerated over the past year, with the average asking rent increasing by 2.7% in Q1 2019, the largest quarterly increase since 2007. New supply completions decreased in Q1 2019 to 9.6 million square feet, the lowest quarterly level since 2006.

US **retail market** fundamentals remained healthy through Q1 2019 due to strong retail sales and net asking rents increasing across all major retail property segments. According to CBRE, all retail segments – except for power centers – posted positive net absorption in Q1 2019. The overall availability rate fell slightly to 6.2% in Q1 2019. Availability rates declined for both the neighborhood, community and smaller shopping center segment and the lifestyle and mall segment, but rose slightly for the power center segment. Retail sales, excluding sales at gasoline stations, remained healthy and increased by 3.8% year-over-year, driven by growth in e-commerce (non-store retailers) and restaurants. Net asking rent growth increased by 1.5% in Q1 2019 and 4.8% year-over-year. The average net asking rent reached the highest level since Q4 2008 according to CBRE.

US market fundamentals for the **industrial market** remained stable through Q1 2019. This sector, along with multifamily and student housing, remain the three most desirable sectors within the real estate space. According to CBRE, new supply slightly outpaced demand for the first time in over eight years. However, the US industrial availability rate remained at 7.0% – the lowest level since Q4 2000. Detroit, Salt Lake City, Milwaukee, Portland, Las Vegas and the San Francisco Peninsula led the way with the lowest availability rates, all below 4.5%. Low availability rates and strong leasing demand have resulted in sustained rental growth. The average net asking rent grew 2.2% in Q1 2019 to $7.51 per square foot – the highest level since CBRE began tracking the metric in 1989. Rents increased 8.1% year-over-year, the highest growth rate in this cycle. New supply was down almost 50% from the previous quarter and over 20% year-over-year. A strong labor market and rising wages are expected to continue to be a primary driver of demand for industrial space. In addition, the continued strength of the US dollar, low inflation and rising nominal income are expected to lead to more imported goods. According to CBRE, each dollar increase in imports consumes three times more warehouse space than each dollar increase in exports.

US market fundamentals in the **'for rent' multifamily market** remained healthy in Q1 2019. According to CBRE, the vacancy rate fell to 4.6% year-over-year. Markets with the lowest vacancy rates were Minneapolis, New York metro and Providence – all below 3.5%. Average monthly rent rose 3.0% year-over-year, above the 20-year historical average of 2.5%. Demand remains strong due to favorable demographics and shifting lifestyle preferences favoring renting rather than owning. While multifamily rents have risen 35.3% this decade, single-family home prices have risen much more (59.4% over the decade). New supply is concentrated in large markets (typically in urban locations) with more than half of all new supply located in only 10 markets. Markets that saw the biggest increase in supply for the four quarters ended in Q1 2019 were New York, Dallas/Fort Worth and Los Angeles/Southern California. Demand in each of these markets remains solid.

The US **student housing market** continues to be an attractive asset class. 2018 was a record-setting year for the sector, with transaction volume of almost $11 billion (a 39% increase from 2017, and a 77% increase over the five-year average). Capitalization rates in 2018 stayed constant with 2017 levels, despite a volatile interest rate environment towards the end of the year. Both foreign and domestic capital sources continue to seek ways to enter the sought-after asset class. The student housing sector has historically performed well during recessionary periods and forecasts on new supply, enrollment growth and occupancy are favorable, which are expected to create a positive operating dynamic in the near term.

The US **hospitality market** grew slightly in Q1 2019. According to CBRE, demand growth grew by 2.4% year-over-year and supply growth remained at 2.0%. The markets which saw the largest year-over-year demand increases were Louisville, Nashville and Milwaukee. US occupancy increased by 0.4% year-over-year, setting a new Q1 occupancy record of 61.8%. Average daily rate (ADR) increases remained modest at 1.1%, which resulted in revenue per available room growth of 1.5%. Two of the top three ADR growth markets were in the Bay Area (San Francisco and Oakland), reflecting the positive impact of the tech industry on lodging demand. Atlanta, host of the 2019 Super Bowl, had the second largest ADR growth. Markets that saw the biggest increase in supply year-over-year were Nashville, Seattle and Louisville.

## REAL ESTATE INVESTMENT – EUROPE

### United Kingdom

UK economic growth has been more resilient than had been forecast immediately after the EU referendum result. However, Brexit-related uncertainty continues to hinder growth and the fall in the pound has hit real spending power. GDP growth was 1.4% over 2018. This is due to continued subdued real consumer spending growth and the drag on business investment from ongoing economic and political uncertainty relating to the outcome of the Brexit negotiations.

Despite the uncertainty, the UK unemployment rate remains steady at 3.9%, the lowest number since January 1975. The 12-month inflation rate fell to 1.8% in March 2019, considerably down from 2.3% in March 2018.

The e-commerce revolution is predicted to continue to drive sustained demand for industrial and logistics space in 2019, with demand for bigger 'big boxes' increasing fastest. This was evidenced by the fact that e-commerce companies and third-party logistics firms accounted for over half of the floor space taken in 2018. Upward pressure on rental levels was sustained throughout much of the UK during 2018, with average rental growth for prime stock of 5.0%. Whilst 2018 was a record year for both investment and take-up, activity slowed in the first three months of 2019, with many occupiers and investors taking a 'wait-and see' approach in the run up to (the now delayed) Brexit day. The market remains fundamentally strong, with rents continuing to rise, and investors' interest in the sector showing no signs of abating.

Central London office investment is forecast to be approximately £5 billion for the first half of 2019, a 39% drop on a year-ago; this drop is attributed to Brexit which has deterred investors. Whilst investment is down, pricing levels have not suffered and yields have remained firm as decreasing supply pipeline coupled with strong levels of pre-leasing has led to intense competition for development and refurbishment opportunities across the capital. The occupational market saw a strong first half, with the volume of space let forecast to reach 4.3 million square feet, only 6% below the 10-year average.

The regional office story is similar to London's; after record take-up levels in 2018, Q1 2019 slowed but remained healthy. In aggregate across the "Big Nine" markets take-up in Q1 2019 was 4% below the 10-year average, with the out-of-town market performing better than the city centers. The average office vacancy rate in the "Big 6" markets fell below the 5% mark for the first time ever during 2018, while Grade A vacancy stands at just 1.5% (source: JLL). On the supply side, city center office construction is currently at its highest level since 2007, standing at more than 5 million sq. ft, although over half of this is already pre-let. As with London offices, investment volumes in the regions outside London were significantly down in Q1 2019, at around 45% of the 10-year average. Vendor pricing expectations are holding firm and the delta of price expectation between buyers and sellers have contributed to the low level of transactions.

Retail continues to suffer with a number of high-profile retailer Compulsory Voluntary Agreements (CVAs) during the past 12 months. The investment market remains challenged with investor caution having an impact on pricing, and the spread between prime and secondary yields continuing to widen.

Across all sectors, total investment volumes for the UK declined year-on-year by 6.5% during 2018 to around £62 billion; however, activity in central London rose 10% compared with 2017. The first quarter of 2019 slowed further with many investors standing on the sidelines until more clarity on the Brexit outcome is known.

### Germany

Capital Economics forecasts German GDP growth of 0.5% in 2019 and 0.8% in 2020, lower than the 2018 GDP growth rate of 1.5%. German unemployment has continued to decline over the last five years and is forecast to be at 3.2% in 2019 according to Capital Economics. A continued low unemployment rate is expected to benefit domestic demand, which is in turn expected to support economic growth in Germany.

In 2018, the office take-up volume in the 'Big 7' German office markets (Berlin, Frankfurt, Hamburg, Munich, Dusseldorf, Stuttgart and Cologne) reached around 3.8 million square metres, which is the third-best year in terms of take-up since the millennium and 17% above the 10-year average. Due to a lack of available good-quality product in the 'Big 7' office markets, take-up dropped by 8.7% when comparing 2018 to 2017, while the aggregate vacancy rate decreased to 3.1% as at Q4 2018, down from 4.1% in Q4 2017 (source: Colliers).

There is a significant shortage of office space, particularly in central city locations; this shortage of available stock has left many companies unable to relocate. Unlike in previous cycles, completions and supply have not kept pace with the positive demand and are slowly starting to react. In 2018, in the 'Big 7' German office markets, completions amounted to 843,000 square metres, which is approximately 7% below the five-year average. The strong demand is also reflected in continued positive net absorption in the 'Big 7' German office markets. This figure is quoted at more than 1.6 million square metres for 2018, which refers to the amount by which occupied office space has increased (source: Colliers).

Investor appetite for office assets remained strong in 2018; total German office transaction volume amounted to €30.9 billion, representing an increase of 16% year-on-year, the highest for 10 years (source: Colliers).

## REAL ESTATE INVESTMENT – INDIA

The real estate sector in India is expected to reach a market size of $1 trillion by 2030 from $120 billion in 2017 and contribute 13% of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

Sectors such as IT and IT enabled services, retail, consulting and e-commerce have registered high demand for office space in recent times. Commercial office stock in India is expected to exceed 600 million square feet by 2018 end while office space leasing in the top eight cities (Mumbai Metropolitan Region, National Capital Region, Pune, Bengaluru, Ahmedabad, Hyderabad, Kolkata and Chennai) is expected to exceed 100 million square feet during 2018-20. Co-working space across the top seven cities (top eight cities excluding Ahmedabad) has increased sharply in 2018 (up to September), reaching 3.44 million square feet, compared to 1.11 million square feet for the same period in 2017.

The residential real estate market in the top seven cities is now going through a phase of consolidation, with absorption, supply and prices displaying a downward trend in many micro markets. The implementation of the following three key policy decisions/reforms have had a negative immediate impact on an already slow residential market:

1. Demonetization – All INR 500 and INR 1,000 notes were demonetized in November 2016, causing people to be wary of spending, leading to a decline in demand for housing. Property registrations saw a decrease of up to 40% (source: Kotak Mahindra Bank Report), giving rise to an air of fear among developers. This led to them putting many projects on hold to avert losses and risk.

2. The Real Estate Regulation (and Development) Act ('RERA') came into effect in May 2017. It aims to boost investments in the real estate sector and create a more transparent environment for property buyers by increasing the accountability of builders

3. Goods and Services Tax ("GST") – this tax reform has been implemented with the intent of simplifying the indirect tax

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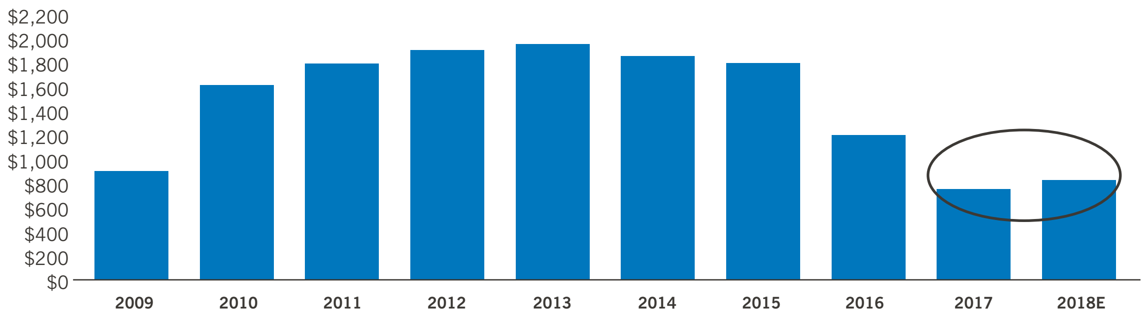
As seen in the chart below, sales declined in 2016/17 following demonetization and the implementation of RERA and GST. Pre-sales at listed developers over H1 FY19, however, are starting to revert to normalized levels.

**Residential sales (Rs billion)**




Source: PropEquity, J.P. Morgan

Some of the major investments and developments in this sector recently are as follows:

- Commercial real estate saw the highest ever leasing absorption of over 47 million square feet with institutional inflows of over $3.3 billion in 2018.
- Residential property sales rose 58% from a year ago to ~78,000 apartments during the quarter ended March across the top seven cities.
- In April 2019, India implemented goods and services tax reform in the real estate sector, seeing rates drop to 1%-5%. This is against earlier rates of 8-12%.

The Government of India along with the governments of the respective states has taken several initiatives to encourage development in the sector. The Smart City Project, where there is a plan to build 100 smart cities, is a prime opportunity for real estate companies. Below are some of the other major Government initiatives:

- Under the Pradhan Mantri Awas Yojana (PMAY) Urban, more than 6.85 million houses have been sanctioned up to December 2018.
- In February 2018, creation of the National Urban Housing Fund was approved with an outlay of INR 600 billion ($9.3 billion).
- Under the Pradhan Mantri Awas Yojana (PMAY) Urban 1.4 million houses were sanctioned in 2017-18. In March 2018, construction of an additional 320,000 affordable houses was sanctioned under the scheme.

A further impetus to the sector has come from the recent proposal by the Reserve Bank of India to allow banks to invest in real estate investment trusts and infrastructure investment trusts.

Source: Media Reports, Press releases, Knight Frank India, VCCEdge, JLL Research, CREDAI-J, Kotak Mahindra Bank Report, Prop Equity, JP Morgan, IBEF Report

## ABSOLUTE RETURN INVESTMENTS

Hedge funds delivered positive performance of +1.3% for FY19, as measured by the HFRI Fund of Funds Composite Index, compared to FY18 performance of +5.2%.

Performance was markedly different between the first and second halves of FY19. The HFRI Fund of Funds Composite Index was down 4.7% for H1 FY19 as global equity markets suffered significant volatility, particularly in October and December 2018. December 2018 was the worst performing December for the Dow Jones Industrial Average and the S&P 500 since 1931. The S&P 500 was down 6.9% and the MSCI World was down 8.9% in H1 FY19. Conversely, the HFRI Fund of Funds Composite Index was up 6.3% for H2 FY19. A strong rebound in risk assets led H2 FY19 to be the strongest period for risk assets in over ten years and the S&P 500 had the best H2 FY19 performance since 1997.

**Global macro discretionary** funds were marginally positive over FY19; the HFRI Macro Index was up 2.8%. Performance was more challenged in H1 FY19 amid a challenging backdrop for both traditional asset classes and across most hedge fund styles, with H2 FY19 proving to be more conducive for the strategy. The most successful macro players were those that successfully captured the movement in risk assets over this period – primarily it paid to be long risk assets (equities, credit) and long duration. Despite the overall muted returns for macro there was some excellent performance from several macro hedge funds. Emerging markets focused managers performed well, particularly if they risk managed well in Q4 2018 and then re-engaged in H1 2019, as well as directional and relative value rates specialists. The key trade for macro managers during H2 FY19 was to be long duration, as global bond yields tumbled across the world. Many leading bond markets, including Germany, France, Switzerland and Japan now have negative yields. German Bunds have negative sovereign yields out to as far as 20 years in maturity. Looking across the world there is now approximately $13.4 trillion of negative yielding debt. The US 10-year rallied 70bps (2.83% to 2.07%) between January and June to return +6.9%. Macro discretionary managers tend less to play equities, often using equities as a hedge or relative value. However, managers that were able to engage in late December/early January after the steep drawdown between October and December were well rewarded. Managers also saw plenty of opportunities in the commodity space with strong performance across energy, particularly gasoline and WTI/Brent. WTI rose steadily from the December lows of $42 to break above $65 in late April. Also, in precious metals – gold broke out of recent trading ranges to break $1,400 in June as the opportunity cost of yield bearing assets fell. There were also idiosyncratic moves in soft commodities due to both tariffs (soya beans) and weather conditions (e.g. corn had the slowest planting progress since records began).

**Commodity trading advisors ('CTA')** outperformed the broader hedge fund indices in FY19. Performance was particularly strong for pure trend followers in H2 FY19. CTA performance was primarily driven by managers that had exposure to fixed income duration and equity markets as CTA's benefited from the strong rallies across equity and fixed income. Performance in commodity markets was mixed with several managers catching the strong moves up in energy but others were caught out in the sharp reversals in soft commodities such as corn.

**Equity market neutral** strategies underperformed in FY19. The Equity Market Neutral (EMN) strategy has struggled for much of the fiscal year primarily due to aggressive factor rotation and a persistent 'growth' versus 'value' factor bias that has hampered returns. There have been significant liquidations across the quantitative equity space in FY19 most likely emanating from large liquidations from multi-strategy and specialist quantitative managers and this has had a negative impact on the broader space.

**Fixed income relative value** strategies performed broadly in-line with broader hedge fund strategies during FY19. Managers that employ a long volatility bias have generally struggled in FY19 as all asset class volatilities trended lower in recent years with fixed income particularly subdued. Despite a pick-up in fixed income volatility in Q2 2019, levels preceding this in Q1 2019 hit all-time lows. Some managers were able to benefit from classic cash/futures basis trading in both the US and Europe. This strategy currently benefits from the regulatory induced reduction of bank proprietary trading desks, thereby increasing barriers to entry and limiting competition.

**Convertible arbitrage** strategies produced consistent returns over FY19 outperforming broader hedge fund indices. Performance was particularly strong in H2 FY19 as convertible arbitrage strategies benefitted from strong credit markets. Managers employing 'synthetic put' structures were successfully able to trade gamma (volatility) opportunities. The new issuance calendar has also provided a positive backdrop to the strategy, particularly for those managers that have the ability to participate in new issuance and to take advantage of ensuing weakness in secondary pricing.

**Credit** funds were up 3.2% in FY19 as measured by the HFRI: Credit Index. Within this category, funds focused on corporate credit led the way (HFRI: RV-FI Corporate Credit +5.7%), followed by structured credit funds (HFRI: RV-FI

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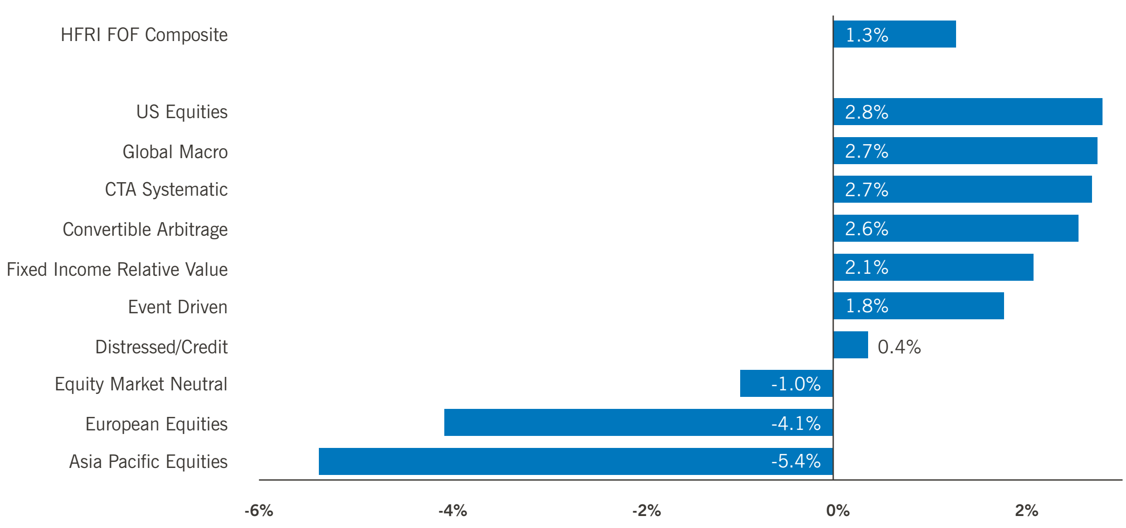
ABS +3.7%) and then distressed funds (HFRI: Event-Driven Distressed/Restructuring +0.3%). All benefited from a strong high yield ('HY') market as the Bank of America Merrill Lynch HY Master Index returned +7.3% in FY19. Despite marginally wider spreads, high yield performance was driven largely by the receipt of coupon and lower risk-free rates as defaults remained well below the long run average. Managers parlayed higher yielding CCC bonds and an active refinancing market into attractive returns across corporate credit strategies. Distressed strategies lagged as CCC bonds finished the fiscal year with spreads as much as 100bps wider than at the start. ABS strategies finished somewhere in between on the backs of overall limited available carry for many RMBS trades and declining excess spread in the case of CLOs.

**Equity long/short (L/S)** hedge funds finished the fiscal year with positive performance as the HFRI: Equity L/S (Total) Index was up 0.4%. A strong second half to the fiscal year turned performance around as equity focused hedge funds were down 8.2% in the first six months but up 9.4% in the latter six months. Hedge funds averaged a beta to the MSCI World Equity Index of 0.55 during the fiscal year, corresponding to a negative alpha of 3.1% on the year vs. the index. Periods like FY19 where markets abruptly switch direction can be difficult for fund managers as they often get whipsawed and become defensive just as markets turn. Managers added some tactical gains by increasing their beta in the second half of the year as the MSCI World Equities Index went from losing 9.1% after the first six months to gaining 17.0% over the next six months. Against this backdrop, those funds focused on US markets tended to outperform those focused mostly elsewhere, just as those funds with a more long-biased approach easily outperformed those funds with a more muted market stance.

**Event driven** funds finished the fiscal year +1.75% as measured by the HFRI Event Driven (Total) index. Key sub-strategies such as merger-arbitrage (HFRI ED: Merger Arbitrage Index, +3.7%), activism (HFRI ED: Activist Index, -1.8%) and special situations (HFRI ED: Special Situations Index, +1.7%) were mixed. Unsurprisingly, merger-arbitrage led the way as, despite relatively low average annualized merger spreads, the space saw only limited deal breaks following Qualcomm's failed acquisition of NXP in July 2018. Meanwhile, merger investors revisited their risk tolerance for overseas deals with security or regulatory hurdles and increasingly either avoided, limited or hedged such positions.

**Performance of hedge fund strategies (July 2018 – June 2019)**




Source: PerTrac, Investcorp

# CREDIT MANAGEMENT

## LOAN MARKET OVERVIEW

The Credit Suisse Leveraged Loan Index rose 0.47, or 1.58%, to 96.78 as at June 2019, with most of the gains coming in April.[1] The mixed performance over the May-June span can largely be attributed to ongoing concerns about a potential trade war and the Federal Reserve's pivot toward a dovish stance. Additionally, technical conditions deteriorated as retail investors continued to head for the exits. Loan mutual funds have seen redemptions for 32 straight weeks through June 2019; a total of $7.5 billion was withdrawn from April to June 2019.

That said, other factors served to make up the difference, leaving supply and demand roughly in balance.[2] One key driver was CLO issuance; $36.9 billion in new issues were priced in Q2 2019, which is on a par with last year's record pace. Additional support came from $17.1 billion in loan repayments, much of which emanated from high yield bond refinancings and IPOs. The supply of new loans, meanwhile, remained tepid; net priced volume was $48.6 billion, significantly below the $86.1 billion seen in Q2 2018. Generally speaking, issuance owed much to LBO and M&A financing, refinancing, and opportunistic dividend deals, which accounted for 45%, 20% and 10% of the total, respectively.

In terms of the market's fundamentals, conditions remained sound. While the trailing 12-month default rate rose to 1.34% at the end of June from 0.93% in the first quarter, it remained below the 1.63% level that prevailed at the end of December 2018.[3] The discount margin tightened by seven basis points to 460 basis points.

Sector-wise, only one group posted negative returns in Q2 2019 – metals and minerals, down 1.62% – though other economically-sensitive segments also disappointed, including energy, which was flat, and consumer durables, which drifted 0.21% higher. In contrast, defensive issues, including utilities and food and drug names – up 2.13% and 2.05%, respectively – more than held their own. Interestingly, the housing segment also fared well, gaining 2.08% on positive sector-specific data. As was the case in the first quarter, higher-rated credits led the pack: BB-rated and B-rate loans were up 1.66% and 1.57%, respectively, while CCC-rated counterparts rose just 0.58%.[4]

Across the Atlantic, the Credit Suisse Western European Leveraged Loan Index rallied 1.87% in Q2 2019.[5] While all three months witnessed positive returns, the bulk of the gain came in April, when the market rose 1.23%. Overall, the average loan price increased from 97.69 to 98.01, which was off its early-quarter peak of 98.38 and well below the September 2018 high of 99.07. Despite more favorable conditions in the region than elsewhere, the European loan market could not fully shake off the US-led decline in global risk sentiment that occurred during May and June.

In terms of supply and demand, the latter continued to outweigh the former. Despite sustained interest from investors, European loan issuance faltered; at €34.9 billion for the year through June, the total was down 30% from the year-ago period.[6]

At the same time, CLO formation has been robust, with €14.7 billion of new issues coming to market during the first six months of 2019, 6% more than in last year's first half. Since 2019 began, five new managers have entered the CLO space, with a further handful expected to debut new issues in coming months, and even with a more nervous tone in credit markets overall on the heels of continuing macro uncertainty, CLO demand has helped to keep things buoyant. Separately, the European discount margin tightened by 10 basis points to 420 basis points last quarter.

Amid strong demand for European loan assets, especially from CLO rampers, the best values continue to be found in the primary market, where issues have traded up strongly on the break because investors have been unable to get the allocations they want. In contrast, the secondary market remains a fairly expensive source of supply. Given that, primary market access and the ability to secure sufficient allocations remain the key to good performance.

1 Credit Suisse US Leveraged Loan Index Monthly data, June 28, 2019
2 LevFin Insights, LFI Quarterly Insights Q2 2019, July 2, 2019
3 LCD, an offering of S&P Global Market Intelligence, July 1, 2019
4 Credit Suisse US Leveraged Loan Index Monthly data, June 28, 2019
5 Credit Suisse Western Europe Leveraged Loan Index Monthly data, June 28, 2019
6 LCD, an offering of S&P Global Market Intelligence, July 1, 2019

Similar to what occurred in the US, cyclical and other industries that are susceptible to macro headwinds came up short in Q2 2019; shipping and aerospace fell 3.55% and 2.95%, respectively. Interestingly, consumer durables turned out to be the best performing group, with a gain of 3.92%, followed by utilities and housing, which rose 3.00% and 2.49%, respectively. Traditionally defensive sectors such as food and healthcare also fared well; both groups posted returns in excess of 2% for the period.

Credit-wise, riskier CCC-rated obligations generated subpar performance, with a gain of 1.18% over the April-June span, in contrast to BB-rated and B-rated loans, which rose 1.88% and 1.93%, respectively.

More broadly, underlying credit fundamentals in Europe have remained robust; the S&P European Leveraged Loan Index (ELLI) posted a 0% trailing 12-month default rate in the first half of 2019.[1] That said, the number of issues moving into stressed pricing territory has been rising, though, this has generally been for company-specific reasons, rather than because of market or industry concerns. Investcorp continues to expect idiosyncratic mishaps to occur and will be quick to exit positions that it feels may encounter stress.

## LOAN MARKET OUTLOOK

In the loan market – and in other asset classes, for that matter – the stance of central banks, most notably the Federal Reserve, is the primary focus. Since last year's fourth quarter, investors have shifted from expecting further Federal Reserve interest-rate hikes to anticipating multiple cuts, with the first such move in July. More recently, mixed economic data and the strength of the latest US jobs report have served to muddy the waters regarding the trajectory and timing of prospective rate cuts. That said, Federal Reserve dovishness could nonetheless help to prolong the current expansion and provide an earnings tailwind for the companies Investcorp invests in.

On the other side of the Atlantic, the ECB also looks increasingly likely to become more accommodative following its acknowledgement of the downside risks to the growth outlook. Typically, retail investors tend to flee the floating-rate loan segment when rates are expected to decline, creating a technical headwind. However, Investcorp agrees with a Credit Suisse strategist who notes that 'while the prospect of Federal Reserve rate cuts certainly remains a challenge for the loan market, low all-in loan yields already factor in this negative outcome'.[2] Investcorp also expects persistent demand from CLOs – which have already issued $65 billion and €14.7 billion of securities this year in US and European markets, respectively[3] – to remain a supporting factor.

In terms of Investcorp's outlook for the loan market going forward, Investcorp anticipates coupon-like returns that will, following the strong first quarter rally, lead to full-year performance in excess of 8%. In Investcorp's view, however, the path higher is unlikely to be smooth. Investcorp expects to see bouts of volatility as investors react to changes in perceived risks surrounding the economy, trade policies, and central bank policymaking.

1 LCD, an offering of S&P Global Market Intelligence, July 1, 2019
2 Credit Suisse Credit Strategy Daily Comment, July 3, 2019
3 LCD, an offering of S&P Global Market Intelligence, July 1, 2019

# 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 private equity ('PE') and real estate ('RE') products, accrued returns on credit management ('CM') exposures and realized changes in the fair value of absolute return investments ('ARI') products.*

Despite a slowing macroeconomic backdrop and increasing trade and geopolitical tensions, profit for the year of $131 million for FY19 was 5% higher than profit for the prior fiscal year ('FY18'). Excluding the write down in value of a legacy investment the net income grew by 15%. Continued geographical diversification of the Firm's client base and product set has helped support record levels of investment activities and fundraising across all markets. This has resulted in higher gross operating income during the year, which grew to $465 million, reflecting a 2% increase over FY18. Investcorp's FY19 results represent a return on equity ('ROE') of 12% and fully diluted earnings per share ('EPS') of $1.47 per ordinary share.

| **Income** ($ millions) | **FY19** | FY18 | % Change B/(W) |
|---|---|---|---|
| Fee income | **376** | 321 | 17% |
| Asset-based income | **106** | 137 | (23%) |
| Write-down of legacy investments | **(17)** | (4) | (>100%) |
| **Gross operating income** | **465** | 454 | 2% |
| Provisions for impairment | **(4)** | (4) | 0% |
| Interest expense | **(51)** | (56) | (9%) |
| Operating expenses | **(268)** | (256) | 5% |
| **Profit before tax** | **142** | 138 | 3% |
| Income tax expense | **(11)** | (13) | (15%) |
| **Profit for the year** | **131** | 125 | 5% |
| Profit for the year excluding fair value changes of legacy investments | **148** | 129 | 15% |
| Basic earnings per ordinary share ($) | **1.52** | 1.34 | 13% |
| Fully diluted earnings per ordinary share ($) | **1.47** | 1.30 | 13% |

Fee income increased to $376 million (FY18: $321 million) with growth recorded in AUM fees as well as in deal fees. Asset-based income decreased to $106 million (FY18: $137 million) primarily driven by lower private equity returns.

Interest expense decreased by 9% due to a combination of lower average drawn balances and lower margins. Operating expenses increased by 5% to $268 million (FY18: $256 million) reflecting the expansion of Investcorp's distribution platform. The tax expense decreased by $2 million.

## FEE INCOME

*Fee income has two components: (i) AUM fees which include management and administrative fees on aggregate client investments under management in private equity and real estate deals, as well as fees from client investments in ARI and CM; and (ii) deal fees which are generated and earned from transactional activities related to direct investments (PE, 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** ($ millions) | **FY19** | FY18 | % Change B/(W) |
|---|---|---|---|
| ARI fees | **13** | 13 | 0% |
| CM fees | **50** | 46 | 9% |
| Other management fees | **118** | 114 | 4% |
| **AUM Fees** | **181** | 173 | 5% |
| Activity fees | **167** | 128 | 30% |
| Performance fees | **28** | 20 | 40% |
| **Deal fees** | **195** | 148 | 32% |
| **Fee income** | **376** | 321 | 17% |

Total fee income in FY19 increased to $376 million (FY18: $321 million).

AUM fees were $181 million in FY19, 5% higher than FY18. The increase reflects a higher level of client assets under management.

The increase in AUM fees was complemented by an increase in deal fees in FY19 to $195 million (FY18: $148 million), mainly driven by higher activity fees relative to FY18. Performance fees of $28 million increased by 40% (FY18: $20 million) reflecting the positive performance of the underlying PE and RE portfolios. Activity fees increased by 30% to $167 million (FY18: $128 million). The increase primarily reflects higher PE activity fees, driven by several deals exited during the year and the fee generated from the Firm's first investments in China and India.

## ASSET-BASED INCOME

*Asset-based income is earned on Investcorp's PE, RE, CM and ARI co-investments held on the balance sheet, including invested liquidity. Asset-based income includes unrealized changes in the fair value of PE and RE co-investments, accrued returns on CM exposures and realized changes in the fair value of ARI co-investments.*

Gross asset-based income during FY19 decreased by $31 million relative to FY18 to a net gain of $106 million, primarily driven by a significant decrease in the PE returns during the year.

| Asset-based income ($ millions) | FY19 | FY18 | % Change B/(W) |
|---|---|---|---|
| Private equity investment | **29** | 65 | (55%) |
| Credit management investment | **22** | 28 | (21%) |
| Absolute return investment | **8** | 10 | (20%) |
| Real estate investment | **29** | 24 | 21% |
| Investment in an associate | **5** | – | n.m. |
| Treasury and other asset-based income | **13** | 10 | 30% |
| **Gross asset-based income** | **106** | 137 | (23%) |

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

| PE asset-based income KPIs ($ millions)* | FY19 | FY18 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **29** | 65 | (55%) |
| Average co-investments | **426** | 409 | 4% |
| Absolute yield | **6.8%** | 15.9% | (9.1%) |

* Excludes fair value change of legacy investments

PE asset-based income in FY19 was driven by steady growth across most of the US and European portfolio and successful realizations during the year. Positive returns were however offset by lower returns for investments in the Turkey region which were impacted by the depreciation in the Turkish Lira and by valuation declines in certain US retail sector exposures and in a legacy investment.

| CM asset-based income KPIs ($ millions) | FY19 | FY18 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **22** | 28 | (21%) |
| Average co-investments | **296** | 347 | (15%) |
| Absolute yield | **7.4%** | 8.1% | (0.7%) |

The asset-based income for the CM business primarily represents returns on CLO co-investment exposures, which delivered steady returns and were supported by active management of the CLO funds by the credit management team. The CM asset-based return decreased by $6 million to $22 million as compared to FY18, primarily due to lower average co-investment exposures and the diversification of the Firm's co-investments to vertical tranches of CLO's which lowers risk as opposed to investing only in equity tranches of new CLO issuances.

| ARI asset-based income KPIs ($ millions) | FY19 | FY18 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **8** | 10 | (20%) |
| Average co-investments | **137** | 207 | (34%) |
| Absolute yield | **5.8%** | 4.8% | 1.0% |

BUSINESS REVIEW

ARI returns declined by 20% in FY19 to $8 million. The return was primarily affected by a lower average co-investment balance during the year.

| RE asset-based income KPIs ($ millions) | FY19 | FY18 | % Change B/(W) |
|---|---|---|---|
| Asset-based income | **29** | 24 | 21% |
| Average co-investments | **306** | 325 | (6%) |
| Absolute yield | **9.5%** | 7.4% | 2.1% |

RE asset-based income is primarily driven by rental yields. The higher income in FY19 as compared to FY18 reflects higher yield on the co-investment balance which is mainly driven by strong performance of the entire portfolio across US and Europe. A large portion of the average co-investments relates to underwriting on which Investcorp earns the rental yield during the period of underwriting.

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 | FY15 | FY16 | FY17 | FY18 | FY19 | Average (FY15-FY19) |
|---|---|---|---|---|---|---|
| Private equity * | 6.8% | 16.5% | 3.5% | 15.9% | **6.8%** | 9.9% |
| Credit management | – | – | 12.1% | 8.1% | **7.4%** | 9.2% |
| Absolute return investments | 2.0% | (6.2%) | 6.2% | 4.8% | **5.8%** | 2.5% |
| Real estate investment | 5.5% | (0.6%) | 7.8% | 7.4% | **9.5%** | 5.9% |
| Average co-investment yield | 5.0% | 5.4% | 6.7% | 9.9% | **7.5%** | 6.9% |

* Excludes fair value change of legacy investments for FY18 and FY19

## INTEREST EXPENSE

Total interest expense, including commitment fees on undrawn revolving credit facilities, decreased by 2% to $51 million in FY19 from $56 million in FY18. The decrease was due to lower average interest-bearing liabilities primarily due to repayment of the CHF 125 million bond that matured during the fiscal year, which was also complemented by a tightening of the spread on Investcorp's average borrowings.

| Interest expense ($ millions) | FY19 | FY18 | Change H/(L) |
|---|---|---|---|
| **Total interest expense** | **51** | 56 | (5) |
| Average short-term interest-bearing liabilities | **605** | 504 | 101 |
| Average medium- and long-term interest-bearing liabilities | **602** | 775 | (<100%) |
| **Average interest-bearing liabilities** | **1,207** | 1,279 | (72) |
| Interest expense on funded liabilities[(a)] | **43** | 50 | (7) |
| **Average cost of funding on funded liabilities** | **3.6%** | 3.9% | (0.3%) |
| Average 1-month US LIBOR | **2.3%** | 1.5% | 0.8% |
| **Spread over LIBOR** | **1.2%** | 2.4% | (1.2%) |

(a) Does not include commitment fee cost on undrawn revolvers.

## OPERATING EXPENSES

Operating expenses increased by 5% to $268 million in FY19 from $256 million in FY18. The staff compensation, which includes fixed and variable components, increased by 6%. Other personnel costs and charges such as training and recruitment increased by 27%. The increase in staff compensation and other personnel costs and charges is primarily due to the 4% increase in global headcount across all locations and higher staff compensation per FTE. Other operating expenses, comprising of professional fees, technology, travel and business development, administration and infrastructure costs decreased by 1%. Total expenses, as a percentage of net revenues, remained constant at 65%.

| **Operating expenses** ($ millions) | **FY19** | FY18 | Change H/(L) |
|---|---|---|---|
| Staff compensation | **174** | 164 | 10 |
| Other personnel costs and charges | **14** | 11 | 3 |
| Other operating expenses | **80** | 81 | (1) |
| **Total operating expenses** | **268** | 256 | 12 |
| Full time employees ('FTE') at end of period | **419** | 402 | 17 |
| Staff compensation per FTE ('000) | **415** | 408 | 2% |
| Other operating expenses per FTE ('000) | **191** | 199 | (4%) |
| Total staff compensation / total operating expenses | **65%** | 64% | 1% |
| Operating expenses/Net revenue[a] | **65%** | 65% | 0% |

(a) Net revenue represents gross operating income less provisions for impairment and interest expense

## BALANCE SHEET

Key balance sheet metrics are shown in the table below.

| **Balance sheet metrics** | **Jun-19** | Jun-18 |
|---|---|---|
| Total assets | **$2.4 billion** | $2.5 billion |
| Leverage[a] | **1.1x** | 1.3x |
| Net leverage ratio[b] | **0.4x** | 0.5x |
| Shareholders' equity | **$1.1 billion** | $1.1 billion |
| Co-investments[c]/long-term capital[d] | **0.5x** | 0.7x |
| Capital adequacy ratio | **33.8%** | 31.5% |
| Residual maturity – medium- and long-term facilities | **73 months** | 69 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 facilities secured against absolute return investments and credit management co-investments.
(d) JPY37 billion debt maturing in FY30, $41 million secured financings maturing in FY31, $42 million debt maturing in FY32, $50 million debt maturing in FY33, deferred fees and total equity.

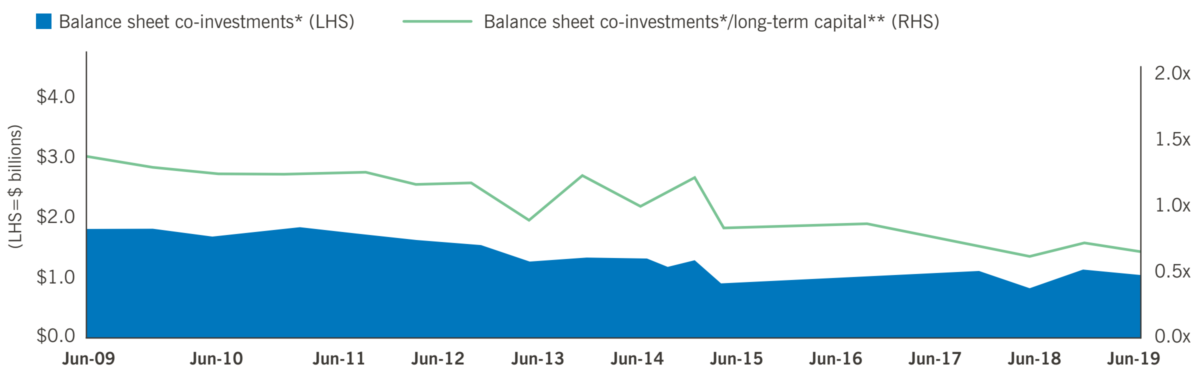
BUSINESS REVIEW

## ASSETS

| Assets ($ millions) | Jun-19 | Jun-18 | Change H/(L) |
|---|---|---|---|
| Cash and other liquid assets | **390** | 371 | 19 |
| PE, RE and ARI underwriting & CM warehousing | **334** | 446 | (112) |
| CM co-investments | **332** | 272 | 60 |
| ARI co-investments | **112** | 189 | (77) |
| PE and RE co-investments (excluding underwriting) | **573** | 701 | (128) |
| Investment in an associate | **38** | – | 38 |
| Other (working capital and fixed assets) | **582** | 514 | 68 |
| **Total assets** | **2,361** | 2,493 | (132) |
| **Co-investment assets (excluding underwriting)** | **1,017** | 1,162 | (145) |

At June 30, 2019, total assets were $2.4 billion, 5% lower than at June 30, 2018. Total co-investments decreased by $145 million to $1,017 million, primarily driven by a $120 million decrease in PE co-investments resulting from two secondary sales and several other realizations. ARI co-investments also decreased by $77 million, but this was mostly offset by an increase in CM co-investments of $60 million. As at June 30, 2019, gross co-investments in CM were $332 million of which $84 million was utilized to secure amounts drawn under long term repo financing agreements.

**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 secured facilities (which are secured against CM co-investments)

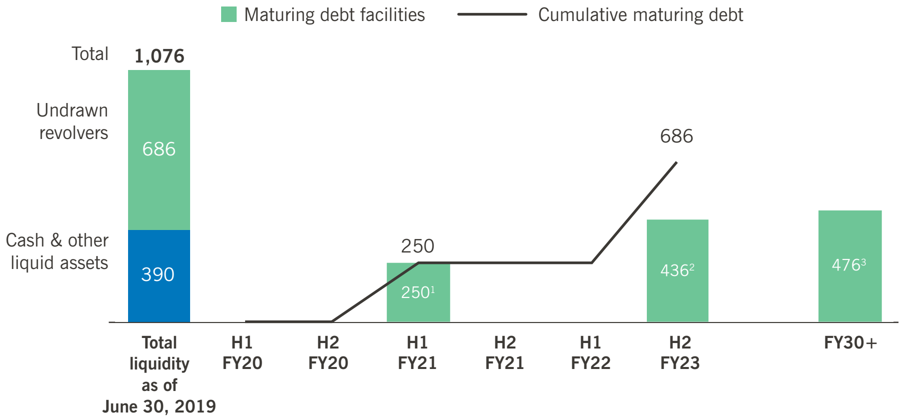
** Long term capital consists of JPY37 billion debt maturing in FY30, $41 million secured financings maturing in FY31, $42 million debt maturing in FY32, $50 million debt maturing in FY33, deferred fees and total equity.

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, 2019 the aggregate level of co-investments net of a $84 million repo credit facility secured against CM co-investments remained fully covered by permanent and long-term sources of capital.

## LIQUIDITY

Despite the repayment of the CHF 125 million bond that matured during the fiscal year and the buyback of ordinary shares, accessible liquidity, comprising undrawn committed revolving facilities plus balance sheet cash and other liquid assets of $1.1 billion was maintained at a higher level as compared to FY18 (June 30, 2018: $996 million) and covers all outstanding debt maturing over the next ten years.

**Liquidity cover ($ millions)**




1 Syndicated revolving facilities
2 Syndicated revolving facilities- includes €76 million ($87 million as at June 30, 2019 exchange rates)
3 JPY 37 billion ($343 million as at June 30, 2019 exchange rates) debt maturing in FY30, €36 million ($41 million as at June 30, 2019 exchange rates) debt maturing in FY31, €37 million ($42 million as at June 30, 2019 exchange rates) debt maturing in FY32 & $50 million debt maturing in FY33.

## LIABILITIES

Total liabilities decreased by $154 million to $1,216 million at June 30, 2019.

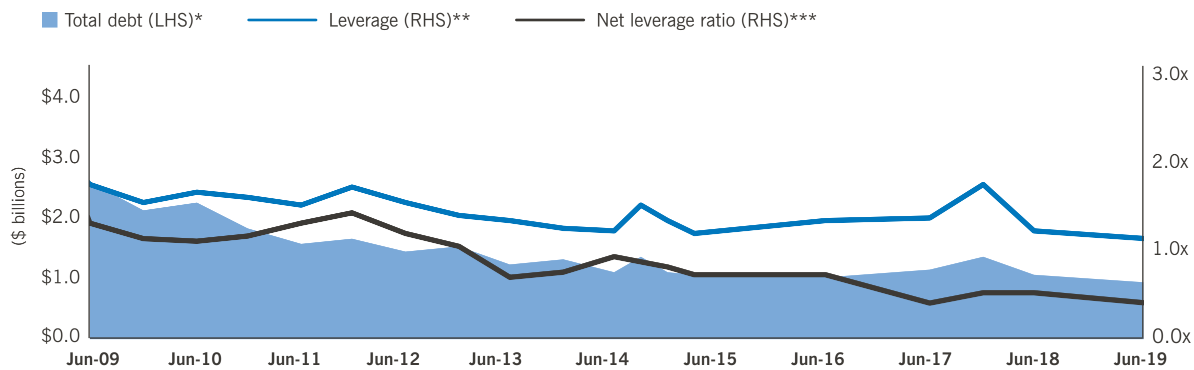
| Liabilities ($ millions) | Jun-19 | Jun-18 | Change H/(L) |
|---|---|---|---|
| Term and institutional accounts | **151** | 300 | (149) |
| Call accounts | **263** | 116 | 147 |
| Medium and long-term debt | **514** | 617 | (103) |
| **Total debt** | **928** | 1,033 | (105) |
| Deferred fees | **63** | 72 | (9) |
| Other liabilities[(a)] | **225** | 265 | (40) |
| **Total liabilities** | **1,216** | 1,370 | (154) |

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

The decrease in medium and long-term debt was primarily due to the repayment of a CHF 125 million bond that matured during the fiscal year, which was partially offset by a new repo credit facility secured against CM co-investments. 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.

BUSINESS REVIEW

### 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 4-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 2018. Moody's reaffirmed the Ba2 rating and 'Stable' outlook. This reflects the Firm's solid market position in the GCC region as a leading investment provider, its healthy operating margins and good asset retention. The rating incorporates the Firm's adequate liquidity profile and the ongoing improvement in earnings quality due to the growth in more stable and predictable asset management fees. Following the yearly review, Fitch Ratings re-affirmed Investcorp's credit ratings at BB and brought the outlook back to 'Stable'.

| Agency | Rating grade | Comment |
|---|---|---|
| Moody's Investor Service | Ba2 / Stable outlook | Rating and outlook confirmed in October 2018 |
| Fitch Ratings | BB / Stable outlook | Rating confirmed and outlook brought back to 'Stable' in October 2018 |

## EQUITY

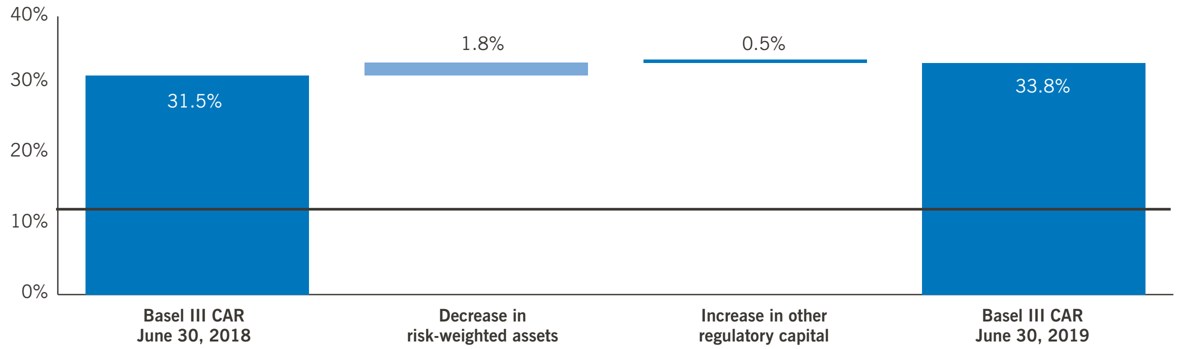
| **Equity** ($ millions) | **Jun-19** | Jun-18 | Change H/(L) |
|---|---|---|---|
| Ordinary shareholders' equity | **987** | 964 | 23 |
| Preference share capital | **123** | 123 | – |
| Proposed appropriations | **38** | 41 | (3) |
| Other reserves | **(3)** | (5) | 2 |
| **Net book equity** | **1,145** | 1,123 | 22 |

Net equity at June 30, 2019 was $1.1 billion, reflecting an increase in equity from the profit for the year partially offset by the treasury shares purchased during the year. Book value per ordinary share as of June 30, 2019 increased by 9% to $13.26 (FY18: $12.13).

## CAPITAL ADEQUACY

Investcorp's capital adequacy ratio ('CAR') at June 30, 2019 was 33.8% (June 30, 2018: 31.5%), reflecting lower risk-weighted assets and a marginal increase in regulatory capital during the year. 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.

BUSINESS REVIEW

# INVESTMENT ACTIVITY

## NEW ACQUISITIONS: PRIVATE EQUITY

*Investcorp targets the acquisition of attractive private equity opportunities in North America, Europe, Asia, the Gulf and MENA regions, including 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 private equity investments that it believes offer its investors the potential for 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 private equity investments during FY19 was $750 million. $609 million was deployed across four new private equity investments and one new special opportunity portfolio investment, $78 million was invested through or alongside Investcorp's technology funds in two new investments, $6 million was invested in IDFC Private Equity Fund IV ('IDFC PE Fund IV') and $57 million of additional capital was invested in five existing portfolio companies.

## NEW ACQUISITIONS

### UNITED TALENT AGENCY

The third largest talent agency in the world.

Date of Investment: August 2018
Investors: Deal-by-deal
Industry Sector: Business services – Media
Headquarters: California, US

### SOFTGARDEN

A fast-growing Human Resource software provider.

Date of Investment: September 2018
Investors: Investcorp Technology Partners IV
Industry Sector: Technology – Big data
Headquarters: Berlin, Germany

### CHINA PRE-IPO TECHNOLOGY PORTFOLIO

A highly diversified portfolio that invests in leading pre-IPO technology companies.

Date of Investment: September 2018
Investors: Deal-by-deal
Industry Sector: Technology
Headquarters: Predominantly in China

### UBISENSE

A market leader in enterprise location intelligence solutions.

Date of Investment: December 2018
Investors: Investcorp Technology Partners IV
Industry Sector: Technology – Big data
Headquarters: Cambridge, UK

## HEALTH PLUS MANAGEMENT

A provider of business management and operations services for independent physician practices in the physical medicine and rehabilitation market.

Date of Investment: January 2019
Investors: Deal-by-deal
Industry Sector: Business services – Healthcare
Headquarters: New York, US

## REVATURE

A leading technology talent development company.

Date of Investment: February 2019
Investors: Investcorp Deal-by-deal
Industry Sector: Business services – Technology enabled services
Headquarters: Washington, US

## CAMBIO

Operates in the Electronic Health Records ("EHR") market, offering software solutions for acute, primary, social and person-centred care.

Date of Investment: February 2019
Investors: Deal-by-deal
Investcorp European Buyout Fund A, L.P.
Industry Sector: Business services – Healthcare
Headquarters: Stockholm, Sweden

## CITYKART RETAIL PRIVATE LIMITED

A value apparel retail chain.

Date of Investment: February 2019
Investors: Investcorp IDFC Private Equity Fund IV
Industry Sector: Consumer & retail
Headquarters: New Delhi, India

## OTHER PRIVATE EQUITY ACTIVITY

*A number of Investcorp's private equity portfolio companies made add-on investments to increase value as part of their business plans. Such add-on investments 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.*

August 2018: PE-Tech portfolio company **Impero** acquired Safeguarding Monitor, Impero's first add-on, marking the first inorganic step on the pathway to the broader well-being strategy.

FY2019: Over the course of the year, Investcorp invested €30 million in its buy-and-build platform in the German dental sector for the acquisition of additional practices and to support operational expenses while further investments as part of its wider consolidation and buy-and-build strategy are progressed.

March 2019: PE-Tech portfolio company, **Calligo**, acquired Connected Technologies Inc. based in Brampton, Ontario, a Canadian specialist in outsourced IT and cloud services, including Microsoft Azure and Office 365. The acquisition complements two previous acquisitions in Canada – cloud services provider, 3 Peaks, in October 2017 and Mico Systems, an outsourced IT services company, in May 2020.

*Investcorp also provides support funding to its portfolio companies from time to time to help stabilize and turn around companies that are facing challenging market conditions.*

September 2018: PE-Tech portfolio company, **Impero**, received a further $2 million in follow-on investment, increasing the fully diluted ownership to 71.1%. Impero is the UK's number one provider of online student safety, classroom and school network management software.

November 2018: PE-Tech portfolio company, **Ageras**, received additional funding to support the continued growth of the core business and new product, Meneto. Founded in 2012, Ageras is a fast-growing online marketplace matching SMEs and micro-businesses with professional services providers such as accountants and lawyers.

June 2019: Investcorp provided support capital to PE North America portfolio company **Sur La Table** as part of a refinancing to help right-size the capital structure and extend debt maturities

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

July 2018: Investcorp and The Riverside Company added German replacement parts supplier, Ratioparts, to the platform of PE North America's portfolio company **Arrowhead**. Based in Euskirchen, Germany, Ratioparts is a leading European distributor of aftermarket replacement parts for outdoor power equipment and forestry applications.

October 2018: PE MENA portfolio company **L'azurde**, closed the acquisition of 100% of the equity of Izdiad, the Saudi Franchisee of the TOUS international jewellery brand, operating 26 TOUS franchise stores in Saudi Arabia. TOUS is an international lifestyle brand focused on affordable luxury jewelry with more than 620 stores in over 53 countries.

November 2018: PE North America partner company **AlixPartners**, acquired independent financial advisory and interim management firm Zolfo Cooper. The transaction follows AlixPartners' successful acquisition of Zolfo Cooper's European franchise in February 2015 and will further bolster the Firm's turnaround and restructuring credentials.

November 2018: PE North America portfolio company **KSI Trading Corp** acquired Richmond Bumper, a leading distributor of automotive aftermarket parts to collision repair shops in Virginia and North Carolina.

January 2019: PE North America portfolio company **ICR** closed its first add-on acquisition in its more than 20-year history with its acquisition of Westwicke Partners. Westwicke is a healthcare-focused strategic communications firm providing investor relations and capital markets advisory services. Westwicke will expand ICR's presence in the healthcare market, while ICR will provide Westwicke with several add-on service offerings, including PR and digital.

January 2019: PE Europe portfolio company **Kee Safety**, acquired Scotland-based APS which provides Kee Safety with a leading market position in Scotland.

| | |
|---|---|
| February 2019: | PE North America portfolio company **UTA**, acquired leading influencer firm Digital Brand Architects (DBA). DBA is the leading independent company representing many of the world's most impactful and engaging digital influencers. The acquisition further strengthens and expands UTA's market-leading efforts in the Digital Media sector and in the fast-growing Digital Talent marketplace. |
| February 2019: | PE MENA portfolio company **NDT CCS**, closed the acquisition of International Inspection Center Co., Kuwait's largest provider of industrial non-destructive testing and inspection services. |
| March 2019: | PE Europe portfolio company **Kee Safety**, acquired UK-based Planet Platform which provides Kee Safety with an additional product assortment. |
| June 2019: | PE Europe portfolio company **Kee Safety,** acquired Canada-based Safeguard which marks its fifth add-on acquisition under Investcorp ownership. |

## 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 and Europe. 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 FY19 was $670 million.

### 2018 MULTIFAMILY PORTFOLIO

Shari'ah compliant equity ownership interests in an apartment property in Tampa, Florida (Amberly Place), an apartment property in Clearwater, Florida (Four Lakes at Clearwater*), three apartment properties in Houston, Texas (Baybrook Village, Lodge on El Dorado* and Richmond Chase*), and one apartment property in Salt Lake City, Utah (Country Lake).

*Signed and purchased in FY18

Number of properties: 6

### 2019 MULTIFAMILY PORTFOLIO

Shari'ah compliant equity ownership interests in an apartment property in Raleigh, North Carolina (Stonehenge), an apartment property in Atlanta, Georgia (Village West), two apartment properties located in Jacksonville, Florida (Vista Grande & Autumn Cove), two properties located in Phoenix, Arizona (Highland Park & Park View), and two properties located in Dallas, Texas (Bel Air Plano & Bel Air Park).

Number of properties: 8

### UK INDUSTRIAL & LOGISTICS PORTFOLIO III

Shari'ah compliant equity ownership interests in nine industrial and logistics properties. One property is located in each of the following locations; St Helens*, Uddingston, Blantyre, Manchester, Leeds, Birmingham and three properties in Livingston.

*Signed and purchased in FY18

Number of properties: 9

BUSINESS REVIEW

### US DISTRIBUTION CENTER PORTFOLIO

Shari'ah compliant equity ownership interests in eight industrial properties located in Cleveland, Ohio; Jacksonville, Florida; Phoenix, Arizona; Charlotte, North Carolina; Chicago, Illinois; St. Louis, Missouri; Cincinnati, Ohio; and San Antonio, Texas.

Number of properties: 8

### FRANKFURT AND HAMBURG PROPERTIES PORTFOLIO

Shari'ah compliant equity ownership interests in two office properties located in Frankfurt and Hamburg.

Number of properties: 2

In addition, 14 residential properties were acquired in the U.S. These properties will form parts of two new portfolios and a fund which are expected to be offered to clients in FY20.

## CREDIT MANAGEMENT

The aggregate amount of new investments activities associated with CLO assembly during FY19 was $1.5 billion. This included $436 million related to the assembly and issuance of two new US CLOs, Jamestown XI and Jamestown XII. It also included $729 million related to the assembly and issuance of two new European CLOs, Harvest XX and Harvest XXI. In addition, the aggregate amount included warehousing of $305 million for one new US CLO and two new European CLO which are all expected to close in H1 FY20.

The European team worked on one reset during this period. The Harvest XVI CLO (originally issued in June 2014) was reset in September 2018; the total value of this transaction was in excess of $478 million.

Reset activity is beneficial both to clients wanting liquidity and/or an extended investments horizon and also to the business as a reset effectively allows the CLO manager to extend the lives of the deals, thereby extending the period over which management fees will be generated. In addition, resets typically provide additional returns to equity investors.

BUSINESS REVIEW

## REALIZATIONS & DISTRIBUTIONS

Total realization proceeds and other distributions to Investcorp and its clients were $4.0 billion in FY19.

### PRIVATE EQUITY REALIZATIONS

Total private equity realization proceeds and other distributions to Investcorp and its clients were $2.2 billion in FY19.

#### NOBEL LEARNING COMMUNITIES

A leading provider of private education in the US.

Date of Investment: April 2015
Date of Realization: August 2018
Investors: Deal-by-deal
Industry Sector: Business services – Knowledge & professional services

#### GULF CRYO

A leading manufacturer, distributor and services provider of industrial gases.

Date of Investment: November 2009
Date of Realization: August 2018
Investors: Gulf Opportunities Fund I
Industry Sector: Industrial products

#### ATC TELECOM INFRASTRUCTURE LIMITED (previously 'Viom Networks')

A leading independent passive telecom infrastructure provider.

Date of Investment: August 2009
Date of Realization: March 2019 / June 2019
Investors: IDFC Private Equity Fund III
Industry Sector: Telecom

#### MANIPAL INTEGRATED SERVICES (previously 'Manipal Education and Medical Group India Private Limited')

A holding company of the Manipal Group's healthcare and education businesses in India.

Date of Investment: October 2013
Date of Realization: March 2019
Investors: IDFC Private Equity Fund III
Industry Sector: Healthcare, Education

## DEEPAK CABLES (INDIA) LIMITED

One of the leading players in the power Transmission & Distribution (T&D) space in India.

Date of Investment: December 2008
Date of Realization: March 2019
Investors: IDFC Private Equity Fund III
Industry Sector: Power

## THE WRENCH GROUP

A national leader in home maintenance and repair services.

Date of Investment: March 2016
Date of Realization: April 2019
Investors: Deal-by-deal
Industry Sector: Consumer services

## LEEJAM

A leading fitness chain operator in Saudi Arabia.

Date of Investment: July 2013
Date of Realization: May 2019
Investors: Gulf Opportunities Fund I / Deal-by-deal investors
Industry Sector: Consumer services

## SECURELINK

A leading cybersecurity infrastructure and managed services provider.

Date of Investment: December 2015
Date of Realization: Signed in May 2019
Investors: Deal-by-deal
Industry Sector: Technology – Security

In August 2018, Investcorp announced it had completed the sale of **Nobel Learning Communities** ('Nobel Learning') to Spring Education Group, the leading Pre K-12 private school operator in the US and a portfolio company of Primavera Capital Group, a leading Asia-based investment firm. Since acquiring Nobel Learning in 2015, Investcorp has worked closely with the company to achieve significant growth, acquiring 25 schools, opening nine greenfields and driving organic enrollment thereby collectively achieving EBITDA growth of 50% during its period of ownership.

Also, in August, Investcorp completed the sale of its remaining 15.65% equity shareholding in **Gulf Cryo Holding Company K.S.C.C** ('Gulf Cryo') to other shareholders of the company. 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 $CO_2$, 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. Since acquiring Gulf Cryo in 2009, Investcorp has worked closely with the company to deliver notable achievements, institutionalizing Gulf Cryo and supporting its regional expansion plan, both organically and through a series of acquisitions.

BUSINESS REVIEW

In March and June, IDFC Private Equity Fund III ('IDFC PE Fund III') completed the sale of its shareholding in **ATC Telecom Infrastructure Limited** ('ATC India') by exercising its exit rights as part of the shareholding agreement with American Tower, a global leader in telecom infrastructure.

In March, IDFC PE Fund III exercised its rights as part of its shareholder agreement to exit its investment in **Manipal Integrated Services**. The investment was used by the Manipal Group to invest in their healthcare business which operates hospitals on a pan India basis.

In March, IDFC PE Fund III announced it had completed the sale of its remaining stake in **Deepak Cables (India) Limited** ('Deepak Cables') through sale to a promoter entity. Since investing in Deepak Cables in 2008, IDFC Private Equity Fund III had worked closely with the company in setting up initial systems and processes, MIS for business processes and recruitment of senior management team.

In April 2019, Investcorp announced it has agreed to the sale of **The Wrench Group** ('Wrench'), a leading provider of home maintenance and repair services in the United States, to Leonard Green & Partners, a Los Angeles-based private equity firm. Investcorp, in partnership with management, formed Wrench in 2016. At the time of acquisition, Wrench was comprised of four like-minded, locally operated companies with market leading positions in Atlanta, Dallas, Houston and Phoenix. The management owners' collaborative approach and entrepreneurial spirit helped transform the business from a group of local businesses to a leading integrated national platform. Today, Wrench is a market leader with divisions in Atlanta, Dallas, Denver, Houston, Phoenix, Sarasota and Tampa markets.

In September 2018, Investcorp realized a partial exit in Leejam selling a 22.5% equity stake through an IPO on the Tadawul. Subsequently, in May 2019, Investcorp sold the remaining 2.6% equity stake of its 25.1% investment in **Leejam Sports Company** ('Leejam') through a series of off-market block trade transactions on the Saudi Arabia Stock Exchange ('Tadawul'). Leejam is a leading fitness chain operator in Saudi Arabia, operating under the 'Fitness Time' brand. Established in 2007 and headquartered in Riyadh, Leejam operates over 112 fitness clubs and has over 220,000 active members. Employing over 3,400 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'.

In May 2019, Investcorp announced that it has agreed to the sale of **SecureLink Group** ('SecureLink') one of the largest dedicated cybersecurity infrastructure and managed services providers in Europe, to global telecoms group Orange for an enterprise value of €515 million. Investcorp first acquired SecureLink, a leading player in the Benelux region, in December 2015 with a view to consolidating the highly attractive but fragmented European cybersecurity market. Over the last three years, SecureLink has experienced strong organic growth, added leading providers in Scandinavia, the UK and Germany to its platform and expanded in China. Investcorp, in partnership with management and founders of the Company, has successfully executed a targeted buy-and-build strategy and transformed SecureLink from a regional leader to a leading pan-European provider of cybersecurity services. The sale closed in July 2019.

## OTHER TRANSACTIONAL ACTIVITIES

| | |
|---|---|
| December 2018: | PE-Tech received an offer from **HarbourVest** to acquire 100% of the remaining portfolio companies in Investcorp Technology Partners III, L.P. at the June 2018 valuation. Following the conclusion of an offer period, HarbourVest and Investcorp entered into a binding agreement and the transfer of the assets completed in December 2018. Investcorp Technology Partners will remain manager of the assets. |
| March 2019: | PE North America portfolio company **PRO Unlimited** successfully upsized existing facilities to pay a dividend to investors. |
| April 2019: | PE Europe has successfully closed a secondary transaction with Coller Capital where Investcorp has transferred some of its assets from its European private equity portfolio, under a new fund arrangement. The new fund was capitalized with approximately $1 billion of aggregate commitments with Investcorp retaining a continued interest in the portfolio through a meaningful GP commitment to the fund. The transaction also includes fresh capital for any follow-on investments, future investments and co-investments. |
| May 2019: | PE North America portfolio company **AlixPartners** successfully refinanced existing facilities to pay a dividend to investors. The refinancing is consistent with Investcorp's initial investment thesis of deriving significant cash yield from interim distributions given the company's high cash flow generation. |
| May 2019: | PE North America portfolio company **Paper Source** completed a debt refinancing. |
| May 2019: | PE Europe portfolio company **POC** successfully completed its refinancing at attractive market conditions. The package comprises of a term loan, revolving credit facility and a seasonal facility. |
| June 2019: | PE North America portfolio company **Sur La Table** completed a debt refinancing. |

BUSINESS REVIEW

## REAL ESTATE REALIZATIONS

Total real estate realization proceeds and other distributions to Investcorp and its clients were $662 million in FY19.

Six portfolios were fully realized in FY19 with the sale of Fairways at Towson from **2015 Residential I Portfolio**, the sale of Newark Hilton from **National Hotel Portfolio**, the sale of Highlands Campus Tech from **2014 Office and Industrial Portfolio**, the sale of Oracle & International Centre from **2013 Commercial Properties Portfolio** and **2014 Office**, and the sale of **Villas at Green Valley**,

A complete list of real estate properties realized in FY19 can be found below.

### MOUNTAINGATE PLAZA

A grocery-anchored retail center and a medical office building.

Date of Investment: August 2013
Date of Realization: July 2018
Portfolio Name: 2013 US Commercial and 2014 Office Properties Portfolios
Location: Simi Valley, California

### 114 OLD COUNTRY ROAD

One of 3 buildings in the Long Island Office Portfolio.

Date of Investment: November 2013
Date of Realization: August 2018
Portfolio Name: 2013 US Commercial and 2014 Office Properties Portfolios
Location: Long Island, New York

### FAIRWAYS AT TOWSON

An 828-unit multifamily property.

Date of Investment: March 2015
Date of Realization: August 2018
Portfolio Name: 2015 Residential I Portfolio
Location: Towson, Maryland

### CHERRY CREEK

A 561-unit multifamily property.

Date of Investment: September 2015
Date of Realization: September 2018
Portfolio Name: 2015 Residential II Portfolio
Location: Denver, Colorado

### ROSEMONT AT VININGS RIDGE

A 494-unit multifamily property.

Date of Investment: August 2015
Date of Realization: October 2018
Portfolio Name: 2015 Residential II Portfolio
Location: Atlanta, Georgia

## 666 OLD COUNTRY ROAD

120,000 square foot office building. Part of Long Island Office Portfolio.

Date of Investment: October 2013
Date of Realization: October 2018
Portfolio Name: 2013 US Commercial and 2014 Office Portfolios
Location: Long Island, New York

## NEWARK HILTON

A 253-room hotel.

Date of Investment: August 2011
Date of Realization: October 2018
Portfolio Name: National Hotel Portfolio
Location: Newark, New Jersey

## HIGHLANDS CAMPUS TECH

A 201,766 square foot mixed-use campus that includes two flex-use and/or research and development buildings and one office building.

Date of Investment: September 2014
Date of Realization: December 2018
Portfolio Name: 2014 Office and Industrial Portfolio / 2014 Office and Industrial Expanded Portfolio
Location: Bothell, Washington

## CANAL CENTER / BUILDING 11

A 77,000 square foot office building.

Date of Investment: October 2014
Date of Realization: December 2018
Portfolio Name: Canal Center and 2014 Office & Industrial Expanded
Location: Alexandria, Virginia

## UNIVERSITY VIEW

A 165-bed 'for-rent' student housing property.

Date of Investment: January 2016
Date of Realization: January 2019
Portfolio Name: January 2016
Location: Boca Raton, Florida

## ORACLE / INTERNATIONAL CENTER

A two building 622,173 square foot office complex.

Date of Investment: September 2013
Date of Realization: February 2019
Portfolio Name: 2013 US Commercial and 2014 Office
Location: Minneapolis, Minnesota

BUSINESS REVIEW

## UNIVERSITY SQUARE

A 128-bed 'for-rent' student housing property.

Date of Investment: January 2016
Date of Realization: February 2019
Portfolio Name: Boca Raton & Minneapolis
Location: Boca Raton, Florida

## BEL AIR RIDGE

A 160-unit 'for-rent' apartment property.

Date of Investment: August 2015
Date of Realization: March 2019
Portfolio Name: 2015 Residential II
Location: Dallas, Texas

## BEL AIR RANCH

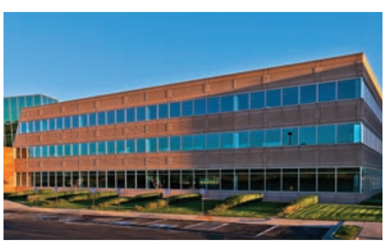
M A 208-unit 'for-rent' apartment property.

Date of Investment: August 2015
Date of Realization: March 2019
Portfolio Name: 2015 Residential II
Location: Dallas, Texas


## TOWNE LAKE

A 320-unit 'for-rent' apartment property.

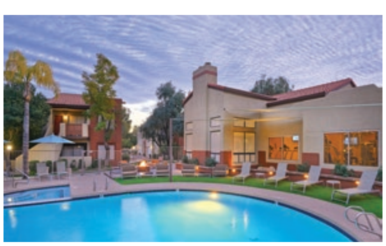
Date of Investment: August 2015
Date of Realization: March 2019
Portfolio Name: 2015 Residential II
Location: Dallas, Texas



## WESTMOOR PLACE

A three-property office park.

Date of Investment: April 2013
Date of Realization: April 2019
Portfolio Name: 2013 Office II Portfolio
Location: Denver, Colorado



## VILLA BLANCO

A 379-unit 'for-rent' apartment property.

Date of Investment: May 2016
Date of Realization: May 2019
Portfolio Name: 2016 Residential
Location: Tempe, Arizona

## VILLAS AT GREEN VALLEY

A 609-unit 'for-rent' apartment property.

Date of Investment: December 2016
Date of Realization: May 2019
Portfolio Name: Villas at Green Valley
Location: Las Vegas, Nevada

## STONE MOUNTAIN PORTFOLIO

A 4.1 million square foot industrial park comprised of 69 buildings.

Date of Investment: December 2015
Date of Realization: May 2019
Portfolio Name: 2015 Office & Industrial Portfolio
Location: Atlanta, Georgia

## BLACKSTONE SCIENCE SQUARE

A 76,123 square foot lab/office property.

Date of Investment: October 2016
Date of Realization: June 2019
Portfolio Name: Boston & Denver Commercial
Location: Cambridge, Massachusetts


## BALLARDVALE OFFICE PORTFOLIO

A three-building surburan office complex.

Date of Investment: October 2015
Date of Realization: June 2019
Portfolio Name: 2015 Office & Industrial Portfolio
Location: Boston, Massachusetts

## PACES WEST

A seventeen-story suburan office complex

Date of Investment: November 2015
Date of Realization: June 2019
Portfolio Name: 2015 Office & Industrial Portfolio
Location: Atlanta, Georgia

## OTHER REALIZATIONS AND DISTRIBUTIONS

A total of $65 million of distributions to Investcorp and its clients was made across all Special Opportunities Portfolios, primarily from Special Opportunities Portfolios IV and VI.

Total credit management realization proceeds and other distributions to Investcorp and its clients amounted to $1.0 billion over the period.

BUSINESS REVIEW

## AUM & FUNDRAISING

### ASSETS UNDER MANAGEMENT ('AUM')[1 2]

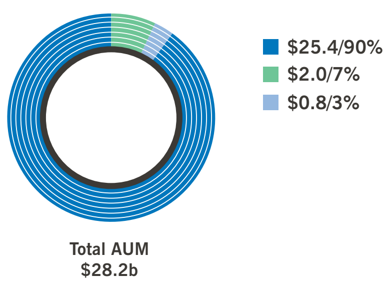
Please refer to the table in Note 2 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes total assets under management in each of the reporting segments.

**Total assets under management**

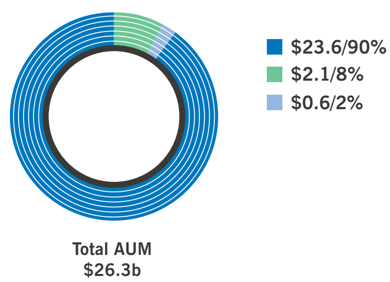
($b)

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

**As of June 30, 2019**




**As of June 30, 2018**




Total AUM increased to $28.2 at June 30, 2019 from $26.3 billion at June 30, 2018, largely driven by growth in PE & CM AUM.

Associate's assets under management, which is not included in the total AUM numbers shown above, stands at $5.7 billion as at June 30, 2019. This represents AUM managed by Banque Paris Bertrand, in which Investcorp holds an indirect ownership and is entitled to a net return based on its ownership.

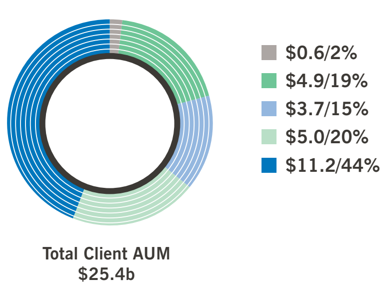
**Total client assets under management**

($b)

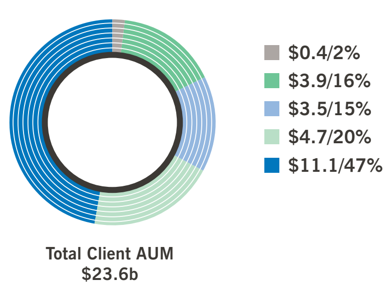
Private equity | Absolute return investments | Real estate investments

Credit management investments | Client minies held in trust

**As of June 30, 2019**




**As of June 30, 2018**




Total client AUM increased by 8% to $25.4 billion at June 30, 2019 from $23.6 billion at June 30, 2018.

1 Includes $2.9 billion (June 30, 2018: $2.4 billion) of hedge fund partnerships (including exposure through multi-manager solutions) managed by third party managers and assets subject to a non-discretionary advisory mandate where Investcorp receives fees calculated on the basis of AUM.

2 Real estate investments AUM is stated at gross asset value.

The most dominant asset class in client AUM continues to be credit management with 44% of the total. The increase in total client AUM in FY19 is largely attributable to the 29% increase in private equity client AUM from $3.8 billion to $4.9 billion, largely due to strong fundraising for the Firm's first China-focused investment offering, the final closing of Investcorp's fourth technology fund, the closing of Investcorp's European Buyout Fund 2019 in partnership with Coller Capital and the addition of AUM following the acquisition of IDFC's private equity business in India. ARI client AUM has increased by 4% to $3.7 billion, primarily due to strong fundraising for the Firm's hedge funds partnerships platform particularly for Nut Tree Capital Management and Shoals Capital Management, partially offset by the anticipated roll-off of older, less profitable AUM. Real estate client AUM increased by 6% to $5.0 billion with strong fundraising for new portfolios as well as the addition of AUM following the acquisition of IDFC's real estate business in India. Credit management client AUM has increased by 1% to $11.2 billion.

## KEY AUM METRICS (BY ASSET CLASS)

| Private equity investments ($ millions) | Jun-19 | Jun-18 | % change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-end funds | **2,217** | 1,098 | >100% |
| Deal-by-deal investments | **2,544** | 2,749 | (7%) |
| Special opportunities portfolios | **181** | – | n.m. |
| **Total client AUM – at year-end** | **4,942** | 3,847 | 29% |
| Average client AUM | **4,394** | 3,760 | 17% |

| Real estate investments ($ millions) | Jun-19 | Jun-18 | % change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-end funds (Mezzanine/debt) | **134** | 6 | >100% |
| Deal-by-deal investments | **4,820** | 4,654 | 4% |
| **Total client AUM – at year-end** | **4,954** | 4,660 | 6% |
| Average client AUM | **4,807** | 4,360 | 10% |

| Credit management investments ($ millions) | Jun-19 | Jun-18 | % change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Closed-ended funds | **10,975** | 10,772 | 2% |
| Open-ended funds | **258** | 355 | (27%) |
| **Total client AUM – at year-end** | **11,233** | 11,127 | 1% |
| Average total client AUM | **11,180** | 10,855 | 3% |

| Absolute returns investments ($ millions) | Jun-19 | Jun-18 | % change B/(W) |
|---|---|---|---|
| **Client AUM** | | | |
| Multi-manager solutions | **1,605** | 2,004 | (20%) |
| Hedge funds partnerships | **1,949** | 1,371 | 42% |
| Special opportunities portfolios | **96** | 121 | (21%) |
| Alternative Risk Premia | **38** | 38 | 0% |
| **Total client AUM – at year-end** | **3,688** | 3,534 | 4% |
| Average total client AUM | **3,610** | 3,396 | 6% |

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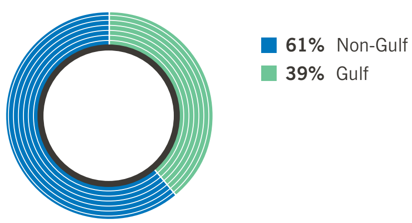
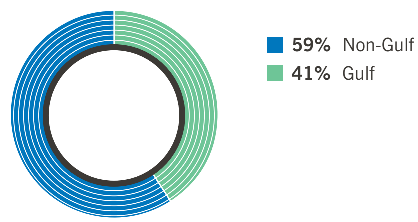
**Geographical split of client assets under management ($b)**

**As of June 30, 2019**




**As of June 30, 2018**




As at June 30, 2019 61% of the Firm's client assets under management are from outside of the Gulf region, broadly in line with 2018.

## FUNDRAISING

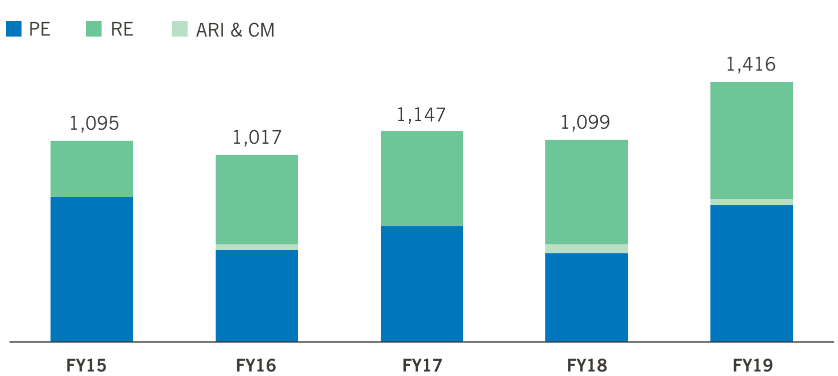
During FY19, fundraising in Investcorp's core Gulf markets was strong, despite the challenging macroeconomic and political conditions. The strength in fundraising was driven by continued client appetite for attractive alternative investments. Total deal-by-deal fundraising including new commitments into institutional investor programs increased by 29% to $1.4 billion, which is an all-time record and marks the fifth consecutive year that Investcorp has crossed the significant threshold of $1 billion in deal-by-deal placement activity.

Total private equity deal-by-deal placement was up 54% to $742 million in FY19 from $482 million in FY18. Private equity placement included for the first time the full placement of United Talent Agency, a US portfolio company, in the United States, the placement of the Firm's debut China-focused investment offering in partnership with China Everbright Limited and the placement of the Firm's first India-focused investment offering, the India Consumer Growth Portfolio. It also included new offerings for Cambio, Health Plus Management and Revature.

Total real estate deal-by-deal placement across six new portfolios and three portfolios carried over from the previous year increased by 12% to $639 million in FY19 from $569 million in FY19.

**Total deal-by-deal placement**

($m)



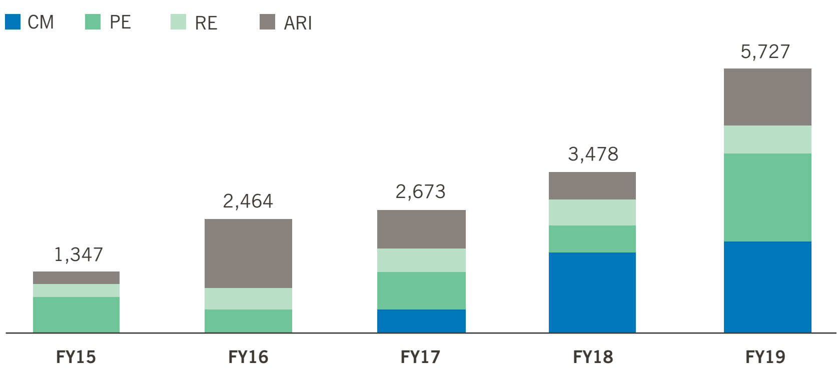

Fundraising continued in FY19 for Investcorp's fourth technology fund, established to invest in European lower middle market tech-enabled companies, with the focus shifting to investors outside of the Gulf. An additional $77 million in new commitments was raised during the first half of FY19. The fund is fully subscribed as at December 31, 2018 with a final close of $403 million. Furthermore, the Firm has successfully closed the transfer of its remaining two portfolio companies in ITP Fund III, with a combined enterprise value of $185 million, to a continuation vehicle, Investcorp Technology Secondary Fund 2018 L.P. which is supported by HarbourVest. In addition, the Firm has successfully closed a fund of approximately $1 billion with Coller Capital where Investcorp has transferred some of its European private equity investments that it had previously acquired through various deal-by-deal transactions and obtained new commitments for follow-on investments, future investments and co-investments.

Fundraising in credit management totaled $2.0 billion in FY19. A total of $1.8 billion was raised from the issuance of two new CLOs in the US and two new CLOs in Europe. New subscriptions into the two openended senior secured loan funds, the ICM Senior Loan Fund and the ICM Global Floating Rate Income Fund, totaled $125 million. An additional $86 million (€75 million) was raised from clients at the first close of a new European risk retention fund for CLOs. The risk retention fund will act as an originator and invest in CLO warehouse first loss tranches and hold the minimum 5% equity tranche investment required to meet European risk retention rules for CLOs. The target total fund size for this fund is €200 million with final close expected in FY20.

Total new subscriptions for ARI products in FY19 amounted to $1.2 billion. ARI fundraising includes $27 million for a new strategic capital product focused on acquiring minority equity stakes in the general partners of established, mid-sized alternative asset managers, including private equity, private debt, real estate, venture capital and hedge fund managers. The increase in client AUM during the year of $154 million compared to the $1.2 billion fundraising reflects redemptions in the period largely related to the anticipated roll-off of older, less profitable AUM. In addition, $267 million of new subscriptions during the year are client commitments that were not funded at year-end and therefore were not included in yearend AUM.

**Total fundraising – by product**

($m)



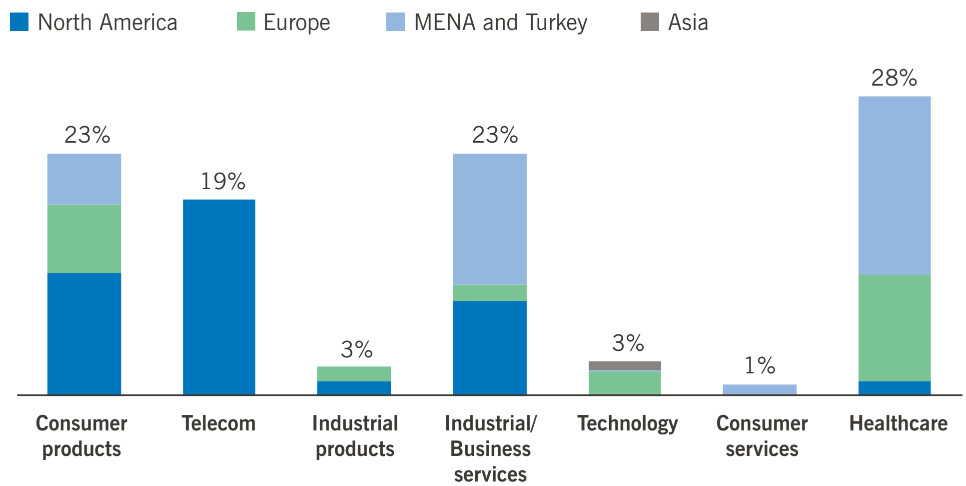
BUSINESS REVIEW

# PORTFOLIO PERFORMANCE

## PRIVATE EQUITY

*At June 30, 2019, the carrying value of Investcorp's balance sheet co-investment in PE, excluding strategic investments and underwriting, was $491 million (invested in 41 companies) compared with $609 million at June 30, 2018 (invested in 40 companies). This represents 48% of total balance sheet co-investments at June 30, 2019 (FY18: 52% at June 30, 2018). PE underwriting at June 30, 2019 was $51 million (FY18: $123 million at June 30, 2018).*

The private equity portfolio is diversified by sector and geography across North America, Europe, Asia and the MENA region, including Turkey.




*Please refer to the table in Note 12 (A) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2019 and June 30, 2018 carrying values of PE co-investments by region and investment sector.*

At June 30, 2019, Investcorp's aggregate PE North America co-investments were $207 million invested in 13 portfolio companies (FY18: $242 million at June 30, 2018 invested in 13 portfolio companies). Aggregate PE Europe co-investments were $106 million invested in 16 portfolio companies and an initial investment in a special opportunity in the German dental sector (FY18: $216 million at June 30, 2018 invested in 13 portfolio companies). Aggregate PE MENA co-investments were $174 million invested in 12 portfolio companies (FY18: $151 million at June 30, 2018 invested in 14 portfolio companies). Aggregate PE Asia co-investments were $4 million invested in a special opportunity.

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 four technology funds to date of which two are currently active. In December, Investcorp announced that it had successfully closed the transfer of its remaining two portfolio companies in its Technology Fund III to a continuation vehicle supported by HarbourVest. Investcorp will continue to manage the remaining investments, however the balance sheet and Investcorp's clients have fully realized their investments in the fund.

For PE 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 Private Equity Portfolio Listing section in this Business Review which describes each of the PE North America, PE Europe, PE MENA and PE Asia portfolio companies. Please refer to the Investments and Realizations section for portfolio company activities during FY19.*

On average, Investcorp's direct investments in mid-market companies in the US and Europe increased their aggregate EBITDA by 7% year-on-year, benefiting from a supportive economic environment as well as from Investcorp's post-acquisition efforts to grow value. Aggregate EBITDA for the MENA portfolio companies also increased by 7% during the year on a constant currency basis, however companies in Turkey were negatively impacted on a USD basis by the significant depreciation in the Turkish Lira versus the dollar during the year. Aggregate EBITDA across the portfolio in all regions was approximately $1.3 billion and the average debt across the portfolio is relatively modest at 3.5x.

The FY19 add-on investments discussed previously in *Investment Activity* and realizations discussed previously in *Realizations & Distributions* reflect Investcorp's strong post-acquisition focus during its period of ownership.

## Other Private Equity News

July 2018: PE Europe portfolio company **Dainese**, opened its London store on 56 Commercial Street, a trendy area close to Old Spitalfields Market. The store is the reference point for those who love dynamic sports and allows customers to get a hands-on look at Dainese's motorcycle, ski and bike collections.

August 2018: PE North America portfolio company **ICR**, launched an Executive Advisory & Corporate Transformation practice through an exclusive partnership with Elm Street advisors. This practice will work with Boards, CEO's, CFO's and their teams as they navigate complex situations to accelerate value-creating strategies.

October 2018: **Dainese** has joined the Altagamma Foundation, the prestigious association that, since 1992, has been bringing together high-end cultural and creative companies recognized globally as authentic ambassadors of Italian style. In becoming a member of the Altagamma Foundation, Dainese joins such Italian players as Ferrari, Maserati, Lamborghini, Riva, and Ducati, as well as many others from outside the automotive world – companies like Gucci, Cucinelli, Bulgari, and Versace, that, just like Dainese since 1972, are true ambassadors of Italian style at an international level.

December 2018: PE Europe portfolio company **Dainese**, opens their first store dedicated to winter sports in Cortina, a fashionable resort in the Italian Dolomites. It is a pop-up store which will test the viability of Dainese's multi sports range to support a retail store.

December 2018: PE MENA portfolio company **Theeb Rent A Car** was awarded the 2018 Enterprise Agility Award for 'Best Car Rental Company in Saudi Arabia' by Entrepreneur Middle East. The event took place at the Habtoor Palace in Dubai, UAE, which honored businesses and individuals who have established themselves as clear industry innovators in their respective industries and made prominent contributions across the Middle East.

January 2019: **POC**, Investcorp's portfolio company, which has built a reputation on safety, innovation and design, won esteemed ISPO awards for two of its freshly unveiled 2019/20 snow collections: an ISPO 'Gold winner' award for the POCito VPD air vest + TRAX POC edition, an integrated protection, alert and tracking system, that will allow parents to monitor and keep children safer in the mountains, and an ISPO 'Winner' award for the new Obex BC with NFC chip helmet, which thanks to the integrated technology, allows the helmet to communicate for you and help first responders in the critical 'Golden hour' after an accident.

April 2019: PE Europe portfolio company **ABAX**, teamed up with Hitachi Construction Machinery (Europe) NV (HCME). The new partnership means that ABAX market-leading software solutions will be included in several of Hitachi's machinery to help owners access operational data via Global e-Service on their machines, simplifying asset management for Hitachi, their dealers and Hitachi end customers. This data also enables them to increase productivity, enhance efficiency, maximize availability and reduce their running costs.

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May 2019: Forbes named PE North America portfolio company, **AlixPartners**, as one of America's best management consulting firms. Forbes partnered with market research company Statista to produce its annual ranking. The list was compiled by surveying 7,500 partners and executives of management consultancies, as well as 1,000 senior executives who worked with such firms over the last four years. AlixPartners was noted as a consulting firm best known for its work in performance improvement.

May 2019: PE Europe portfolio company **Dainese** opened their first flagship store in Graz, Austria, the reference point for those who love dynamic sports. Graz is the second Dainese store in Austria, the other one being located in Vienna. At the end of May, Dainese also extended its presence in the US by a store opening in Seattle, successfully continuing its retail activities. Further openings are scheduled in H2 2019.

June 2019: PE Europe portfolio company **POC**, teamed up with Volvo Cars for a series of world-first crash tests of bike helmets against cars. The project consists of a number of specially-designed crash tests at Volvo's safety research facilities in Gothenburg Sweden, and is part of a wider research project to understand the types of long-term injuries sustained by cyclists.

June 2019: PE North America portfolio company **ICR**, has been tapped by indoor fitness startup Peloton Interactive to handle all communications for its upcoming IPO. ICR will support Peloton, best known for its exercise bikes and treadmills, on Investor Relations (IR) and Public Relations (PR).

June 2019: PE MENA portfolio company **Bindawood**, was featured in the June 2019 issue of Forbes Middle East, where Ahmad Bindawood, CEO of Saudi-based retail brands Bindawood and Danube, led the push to digitize their old family-owned stores by embracing the latest trends e-commerce while using AI and blockchain to transform the in-store experience.

June: 2019: PE Europe portfolio company, **Dainese**, has been developing airbag garments for 25-plus years and currently launched a line of D-Air® racing tracksuits and jackets and touring jackets. The new Smart Jacket builds on the same D-Air technology used by MotoGP racers and adds a new feature: stationary impact protection. Stationary impact protection is not necessary on racetracks but offers significant additional protection to non-track riders. The latest innovation, the Smart Jacket, takes the D-air airbag vest and turns it into a multifunctional item that can be worn underneath or on top of any jacket, without requiring any form of connection to the bike.

The jacket feature, what Dainese are calling a 'brain' which is a small electronic control unit that analyses 1,000 times per second the data from seven sensors hidden within the product. When the system detects any 'dangerous situations' – such as extreme changes in angle, pitch or yaw – the system is activated.

## ABSOLUTE RETURN INVESTMENTS ('ARI')

*At June 30, 2019, the balance sheet carrying value of Investcorp's co-investment in ARI was $112 million compared with $189 million at June 30, 2018. The amount represents 11% of total balance sheet co-investments at June 30, 2019. Please refer to the table in Note 14 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2019 and June 30, 2018 carrying values.*

### Exposure Profile

Investcorp has consistently maintained a co-investment in the ARI business, in-line with its philosophy of coinvesting alongside its clients. Allocations were further reduced from FY18 levels due to the challenges faced by underlying hedge fund managers in the current market environment.

The balance sheet co-investments in ARI consists of investments in managers who are on Investcorp's hedge fund partnerships platform, multi-manager solutions platform, alternative risk premia and co-investments in Investcorp's Special Opportunity Portfolios. As of June 30, 2019, Investcorp's balance sheet co-investment in hedge fund partnerships was $30 million, investment in multi-manager solutions was $29 million, investment in Special Opportunities Portfolios was $43 million and investment in alternative risk premia was at $10 million, Investcorp's ARI exposure is primarily through customized accounts, similar to the structures created for Investcorp's large institutional clients.

## Performance

During FY19, Investcorp's ARI co-investment portfolio delivered returns of +5.8%. During the same period, the industry benchmark, HFRI Fund of Funds Composite Index, returned +1.3%.

The market environment for Investcorp's invested managers was mixed during this fiscal year. Conditions were favorable for fundamental strategies and more challenging for systematic and factor-based strategies. Managers with whom Investcorp has seed partnership arrangements delivered positive performance of 9.6% in FY19, led by Steamboat which returned +27.0%. Investments in Special Opportunity Portfolios returned 7.3% and Investcorp's external liquid manager portfolio returned 0.7%. Investcorp's Geo Risk investment generated negative performance during the fiscal year.

## Liquidity

Investcorp's ARI co-investment portfolio is constructed so that a significant portion of it is available for monetization within a three to twelve-month window. As of June 30, 2019, approximately 24% of Investcorp's ARI co-investment was contractually available for monetization within a three-month window and 68% was available within a twelve-month window.

## Absolute Return Investments Portfolio News

Investcorp's first co-seeding deal has delivered strong performance in FY19 (see above in Performance). Investcorp partnered with another large institution, that provided acceleration capital to Steamboat Capital Management LLC ('Steamboat'), a $300 million New York-based long-short equity, fundamental, value-oriented investment firm. Steamboat Capital seeks to capitalize on market dislocations while maintaining a margin of safety for its investors.

Shoals Capital Management ('Shoals'), an Investcorp hedge fund seed partnership, currently manages approximately $365 million (as of July 1, 2019). Investcorp and other institutional investors, including a large U.S. pension plan, provided strategic capital to Shoals. Shoals employs an event-driven strategy focused on investing across capital structure and sub-sectors in the financial sector, specifically targeting opportunities that arise from changes in regulatory and capital market conditions.

Investcorp hedge fund seed partnership, Nut Tree, which launched its credit fund in February 2016 with $100 million, continues to perform and investor in-flows fund assets have increased to over $1.3 billion as of July 1, 2019. Nut Tree pursues an all-weather fundamental credit strategy, focusing on mid-market stressed and distressed credit and value equities across North America.

Membership of Investcorp's Seeding Club, launched in 2017, now includes family offices, university endowments, and fund of funds. The club provides a select group of investment partners with potential benefits that include access to the broad ARI manager sourcing network; access to the ARI infrastructure, expertise and capabilities; enhanced returns through seed economics; and flexibility through a deal-by-deal opt-in structure.

In FY19 Investcorp launched the Strategic Capital Partners strategy within the Absolute Return Investments Group. The strategy will focus on acquiring minority equity stakes in the GPs of established, mid-sized alternative asset managers, including private equity, private debt, real estate, venture capital and hedge fund managers. To guide the Strategic Capital Partners business, Investcorp hired Anthony Maniscalco who has over 25 years of experience and was formerly Managing Director and Co-Head of Credit Suisse's Anteil Capital Partners business. Prior to Credit Suisse, Anthony was on the leadership team of Blackstone Strategic Capital Holdings, a vehicle focused on acquiring minority interests in alternative asset managers. Joining Anthony is David Lee, as a Partner, and Dhanraj Chandiramani, as a Vice President, two of his former colleagues at Credit Suisse.

Special Opportunities Portfolio IV ('SOP IV'), launched in January 2014, provides investors with access to US non-performing loans. Approximately 93% of the portfolio is now resolved or performing, and the primary focus is on returning cash to clients on a regular basis as the portfolio resolutions continue.

Special Opportunities Portfolio V ('SOP V') closed in August 2017 and is the first SOP tranche offered exclusively to institutional investors. SOP V's objective is to provide investors with access to Italian secured non-performing loans for commercial and residential real estate that are purchased from regional Italian banks. SOP V has successfully sourced and acquired twenty-eight (28) pools of NPLs at an aggregate cost of 31% of book value, deploying 95% of the fund's committed capital to date. Cash recoveries as at June 30, 2019, were currently in excess of the base case business plan.

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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 91% of the portfolio is now resolved or performing and the primary focus is on returning cash to clients on a regular basis as the portfolio resolutions continue.

Investcorp launched the Investcorp Geo-Risk Fund in December 2017 from a group of prestigious international investors. The current AUM is $48 million. The fund is a UCITS-compliant, daily liquidity, discretionary global macro fund that seeks to dynamically combine quantitative financial models with discretionary macro geopolitical risk investments. This strategy is driven by a geopolitical risk assessment provided by a panel of global security experts.

## Strategy Outlook

| Strategy | Outlook | Rationale |
|---|---|---|
| Hedged equities | Neutral | Expected range bound markets, play managers with trading skills and be mindful of factor exposures to provide balanced exposure |
| US | Slightly negative | Path to further upside narrow as markets already price in aggressive Federal Reserve easing and limited trade risks here |
| Euro area ex UK | Neutral | Valuations, monetary support and robust earnings growth. But greater exposure to geopolitical risks (Trade, Italy), proceed carefully |
| Japan | Neutral | Reflation play attractive, support from valuations and strong exposure to global recovery |
| Asia ex Japan | Neutral | Positive momentum from global recovery but watch out for tightening in Chinese financial conditions and potential spill-over effects and developments over trade negotiations |
| Event driven | Neutral | Benchmark expectations for higher-beta event-driven managers |
| Special situations | Neutral | Potential for diversifying value exposure relative to fundamental L/S funds. Seek diversification from momentum/growth plays |
| Merger arbitrage | Neutral | Widening of volatility may offer tactical entry point but spreads have lagged a bit, stay neutral for now |
| Equity market neutral | Slightly positive | High factor volatility has been a headwind but could subside in coming weeks, find managers able to monetize higher volatility amid lower liquidity |
| Macro discretionary | Positive | Greater volatility should offer opportunities for RV/Trading managers but uncertainty over macro trends may limit upside potential near term. EM still has a place in a diversified portfolio |
| Macro systematic | Neutral | Trend following at risk in range bound environment: lower potential in rates with crowded shorts, maybe better in FX/alternative markets |
| FI relative value | Positive | Strategy has adapted to new environment, less sensitive to balance-sheet scarcity and positioned to profit from dislocations in funding |
| Corporate credit | Slightly negative | Limited carry and asymmetric liquidity profile leave us underweight. Few dislocations to capture; prefer niche plays or wait for better entry points |
| Corporate distressed | Neutral | Stay out of traditional corporate distressed plays as tight spreads leave very limited risk premium in distressed assets. Look for idiosyncratic themes & opportunities |
| Structured credit | Neutral | Traditional structured credit offers limited carry and upside optionality, however idiosyncratic opportunities across near CLO refi's and resets, callable RMBS, and near-maturity CMBS offer potentially attractive risk-adjusted reward |
| Convertible arbitrage | Neutral | Relatively cheap valuations should offer support. Tepid new issuance and liquidity remain a concern |
| Vol arb | Slightly positive | Higher volatility environment here to stay, cross-asset & cross region opportunities |

Looking forward to H1 FY2020, Investcorp has a neutral outlook for **hedged equities** funds as markets are trading in a range bound environment. Investcorp has a slightly negative outlook on US equity managers; upside in equity is limited with a Federal Reserve dovish bias already priced in. Current equity outlook is translated into a neutral view for **special situation** managers as well, but the strategy offers diversification from traditional hedged equity funds. In the merger arbitrage space, spreads have lagged a bit so far and a widening of the volatility may offer a tactical entry point but Investcorp remains neutral for now. Outlook is slightly positive for **equity market neutral** as factor volatility is expected to subside in the coming weeks. **Macro discretionary** investment style is still a high conviction as a greater volatility environment offers opportunities for relative value/trading managers. Emerging market managers are preferred and have diversification potential in a portfolio.

Investcorp remains neutral on **macro systematic** as this strategy is at risk in a range bound environment. Opportunities are in foreign exchange and alternative markets rather than in rates where short positioning is crowded. Investcorp continues to overweight **fixed income relative** value as the strategy is now adapted to this environment and less sensitive to balance sheet scarcity.

Outlook for **corporate credit** managers is slightly negative and Investcorp prefers to wait for a better entry point given the limited carry and asymmetric liquidity profile. In **distressed**, Investcorp maintains its neutral stance. Spreads continued to tighten and leave very limited risk premium in these markets. Investcorp is also neutral on **convertible arbitrage** strategies. The current environment with tepid new issuances is still a headwind. Lastly, Investcorp keeps its slight overweight on **volatility arbitrage** managers. Macro and geopolitical uncertainties should help higher volatility to remain and create trading opportunities across products and geographies.

BUSINESS REVIEW

## REAL ESTATE INVESTMENT

*At June 30, 2019, Investcorp's RE balance sheet co-investments excluding underwriting totaled $68 million compared with $76 million at June 30, 2018. The amount represents 7% of total balance sheet co-investments at June 30, 2019.*

*Please refer to the table in Note 15 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2019 and June 30, 2018 carrying values by portfolio type. For details on RE underwriting, please refer to the table in Note 11 of the Consolidated Financial Statements of Investcorp Bank B.S.C.*

RE co-investments were comprised of $68 million of marked-to-market equity investments and $0.1 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 stable values for existing assets as well as the impact of exits and new acquisitions and placements during the period.

Investcorp currently has 26 active real estate investment portfolios. As at June 30, 2019, 23 properties had been acquired and were being warehoused for formation into new portfolios to be offered to clients in FY20. At June 30, 2019, 21 of these portfolios were on or ahead of plan. The remaining five have been written down significantly in value already, are rated behind plan and are generally those holding hotels or 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 co-investment by year** ($ millions) | Properties # vs. current* | Sector | Geographic location | Carrying value end of **Jun-19** | Carrying value end of Jun-18 |
|---|---|---|---|---|---|
| Diversified VI | 3 / 0 | – | – | | |
| Diversified VII | 4 / 1 | Industrial | E | | |
| Hotel | 9 / 1 | Hotel | SW | | |
| **Vintage FY07** | | | | **3** | 3 |
| Commercial VI | 3/0 | – | – | | |
| **Vintage FY11** | | | | **0** | 1 |
| Southland & Arundel Mill Mezz | n.a.** | Retail | SE | | |
| **Vintage FY12** | | | | **0** | 0 |
| 2013 Office II | 5/2 | Office | SE/SW | | |
| **Vintage FY13** | | | | **1** | 2 |
| 2013 US Commercial / 2014 Office | 9/0 | – | – | | |
| **Vintage FY14** | | | | **0** | 8 |
| Canal Center | 4 / 3 | Office | E | | |
| 2014 Office and Industrial | 24 / 0 | – | – | | |
| 2015 Residential | 4 / 0 | – | – | | |
| **Vintage FY15** | | | | **1** | 3 |
| 2015 Residential II | 8 / 1 | Residential | SW | | |
| 2015 Office & Industrial | 79 / 5 | Office | W | | |
| Boca Raton & Minneapolis Residential | 5 / 3 | Residential | SE / MW | | |
| 733 Tenth Street | 1 / 1 | Office | E | | |
| **Vintage FY16** | | | | **5** | 9 |
| 2016 Residential | 10 / 9 | Residential | MW / SE / E | | |
| Boston & Denver Commercial | 20 / 16 | 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 / 0 | – | – | | |
| Chicago & Boston Industrial | 6 / 6 | Industrial | MW / E | | |
| **Vintage FY17** | | | | **9** | 10 |
| Florida & Arizona Multifamily | 6 / 6 | Residential | SE / SW | | |
| UK Industrial Logistics | 9 / 9 | Industrial | UK | | |
| Midtown Manhattan Office | 2 / 2 | Office | E | | |
| 2018 Residential | 5 / 5 | Residential | SE / SW / MW | | |
| UK Industrial Logistics II | 9 / 9 | Industrial | UK | | |
| 2018 Warehouse | 38 / 38 | Industrial | SE / SW / MW | | |
| **Vintage FY18** | | | | **19** | 20 |
| German Office 2018 | 2 / 2 | Office | GER | | |
| US Industrial & Logistics | 56 / 56 | Industrial | E / SW / MW | | |
| 2018 Multifamily | 6 / 6 | Residential | SE / SW / W | | |
| 2019 Multifamily | 8 / 8 | ***Residential*** | ***SE / SW*** | | |
| Frankfurt and Hamburg | 2 / 2 | Office / Industrial | GER | | |
| US Distribution Center | 8 / 8 | Industrial | MW / SW / SE | | |
| **Vintage FY19** | | | | **21** | 8 |
| **Others** | | | | **1** | 12 |
| **Sub-total** | 349 / 202 | | | **60** | 76 |
| **New portfolios under construction** | 23 / 23 | | | **8** | N.A. |
| **Total including new portfolios under construction** | 372 / 225 | | | **68** | 76 |

* 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.

** Mezzanine investments.

W=West, E=East, SW =Southwest, SE=Southeast, MW=Midwest, UK=United Kingdom, GER=Germany

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## CREDIT MANAGEMENT

*At June 30, 2019, Investcorp's CM balance sheet co-investments totaled $332 million compared with $272 million at June 30, 2018. The amount represents 33% of total balance sheet co-investments at June 30, 2019.*

Please refer to the table in Note 13 of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2019 and June 30, 2018 carrying values by geography.

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

### Assets under management – Investcorp credit management ($ millions)

| Fund Name[3] | Cash returned to equity to date %[1] | Total AUM Jun-19 | Investcorp AUM Jun-19 |
|---|---|---|---|
| FY 2014 | 83.26% | 785 | 28 |
| FY 2015 | 75.48% | 1,468 | 56 |
| FY 2016 | 51.28% | 1,407 | 59 |
| FY 2017 | 31.95% | 945 | 40 |
| FY 2018 | 19.40% | 909 | 45 |
| FY 2019 | 6.27% | 910 | 46 |
| **European CLO Funds** | | **6,424** | **274** |
| FY 2013 | 95.14% | 342 | 0 |
| FY 2014 | 68.45% | 346 | 0 |
| FY 2015 | 10.39% | 747 | 0 |
| FY 2016 | 48.94% | 995 | 0 |
| FY 2017 | 40.79% | 724 | 20 |
| FY 2018 | 15.58% | 997 | 13 |
| FY 2019 | N/a | 446 | 15 |
| **US CLO Funds** | | **4,597** | **48** |
| CLO under construction | | 271 | 5 |
| Other Funds[2] | | 578 | 44 |
| **Other** | | **849** | **49** |
| **Total** | | **11,870** | **371** |

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

## Collateralized Loan Obligations ('CLOs')

CLO equity continues to provide investors with attractive current income cash distributions. In Europe, the average annualized cash distribution on Investcorp's ongoing 2.0 CLOs as at June 30 were 15.7% and, in the US, were 12.8%.

## Global Floating Rate Income Fund ('GIF')

The ICM GIF[1] produced a net return of 3.62% for FY 2019. Since inception in August 2015, the Fund's annualized net return is 4.11%.

Investcorp's credit team is positioning the portfolio somewhat defensively due to the record length of the US economic cycle. The team believes a US recession is unlikely this year, however it is carefully selecting loan issuers that it believes can withstand a trough in the economic cycle with sustainable cash flow and strong asset coverage to protect against downside risks. As such, the team has reduced the Fund's exposure to CCC-rated loans from 3.5% at year-end to 1.22% at the end of June. Likewise, loans rated B+ or higher increased from 40.1% to 44.0% over the same period (see Chart 1). In addition, the team has taken the view that the price stability of European loans currently offers superior risk-adjusted returns to more volatile US loans. At December 2018 the Fund's currency exposure was 78% USD, 17% EUR, and 5% GBP. The team has shifted over the course of the first six months of calendar 2019 to 72% USD, 24% EUR, and 4% GBP (see Chart 2). The team believes these portfolio adjustments have enhanced returns this year.

**Chart 1: Quality Exposure**

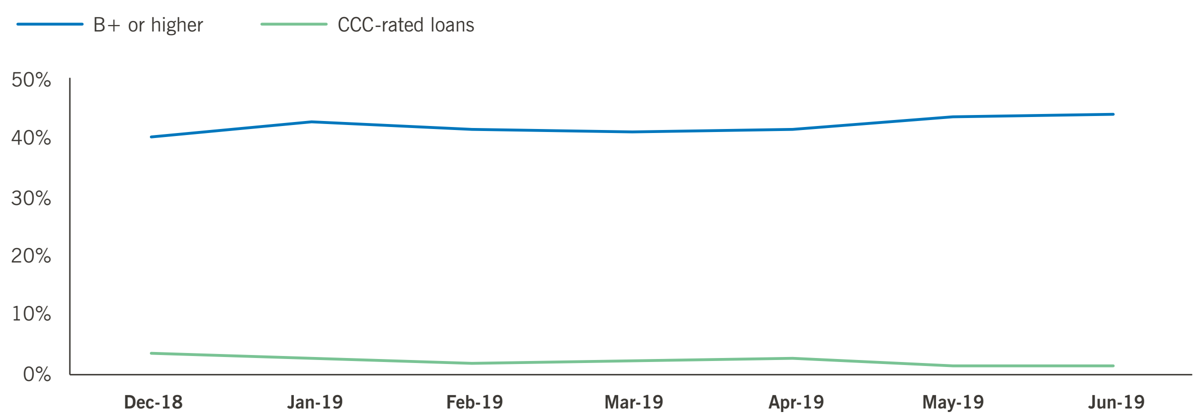
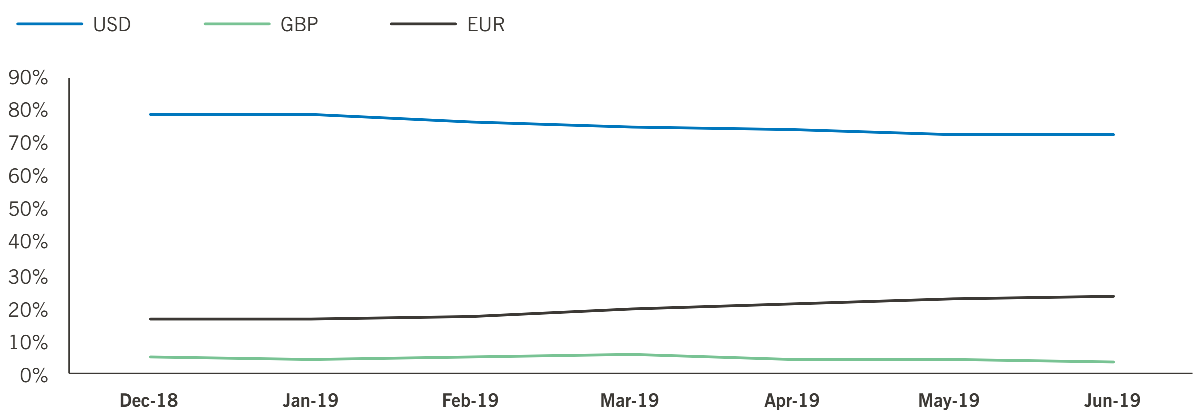



**Chart 2: Currency Exposure**




1 USD Share Class

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## PRIVATE EQUITY PORTFOLIO LISTING

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in private equity investments was $491 million invested across 41 portfolio companies and three special opportunity investments. The below sections provide an overview of these portfolio companies and investments.

### PE NORTH AMERICA

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in private equity investments in North America was $207 million invested across 12 companies.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Revature** | **February 2019** | **Business services – Technology enabled services** | **Virginia, US** |

Revature is a technology talent development company providing a turn-key talent acquisition solution for corporate and government partners and no-cost coding immersion programs for university graduates. Revature recruits, develops and deploys enterprise-ready technology talent, enabling its corporate partners to succeed and grow. Through in-person, online and on-campus coding immersion programs, Revature creates a pathway for university graduates with diverse backgrounds to build the knowledge, skills and abilities to reach their potential as technology professionals. With its unique talent development strategy, Revature successfully serves a wide range of Fortune 500 enterprises, government organizations and top systems integrators.

**www.revature.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Health Plus Management** | **January 2019** | **Business services – Healthcare** | **New York, US** |

Health Plus Management ('Health Plus') is a market leader in clinical practice management in the physical medicine and rehabilitation market. Health Plus provides independent physician practices with business development, marketing and back-office support typically seen in much larger organizations, enabling its clients to start up and/or grow their private practice beyond what might otherwise be feasible while maximizing clinical service and patient care. Health Plus is based in Long Island, NY and employs approximately 250 dedicated team members.

**www.healthplusmgmt.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **United Talent Agency** | **August 2018** | **Business services – Media** | **California, US** |

United Talent Agency ('UTA') is the 3rd largest talent agency in the world representing many of the world's most acclaimed figures in many current and emerging areas of entertainment and media, including motion pictures, television, music, digital, broadcast news, books, theatre, video games, fine art and live entertainment. UTA has offices in Los Angeles, New York, London, Nashville, Miami, and Malmo, Sweden.

**www.unitedtalent.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **ICR** | **March 2018** | **Business services – Data & information services** | **Connecticut, US** |
| | ICR is a leading strategic communications and advisory firm. ICR helps companies manage credibility and reputational risk to optimize shareholder value. ICR specializes in investor relations, public relations, crisis and special situations communications, digital branding, social media management, and capital advisory solutions. The firm works with more than 550 clients across its six offices in the US and China.<br><br>**www.icrinc.com** | | |
| **KS Group** | **March 2018** | **Industrial services – Supply chain services** | **New Jersey, US** |
| | KS Group is a value-added, industry-leading distributor of quality replacement auto body parts servicing over 10,000 collision repair shop customers across 25 locations in 14 states. The company provides automotive aftermarket body parts across several product categories, including headlights, front / rear bumper covers, fenders, hoods, tail lights, grills, radiators, and mirrors.<br><br>**www.ksiautoparts.com** | | |
| **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 the 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 was a pioneer in providing consulting services to companies in or near bankruptcy. Over time, AlixPartners has expanded its capabilities and currently offers six different types of services across a wide range of industries and geographies: Digital Services; Investigations, Risk & Disputes Services; Mergers & Acquisitions Services; Organizational & Transformative Leadership Services; Performance Improvement; and Turnaround & Restructuring. The company has nine locations in the US and 15 other locations around the globe including in South America, Europe, the Middle East and Asia. AlixPartners has over 1,600 employees, approximately 1,150 of whom are professionals, and over 170 Managing Directors.<br><br>**www.alixpartners.com** | | |

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| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Arrowhead Engineered Products** | **October 2016** | **Industrial services – Supply chain services** | **Minnesota, US** |

Arrowhead Engineered Products ('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 users in different markets including Utility/Powersports/ Motorcycle, Agriculture, Industrial, Outdoor Power Equipment, Marine, Auto and Heavy Duty. Arrowhead has acquired four companies since Investcorp's investment in October 2016: Stens, J&N Electric, Interparts and Ratioparts. These add-on acquisitions have significantly increased Arrowhead's scale in the aftermarket replacement parts market.

**www.arrowheadep.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **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.

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.

**www.prounlimited.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **totes»ISOTONER** | **May 2014** | **Consumer products – Specialty retail** | **Ohio, US** |

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

**www.totes-isotoner.com**

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

PAPER SOURCE
DO SOMETHING CREATIVE EVERY DAY

Paper Source is a vertically-integrated, cross-channel retailer, offering a premium selection of uniquely designed and curated gifts, stationery, and crafting supplies. The company operates 130 stores across the US. The company goes to market through retail stores, direct-to-consumer and wholesale channels. Stores offer workshop classes, demonstrations, and consultation appointments that drive high customer engagement, conversion, and customer loyalty.

**www.paper-source.com**

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

Sur la table
THE ART & SOUL OF COOKING

Sur La Table is a specialty retailer of culinary merchandise and a leading provider of non-degree culinary courses in North America. Offering a broad selection of the best culinary brands and an assortment of innovative kitchenware products, Sur La Table currently operates 134 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 500,000 customers annually. Sur La Table has built a multi-channel business in which each channel is profitable on a standalone basis.

**www.surlatable.com**

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

TPX
COMMUNICATIONS

TPx Communications (formerly TelePacific) is a provider of network and communications services headquartered in Los Angeles. In business since 1998, the company is the nation's premier managed services provider, delivering unified communications, managed IT and network connectivity to 55,000 customer locations across the country.

**www.tpx.com**

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## PE EUROPE

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in private equity investments in Europe was $90 million invested across eight companies and an initial investment in a special opportunity in the German dental sector.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Cambio** | **February 2019** | **Business services – Healthcare** | **Stockholm, Sweden** |
| | Founded in 1993, Cambio is a Swedish-based provider of Electronic Health Record (EHR) software and services as well as eHealth solutions to the primary and social care (elderly and disabled care) sector. Cambio is the only Nordic EHR provider with a pan-European presence, and currently has operations in Sweden, Denmark and the UK. With a total customer base comprising 155,000 individual users, Cambio has a market share of approximately 30% across the Nordics. Cambio employs approximately 550 people.<br><br>**www.cambio.se** | | |
| **Kee Safety** | **October 2017** | **Industrial products** | **Birmingham, United Kingdom** |
| | Founded in 1934, Kee Safety's products have a longstanding reputation for their quality, reliability and safety and include fall prevention equipment, roof edge protection, barrier and guardrail systems and safe access solutions. Today, the company has a global presence and sells its products across more than 60 countries worldwide to a broad range of customers, from multi-national corporations to distributors and installers. Kee Safety employs over 580 people and has established operations in 10 countries, including the US and China.<br><br>**www.keesafety.com** | | |
| **ABAX** | **June 2017** | **Business services – Technology enabled services** | **Larvik, Norway** |
| | Founded in 2003, ABAX has become the leading telematics solution provider in the Nordics by developing and delivering sophisticated fleet tracking, electronic triplogs, and equipment & vehicle control systems. Headquartered in Larvik, Norway, the company has approximately 320 employees and established operations across the Nordic region as well as in Poland, the Netherlands and the UK.<br><br>**www.abax.co.uk** | | |

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

AGROMILLORA

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 super-highdensity planting solution and has since been promoting similar agronomic improvements for a complete portfolio of high-quality plants. With a global network of 11 production subsidiaries across nine countries, Agromillora sells to clients in over 25 countries.

**www.agromillora.com**

| | | | |
|---|---|---|---|
| **Corneliani** | **June 2016** | **Consumer products – Specialty retail** | **Mantova, Italy** |

CORNELIANI

Founded in 1958, Corneliani is a luxury menswear 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 62 countries through 13 directly operated stores, approximately 850 multi-brand stores, more than 69 franchise stores and approximately 38 store-in-stores, including Harrods, Selfridges, Harvey Nichols, Saks Fifth Avenue and Bloomingdales.

**www.corneliani.com**

| | | | |
|---|---|---|---|
| **Dainese** | **January 2015** | **Consumer products** | **Vicenza, Italy** |

DAINESE

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 ('DTec'), an R&D technical center for the study of protective technology, the company strives to ensure that 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**

## BUSINESS REVIEW

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **SPGPrints** | **August 2014** | **Industrial products** | **Boxmeer, The Netherlands** |

Based in The Netherlands, 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**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **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 over 115 years, the Georg Jensen brand has a deep heritage in silversmithing and represents quality craftsmanship and timeless designs. The brand is also endorsed by the Queen of Denmark.

**www.georgjensen.com**

## PE TECHNOLOGY

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in technology investments was $9 million invested across eight companies.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Ubisense** | **December 2018** | **Technology – Big data** | **Cambridge, UK** |
| **softgarden** | **September 2018** | **Technology – Big data** | **Berlin, Germany** |
| **Impero** | **July 2017** | **Technology – Security** | **Nottingham, UK** |

**Ubisense**

Ubisense is an enterprise software and sensor platform that generates and interprets vast amounts of location data to create digital visibility of real-world objects and their interactions in real time, enabling complex manufacturing processes with high levels of variability to be more flexible, easier to manage and easier to control. Ubisense's service solution generates meaningful and demonstrable return on investment to Ubisense's blue-chip customers. Ubisense is present in a number of verticals, including Aerospace, Commercial Vehicles, Passenger Vehicles, General Industry, and Transportation amongst many others.

**www.ubisense.net**

**softgarden**

Founded in 2005, softgarden offers an innovative recruitment technology platform to a diversified set of German mid-market and enterprise customers. The company's 'Applicant Tracking System' (ATS) – a software-as-a-service (SaaS) platform covering the entire digital corporate recruitment process – enables companies to streamline and manage their entire recruitment process in a fully automated and data-privacy compliant manner. In addition to this, softgarden offers a proprietary jobseeker marketplace, as well as a tool to automate the posting of ads on job boards.

**www.softgarden.io**

**Impero**

Founded in 2002, Impero has become a market leader in the UK in integrated safeguarding software with its comprehensive education solution that enables schools to keep students safe, improves the teaching environment and maximizes efficiency for school network managers. Headquartered in Nottingham, UK, with an office in Austin, Texas, the company has a greater than 20% share of the UK secondary school market, currently serving more than 1,400 secondary schools across the country, and with a significant footprint across more than 500 US districts. Globally, the software is accessed by over 1.5 million devices in over 90 countries, and during the course of 2018/19 the company transitioned from an on-premise solution to a cloud-based SaaS model.

**www.imperosoftware.com**

BUSINESS REVIEW

| 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. Run by its founders, the company has successfully entered seven markets (Norway, Sweden, The Netherlands, Germany, United Kingdom and the US alongside its home market of Denmark). Ageras' proprietary matching algorithm allows it to combine automation with high levels of service in order to ensure maximum customer satisfaction. During 2018, Ageras launched a new arm of its business to focus on monetizing high-simplicity projects through an automated accounting system. This new product is in start-up mode, but the initial results are showing good traction.

**www.ageras.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 |
|---|---|---|---|
| **eviivo** | **March 2011** | **Technology – Internet/mobility** | **London, UK** |

eviivo is a leading European 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 approximately 14,000 customers, eviivo's portfolio covers the breadth of the UK, US, French, German and Mediterranean markets 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 |
|---|---|---|---|
| **OpSec Security Group** | **March 2010** | **Technology – Security** | **Newcastle, UK** |

OpSec Security Group is a global leader in providing anti-counterfeiting technologies, as well as solutions and services for physical and online brand protection, to over 400 brand owners 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 a global 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. In the UK, kgb’s ‘The Number’ 118 has become Britain’s leading directory assistance service for consumers and businesses. In addition to the US and UK, the company also has operations in Ireland, France, Austria, Switzerland, Germany, Morocco, and the Philippines.

**www.kgb.com**

BUSINESS REVIEW

## PE MENA

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in private equity investments in the MENA region was $182 million invested across 13 companies. The portfolio listing shown below includes Hydrasun, even though it is headquartered in Aberdeen, UK, as it is a portfolio company of the Gulf Opportunity Fund.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Reem Integrated Healthcare** | **April 2018** | **Healthcare** | **Abu Dhabi, United Arab Emirates** |
| | Reem Integrated Healthcare Holdings is developing a new landmark hospital complex on Reem Island, Abu Dhabi, UAE. The complex comprises a modern and highly specialized rehabilitation center combined with a children's and women's hospital and a family medical center. The development of the hospital complex will take place in phases: first, the construction of a more than one hundred bed rehabilitation center and a sizeable family medical center targeted to open at the end of 2019 and which will be built and operated by VAMED, a leading global provider of development, design and operational management services for hospitals; and second, the development of a more than one hundred bed children's and women's hospital, providing a full range of general and specialized pediatric surgery and treatments, as well as comprehensive gynecology and obstetrics services supported by a neonatal intensive care unit and which will be operated by VAMED in cooperation with Charité from Berlin, Germany, one of the leading university hospitals in Europe. **Operators website: www.vamed.com and www.charite.de** | | |
| **Al Borg Medical Laboratories** | **November 2016** | **Healthcare** | **Jeddah, Saudi Arabia** |
| | Established in 1999 in Jeddah, Al Borg Medical Laboratories ('Al Borg') has 64 laboratories across eight countries in the GCC and Africa, with a clear leadership position in Saudi Arabia. Al Borg employs over 1,200 personnel and offers a wide range of routine and specialty medical laboratory testing services to hospitals, clinics, corporates and individuals. In December 2017, Al Borg acquired Proficiency Healthcare Diagnostics, a leading private independent laboratory network in Abu Dhabi, UAE, operating five laboratories across Abu Dhabi, Dubai, Sharjah and Al Ain. **www.alborglaboratories.com** | | |
| **Bindawood Holding** | **December 2015** | **Consumer products – Grocery retail** | **Jeddah, Saudi Arabia** |
| | Established in 1984, with over 30 years of operations and a network of 68 stores across Saudi Arabia, the Bindawood group operates 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 |
|---|---|---|---|
| **NDT Corrosion Control Services Co.** | **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 3,000 technicians in Saudi Arabia, Oman, UAE and Kuwait, and has recently entered the Bahrain market. 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 2019, NDTCCS acquired International Inspection Center Co. ('Intrex'), Kuwait's largest provider of industrial NDT and inspection services employing over 1,100 technicians.

**www.ndtcorrosion.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Arvento Mobile Systems** | **March 2015** | **Business services – Technology enabled services** | **Istanbul, Turkey** |

Established in 2005, Arvento Mobile Systems is a provider of telematics solutions, delivered as a software-as-aservice, 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 is a 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.

**www.arvento.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **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 an integrated cattle farm in Urfa with 45,000 livestock capacity supplying nearly 25% of the company's production needs. The company processes and sells unpacked and packed fresh cut meat, delicatessen products, frozen products and further processed 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**

BUSINESS REVIEW

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Al Yusr Industrial Contracting Company W.L.L** | **October 2013** | **Industrial services** | **Jubail, Saudi Arabia** |

Al Yusr Industrial Contracting Company W.L.L. ('AYTB') was founded in 1979 in Jubail and over its 39-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, manpower supply, catering and accommodation services. AYTB's clients include many of the region's leading petrochemical and oil and gas companies. The company employs over 5,000 people across its operations in Saudi Arabia and Qatar.

**www.aytb.com**

| | | | |
|---|---|---|---|
| **Theeb Rent a Car Co.** | **June 2013** | **Consumer services** | **Riyadh, Saudi Arabia** |

Theeb Rent a Car Co. ('Theeb') is a leading car rental company in Saudi Arabia primarily serving the 'individual' customer segment with short-term rental services. The company has 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 14,800 vehicles with a wide network of 43 branches, including 11 at international and regional airports across Saudi Arabia. Over the years Theeb has built a strong local brand and membership program with over 220,000 members.

**www.theeb.com.sa**

| | | | |
|---|---|---|---|
| **Hydrasun Group Holdings Ltd.** | **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 420 personnel and has state-of-the-art engineering, production, manufacturing, training and warehousing facilities.

**www.hydrasun.com**

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **Automak Automotive Company** | **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 a leading player in the fleet leasing and rental business in Kuwait. Automak operates a fleet of in excess of 10,000 vehicles leased on a long-term basis (24-36 months) primarily to key companies in the oil, public and corporate sectors in Kuwait and on a short-term basis in the spot rental market. Automak also provides a wide spectrum of services and products including quick service and distribution of spare parts, tires and lube oil.

**www.automak.com**

| | | | |
|---|---|---|---|
| **ORKA Holding** | **September 2012** | **Consumer products – Specialty retail** | **Istanbul, Turkey** |

ORKA Holding ('Orka') is one of the largest menswear retailers in Turkey with 213 directly operated stores (162 in Turkey and 51 around the world). Founded in 1986 by Süleyman Orakçıoglu, Orka has three brands (Damat, Tween and D'S Damat) which are suited to a broad customer base. The Damat brand targets the classic/high-end segment, the Tween brand targets the contemporary/mid to high-end segment and the more affordable D'S Damat targets the classic and contemporary mid segment. Damat is the #1 apparel brand in Turkey with an estimated 97% brand awareness.

**www.orkagroup.com**

| | | | |
|---|---|---|---|
| **Tiryaki Agro** | **September 2010** | **Consumer products – Trading and logistics** | **Istanbul, Turkey** |

Tiryaki Agro ('Tiryaki') is a 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, pulses, oil seeds, feed stuff and nuts across Europe, Africa, the Middle East, the CIS, America and Asia. The company has a team of approximately 690 professionals, has processing and storage facilities in Turkey and serves a broad customer base including food processors, retailers, governmental agencies and other agro wholesalers.

**www.tiryaki.com.tr**

| | | | |
|---|---|---|---|
| **L'azurde** | **March 2009** | **Consumer products** | **Riyadh, Saudi Arabia** |

L'azurde, a family-owned business established in 1980 in Saudi Arabia, is a leading Arab designer, manufacturer and distributor of gold jewelry for the premium mass market, with two large state-of-the-art industrial plants in Riyadh and Cairo. The company has high quality products and designs, a diversified regional distribution network, strong manufacturing capabilities, and significant economies of scale advantages with approximately 1,300 wholesale relationships that span the MENA region. In October 2018, L'azurde acquired Izdiad, the Saudi franchisee of the TOUS international jewelry brand, operating 26 TOUS franchise stores in Saudi Arabia.

**www.lazurde.com**

BUSINESS REVIEW

## PE ASIA

As of June 30, 2019, Investcorp's aggregate balance sheet co-investment amount in private equity investments in the Asia region was $4 million.

| Portfolio Company Name | Acquired | Industry Sector | Headquarters |
|---|---|---|---|
| **China Pre-IPO Technology Portfolio** | **September 2018** | **Technology** | **Predominantly in China, together with one US-based company with significant China angle** |
| | China Pre-IPO Technology Portfolio is a diversified portfolio of leading high-growth pre-IPO technology companies in China or globally with a significant China angle, in partnership with China Everbright, a reputed sovereignbacked asset manager. The portfolio currently comprises nine high-growth companies and is expected to continue to grow and diversify by investing in its active deal pipeline in the Internet Services, Media & Entertainment, Artificial Intelligence and Consumption Upgrade sectors. | | |
| **India Consumer Growth Portfolio** | **February 2019** | **Consumer & Retail / Financial Services / Healthcare** | **India** |
| | India Consumer Growth Portfolio is a diversified portfolio of leading high-growth consumer companies in India. The portfolio currently comprises four high-growth consumer companies and is expected to continue to grow and diversify by investing in its active deal pipeline in the Consumer & Retail, Financial Services and Healthcare sectors. | | |

## OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND REGULATION

At June 30, 2019, Investcorp Bank B.S.C. ('Investcorp Bank' or "Investcorp") 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, 2019, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 47.3% of the Ordinary Shares of Investcorp Bank which are tradable on the Bahrain Bourse and are held predominantly by Gulf-based nationals and institutions, including a stake of 10% held by Konoz Securities Company SPC and a stake of 20% held indirectly by Mubadala Investment Company PJSC. International shareholders hold 0.03% of the Ordinary Shares, represented by unlisted Global Depositary Receipts. SIPCO Limited ('SIPCO'), a Cayman Islands entity that administers the Investcorp Group incentive compensation plans, directly and indirectly owns 18% of Investcorp Bank's ordinary shares.

The 18% of Investcorp Bank's Ordinary Shares owned indirectly by SIPCO represents:

- management and other current and former Investcorp Group employees' (166 current and former employees in the aggregate) ownership of beneficial interests in 11% of Investcorp Bank's Ordinary Shares through Investcorp Employee Share Ownership Plans (each such plan an 'ISOP'), which includes 1.5% acquired but unvested shares under an ISOP; and
- treasury shares, amounting to 7% of Investcorp Bank's Ordinary Shares that are held for potential acquisition by employees 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, 2019, assets comprising 97.4% of the book value of the Investcorp Group's consolidated assets were owned directly or indirectly by ISA, which is a subsidiary of IHL.

In order to separate voting control from economic ownership, IHL has issued (1) ordinary shares which carry voting rights, but do not carry economic rights; (2) Series A Preference Shares, which carry both voting and economic rights; and (3) Series B Preference Shares, which only carry economic rights. As at June 30, 2019, 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 and the IHL Series B Preference Shares owned by Investcorp Bank give it 100% of the economic ownership of IHL and, therefore, 100% ownership of the 97.4% 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 the occurrence of any event, or a series of events, of an adverse nature that are reasonably likely to materially impair Investcorp Bank's ability to perform its obligations, cause a change of control of Investcorp Bank or prevent it from continuing normal business activities, 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 substantial 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, 2019, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 51.4% 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 1.3% 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 52.7% 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 2019 Corporate Governance Report ('Fiscal Year 2019 Corporate Governance Report') which is a supplement to this Annual Report. The Fiscal Year 2019 Corporate Governance Report is also available on Investcorp's website (www.investcorp.com).

As reported above, an aggregate of 52.7%[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 47.3%[1] of Investcorp Bank's Ordinary Shares that are held by public shareholders and tradable on the Bahrain Bourse.

| Nationality | Number of Shares | Ownership |
|---|---|---|
| American | 26,913 | 0.0% |
| Bahraini | 11,533,964 | 14.4% |
| British | 203,400 | 0.3% |
| Cayman Islander | 846,200 | 1.1% |
| Emirati | 16,955,862 | 21.2% |
| Indian | 2,300 | 0.0% |
| Jordanian | 700 | 0.0% |
| Kuwaiti | 1,519,900 | 1.9% |
| Lebanese | 42,300 | 0.1% |
| Omani | 433,700 | 0.5% |
| Qatari | 865,700 | 1.1% |
| Saudi | 5,296,000 | 6.6% |
| Swiss | 64,000 | 0.1% |
| Virgin Islands, British | 44,600 | 0.1% |
| **Total** | **37,835,539** | **47.3%[1]** |

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

| Nationality | Number of Shares | Ownership |
|---|---|---|
| Bahraini | 11,688 | 9.5% |
| British | 857 | 0.7% |
| Canadian | 367 | 0.3% |
| Cayman Islander | 49,618 | 40.3% |
| Emirati | 1,427 | 1.2% |
| French | 357 | 0.3% |
| Indian | 178 | 0.1% |
| Jordanian | 287 | 0.2% |
| Kuwaiti | 43,462 | 35.3% |
| Lebanese | 178 | 0.1% |
| New Zealander | 54 | 0.0% |
| Omani | 6,471 | 5.3% |
| Qatari | 1,230 | 1.0% |
| Saudi Arabian | 4,535 | 3.7% |
| Swiss | 2,173 | 1.8% |
| Syrian | 357 | 0.3% |
| **Total** | **123,239** | **100.0%[1]** |

1 Numbers may not add up due to rounding.

## CORPORATE GOVERNANCE, BALANCE SHEET AND 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, 2019 | | |
|---|---|---|---|
| Ordinary shares | No. of shares | No. of shareholders | % of total outstanding shares |
| Less than 1% | 13,835,539 | 262 | 17.3% |
| 1% up to less than 5% | 1,016,500 | 1 | 1.3% |
| 5% up to less than 10% | 7,833,561 | 1 | 9.8% |
| 10% up to less than 20% | 8,000,000 | 1 | 10.0% |
| 20% and greater | 49,314,400 | 2 | 61.6% |
| | 80,000,000 | 267 | 100% |

| | June 30, 2019 | | |
|---|---|---|---|
| Preference shares | No. of shares | No. of shareholders | % of total outstanding shares |
| Less than 1% | 15,131 | 53 | 12.3% |
| 1% up to less than 5% | 16,471 | 6 | 13.4% |
| 5% up to less than 10% | 8,918 | 1 | 7.2% |
| 10% up to less than 20% | 20,127 | 1 | 16.3% |
| 20% and greater | 62,592 | 2 | 50.8% |
| | 123,239 | 63 | 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 37 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;

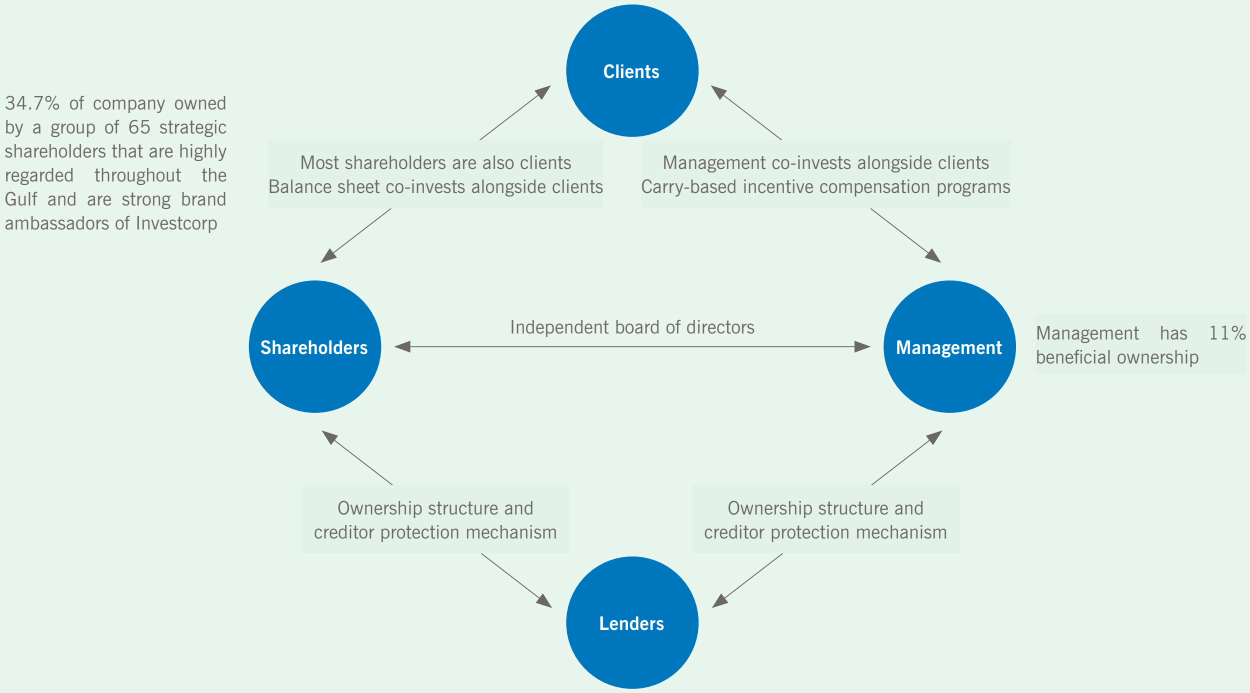
ii. transparency of reporting and actions plus proactive risk control; and

iii. collective decision-making.

At June 30, 2019, 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 2019 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, BALANCE SHEET AND 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 private equity or real estate investment transaction, placing the balance with clients. Investcorp also invests a portion of its assets in its absolute return investment products and the products of the 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 FY19, 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 31 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 2019 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 at June 30, 2019, the Board of Directors consists of not less than five and not more than 15 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 'September 2016 OGM') and increased to 14 by action of the shareholders at the Ordinary General Meeting of Shareholders held on January 31, 2017 (the "January 2017 OGM"). At the September 2016 OGM, out of the 12 then current Directors of Investcorp Bank, 9 were re-elected for a three year term expiring at the 2019 Ordinary General Meeting (the "September 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 September 2019 OGM. At the January 2017 OGM, two new Directors, Sheikh Abdul Rahman Bin Saud Al-Thani, and Mr. Abdullah Saud Alhumaidhi, were appointed to the Board of Directors for a term that will expire at the September 2019 OGM, bringing the total number of the Directors on the Board to 14.

Effective October 1, 2017, following Mr. Kirdar's retirement as the Chairman of the Board of Directors, Dr. Yousef Hamad Al Ebraheem, the then current Vice-Chairman of the Board of Directors, was appointed as the new Chairman of the Board of Directors. Mr. Khalid Rashid Al Zayani was appointed as the new Vice-Chairman of the Board of Directors effective that same day.

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;
- monitoring management performance and determining whether to approve recommendations for the remuneration of senior 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;
- the adoption and annual review of Investcorp's strategy, provided that, as part of the strategy review process, the Board is responsible 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

- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- ensuring that an adequate and effective risk management framework and a sound risk management culture is established throughout Investcorp;
- adopting and reviewing the systems and controls framework of Investcorp to ensure that this framework, including Investcorp's Board structure and organisational structure, is appropriate for Investcorp's business and associated risks;
- adopting and reviewing management structure and responsibilities;
- 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
- 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.

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 2019 and the aggregate remuneration proposed to be paid to the Directors in respect of Fiscal Year 2019 are reported in the Fiscal Year 2019 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 2019, all of the Directors of Investcorp Bank other than H.E. Mohammed Bin Mahfoodh Bin Saad Al Ardhi, the 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 June 2019, is reported in the Fiscal Year 2019 Corporate Governance Report.

The Board of Directors established four standing Executive Committees as follows: the Audit and Risk Committee, the Corporate Governance Committee the Executive Committee for Administrative Policy, and the Executive Committee for Investment Policy. The first three committees are described below. The Executive Committee for Investment Policy was dissolved during Fiscal Year 2019 and is therefore not included in the description.

The **Audit and Risk Committee** (formerly, 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, and the head of the Risk Management department report to the Audit and Risk Committee.

The members of the Audit and Risk Committee are appointed by the Board of Directors, and at June 30, 2019, the Committee had three members. Consistent with Module HC, none of the members of the Audit and Risk Committee has any other Board responsibilities that could conflict with his obligations as a member of the Audit and Risk Committee. The Audit and Risk Committee is required to meet at least four times each fiscal year.

The responsibilities of the Audit and Risk Committee include:

- the selection, appointment, remuneration, oversight and termination, where appropriate, of the external auditor, including monitoring the rotation arrangements for the audit engagement partners and the performance 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;
- reviewing Investcorp Bank's accounting and financial practices, reporting systems and internal controls;

- 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 (including the independence of the internal audit function and reviewing the internal audit plan) 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;
- review and supervise the implementation of, enforcement of and adherence to, the Investcorp Group Code of Conduct; 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 at June 30, 2019, the Committee had four 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.

At June 30, 2019, the **Executive Committee for Administrative Policy** ("ECAP") functioned 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 at June 30, 2019, the Committee had four members. The Committee is required to meet at least two times a year.

When acting as a nominating committee, its responsibilities include:

- making recommendations to the Board from time to time as to changes ECAP believes to be desirable to the size of the Board or any committee of the Board;

- identifying persons qualified to become Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of Investcorp considered appropriate by the Board, with the exception of the appointment of the internal auditor and the head of compliance, which will be the responsibility of the Audit and Risk Committee;

- whenever a vacancy arises (including a vacancy resulting from an increase in the size of the Board), identifying persons qualified to become members of the Board and recommending to the Board a person to fill the vacancy either through appointment by the Board or through shareholder election;

- making recommendations to the Board regarding candidates for Board memberships to be included by the Board on the agenda for the next annual shareholders meeting;

- identifying Board members qualified to fill vacancies on any committee of the Board and recommending to the Board that such person be appointed to such committee;

- 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, ensuring appropriate resources are available;

- making recommendations to the Board from time to time as to changes ECAP believes to be desirable in the structure and job descriptions of Investcorp's officers including the Executive Chairman and Co-Chief Executive Officers, and preparing terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters, including integrity, technical and managerial competence, and experience; and

- recommending persons to fill specific officer vacancies including Executive Chairman and Co-Chief Executive Officers, considering criteria such as those referred to above.

When acting as a remuneration committee, its responsibilities include:

- considering and making specific recommendations to the Board regarding Investcorp's remuneration policies (which policies should be approved by the shareholders) and individual remuneration packages for approved persons, material risk takers (as such terms are defined by the Central Bank of Bahrain) and other members of senior management;

- considering, and making recommendations to the Board regarding, remuneration to be paid to Directors based on their attendance of Board meetings and performance, subject to compliance with Article 188 of the Bahrain Commercial Companies Law;

- considering and approving remuneration packages 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, ensuring that such compensation is consistent with Investcorp's corporate values and reflects an evaluation of performance in implementing agreed corporate goals, objectives, strategy and business plans;

- approving individual remuneration packages for other Managing Directors and Principals, taking into account all forms of remuneration referred to above, ensuring that such compensation is consistent with Investcorp's corporate values and reflects an evaluation of performance in implementing agreed corporate goals, objectives, strategy and business plans; and

- approving, monitoring and reviewing the remuneration system to ensure the system operates as intended.

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

- the review and approval of the Executive Chairman's recommendations for corporate and administrative policies;

- the review and approval of the Executive Chairman's recommendations for certain capital expenditures by Investcorp above a specified threshold amount;

- the review and approval of the Executive Chairman's recommendations with respect to any other administrative matter delegated to ECAP by the Board; and

- overseeing the charitable contributions made by Investcorp and its consolidated subsidiaries.

The names of the members of each of the Executive Committees, their attendance at their relevant Executive Committee meetings during Fiscal Year 2019 and the remuneration proposed to be paid to Directors for their Executive Committee service during Fiscal Year 2019 is reported in the Fiscal Year 2019 Corporate Governance Report.

During Fiscal Year 2019, 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 2019 is presented in the Fiscal Year 2019 Corporate Governance Report.

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

For information regarding related party transactions, please see Note 32 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 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 policy provides 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.

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 with respect to any Director to the Executive Chairman's Office who will in turn report it 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.

Additionally, each member of senior management and each other Approved Person should report any actual or potential conflict of interest to the Chief Administrative Officer who will in turn report it to the Corporate Governance Committee. The Corporate Governance Committee is required to consider the matter and report to the Board of Directors regarding such actual or potential conflict of interest. Such member of senior management or other Approved Person should not be present at any meeting of the Corporate Governance Committee at which the actual or potential conflict of interest is discussed.

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 2019 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 Private Equity and Real Estate.

The Investment Committee for an LOB within Private Equity 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 Private Equity 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, the Chief Financial Officer, the Chief Administrative Officer, and the head of Treasury.

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 and Risk 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 Chief Financial Officer, the head of Treasury and the head of Risk Management.

## REGULATION

At June 30, 2019, Investcorp Bank was licensed by the CBB as a wholesale bank. During Fiscal Year 2019, Investcorp Bank commenced procedures to re-align its operational structure, and in February 2019, the Shareholders of Investcorp Bank approved (1) the transfer of Investcorp Bank's CBB-regulated activities to Investcorp Financial Services B.S.C.(c), its wholly-owned subsidiary; and (2) the voluntary surrender of its wholesale banking license and its conversion into a holding company. The process of re-alignment, surrender and conversion was ongoing at June 30, 2019 and is expected to be completed during Fiscal Year 2020.

In addition, a portion of Investcorp's Ordinary Shares are listed on the Bahrain Bourse and Investcorp is subject to the regulations of the Bahrain Bourse.

Investcorp has two indirect regulated UK subsidiaries, Investcorp Securities Limited ("ISL") which acts as an arranger of corporate finance and real estate transactions and manages collective investment undertakings as a small authorized UK 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 U.S., ISL is registered with the Securities and Exchange Commission as an Investment Adviser and ICMEU has been deemed an Exempt Reporting Adviser.

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

Investcorp'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.

At June 30, 2019, Investcorp also has a representative office in Abu Dhabi which is licensed by the Central Bank of the United Arab Emirates. Upon of the completion of the re-alignment, surrender and conversion process described in the first paragraph of this section, Investcorp's representative office license will be relinquished and Investcorp intends to establish an alternative presence in the United Arab Emirates.

Investcorp's India subsidiary, Investcorp India Asset Managers Private Limited is approved by the Securities and Exchange Board of India ("SEBI") to act as the investment manager to certain investment funds that are registered with SEBI as Alternative Investment Funds (AIFs).

The CBB's Rulebook – Volume 1, Rule BR 1.1.3(m) requires that all individuals holding controlled functions (which includes the Board of Directors) must undergo a minimum of 15 hours of continuous professional development in each year, and a report on the number of hours completed during the year must be submitted to the CBB. Due to the late submission of this report to the CBB during Fiscal Year 2019, the CBB imposed a financial penalty of BD 12,400 (twelve thousand, four hundred Bahrain Dinars) against Investcorp.

Investcorp is also required to send semi-annual progress reports on its privately placed investments to investors who have participated in such investments, and it is required to send to the CBB generic, non client-specific samples of such reports on a semi-annual basis. Due to the late submission of the samples of such reports to the CBB for the six-month period ended June 30, 2018, the CBB imposed a financial penalty of BD 800 (eight hundred Bahrain Dinars) against Investcorp.

Both of these financial penalties were paid by Investcorp within the required deadline. There were no other financial penalties imposed.

## BALANCE SHEET

Investcorp's overall philosophy is to maintain a conservative balance sheet, based on an adequate level of liquidity and 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 and Risk 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.

### Ratings

Investcorp recognizes the value of an investment-grade rating and is aiming for that objective 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 an increasingly globalized distribution platform and 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 or dispose of 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.

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 11 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. The de-leveraging initiatives of the last few years have reduced leverage to below 1.2x 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 and Risk 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 29(i)*;
- credit risk measurement Note 29(ii)*;
- funding liquidity risk Note 29(iii)*;
- concentration risk Note 29(iv)*;
- foreign currency risk Note 29(v)(a)*;
- interest rate risk Note 29(v)(b)*;
- equity price risk Note 29(v)(c)*; and
- operational risk Note 29(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 investment and funding sources. The amount of interest rate sensitivity of the balance sheet at June 30, 2019 is shown in Note 29(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. 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 29(v)(a)* of the consolidated financial statements of Investcorp Bank B.S.C.

1 * References are to footnotes in the fiscal 2019 Investcorp Bank B.S.C. consolidated financial statements.

### Line of business investment risks

**Private equity investment.** Private equity 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 private equity investment – North America, Europe & India 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 private equity 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 private equity investment – North America, Europe & India business, the goal in MENA 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.

**Absolute Return Investments.** Investcorp manages its ARI 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 ARI dedicated risk management function monitors and analyses the ARI Undertakings for the Collective Investment in Transferable Securities (UCITS) 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 ARI investment team regarding the monitoring of relevant UCITS portfolios' risk guidelines.

While investment in ARI 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 ARI 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 private equity 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 investment.** The credit management line of business investment risk represents risks primarily associated with collateralized loan obligations (CLOs), and the underlying credit investment, managed by the investment team.

The investment team follows investment policy guidelines to screen new investment opportunities and identify any actual or potentially material risk during the pre-investment due diligence phase. The investment team also checks for compliance with applicable local and international laws and regulations and, where appropriate, relevant international standards. The investment team monitors performance of underlying investments against agreed action plans, targets and timetables.

During the warehouse and risk retention phase, Investcorp takes a portfolio approach to evaluate the impact of the investment on the balance sheet to continually assess the exposures relative to the internal investment exposure limits and guidelines.

## Operational risk

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

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

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

## ADEQUACY OF ECONOMIC CAPITAL

Investcorp uses an enterprise VaR-like approach to determine economic capital adequacy for the combination of all balance sheet risks, while maintaining sufficient flexibility to facilitate future growth plans and protect against periods of prolonged and extreme stress in 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 private equity 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, 2019

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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 30 June 2019, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 30 June 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

| Key audit matter | How the key audit matter was addressed in the audit |
|---|---|
| The Group's investment portfolio comprises of a number of unquoted private equity, credit management and real estate investments. The Group has used a combination of discounted cash flow analysis approach, PE multiples based approach and bids or indicative prices obtained from potential buyers or banks engaged in the sale process to determine the fair value of these investments.<br><br>Owing to the unquoted and illiquid nature of these investments, the assessment of fair valuation is subjective and requires a number of significant and complex judgments to be made by management.<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$ 27.8 million in respect of its unquoted investments representing fees accrued for performance in excess of hurdle / performance rates as agreed with investors. | We obtained an understanding of management's processes and controls for determining the fair valuation of unquoted investments. This included discussing with management the valuation governance structure and protocols around their oversight of the valuation process.<br><br>For a sample of unquoted investments, we obtained and reviewed the relevant documents supporting the valuations and the assumptions used. We checked the mathematical accuracy of the valuation models for the sample selected.<br><br>With the assistance of our valuations specialists, we formed an independent range for the key assumptions used in the valuation of a sample of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values using our assumptions and other qualitative risk factors. We compared these ranges with management's assumptions, and discussed our results with management.<br><br>On a sample basis, we re-performed the performance fee calculations and 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 12, 13, 15, 30 and 33 to the consolidated financial statements. |

## Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we have obtained the following sections of the 2019 Annual Report, and the remaining sections are expected to be made available to us after that date.

- Message to shareholders
- Investment Activity
- Realizations & Distributions
- Discussion of Results
- AUM & Fundraising
- Portfolio Performance
- PE Portfolio Listing

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

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

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

## 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

## Report on Other Legal and Regulatory Requirements

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

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

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

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 30 June 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position

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

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

Ernst & Young

Partner's registration no. 145
6 August 2019
Manama, Kingdom of Bahrain

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended June 30, 2019

| $millions | 2019 | 2018 | Notes | Page |
|---|---|---|---|---|
| **FEE INCOME** | | | | |
| AUM fees | **181** | 173 | | |
| Deal fees | **195** | 148 | | |
| **Fee income (a)** | **376** | 321 | 4 | 129 |
| **ASSET-BASED INCOME** | | | | |
| Private equity investment | **29** | 65 | | |
| Credit management investment | **22** | 28 | | |
| Absolute return investments | **8** | 10 | | |
| Real estate investment | **29** | 24 | | |
| Investment in an associate | **5** | – | 6 | 136 |
| Treasury and other asset based income | **13** | 10 | | |
| **Asset based income excluding fair value change of legacy investments (b)** | **106** | 137 | | |
| Fair value change of legacy investments (c) | **(17)** | (4) | 12 (A) | 139 |
| **Gross operating income (a) + (b) + (c)** | **465** | 454 | 4 | 129 |
| Provisions for impairment | **(4)** | (4) | 16 | 143 |
| Interest expense | **(51)** | (56) | 4 | 129 |
| Operating expenses | **(268)** | (256) | 7 | 137 |
| **PROFIT BEFORE TAX** | **142** | 138 | | |
| Income tax expense | **(11)** | (13) | 8 | 137 |
| **PROFIT FOR THE YEAR*** | **131** | 125 | | |
| **PROFIT FOR THE YEAR EXCLUDING FAIR VALUE CHANGE OF LEGACY INVESTMENTS** | **148** | 129 | | |
| Basic earnings per ordinary share ($) | **1.52** | 1.34 | 25 | 148 |
| Fully diluted earnings per ordinary share ($) | **1.47** | 1.30 | 25 | 148 |

* Profit for the year was used for calculation of basic and fully diluted earnings per ordinary share and total comprehensive income

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended June 30, 2019

| $millions | 2019 | 2018 | Notes | Page |
|---|---|---|---|---|
| **PROFIT FOR THE YEAR** | **131** | 125 | | |
| Other comprehensive income that will be recycled to statement of profit or loss | | | | |
| Fair value movements – cash flow hedges | **2** | 2 | | |
| Movements – Fair value through other comprehensive income investments | **(3)** | – | | |
| Other comprehensive income that will not be recycled to statement of profit or loss | | | | |
| Movements – Fair value through other comprehensive income investments | **(6)** | (6) | | |
| **Other comprehensive loss** | **(7)** | (4) | | |
| **TOTAL COMPREHENSIVE INCOME** | **124** | 121 | | |

DR. YOUSEF HAMAD AL-EBRAHEEM
Chairman

MOHAMMED BIN MAHFOODH
BIN SAAD ALARDHI
Executive Chairman

The attached Notes 1 to 34 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019

| $millions | June 30, 2019 | June 30, 2018 | Notes | Page |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and short-term funds | **57** | 105 | | |
| Placements with financial institutions and other liquid assets | **333** | 266 | | |
| Positive fair value of derivatives | **44** | 55 | 26 | 148 |
| Receivables and prepayments | **364** | 276 | 9 | 138 |
| Advances | **82** | 92 | 10 | 138 |
| Underwritten and warehoused investments | **334** | 446 | 11 | 139 |
| **Co-investments** | | | | |
| Private equity investment | **505** | 625 | 12 | 139 |
| Credit management investment | **332** | 272 | 13 | 141 |
| Absolute return investments | **112** | 189 | 14 | 141 |
| Real estate investment | **68** | 76 | 15 | 142 |
| Total co-investments | **1,017** | 1,162 | | |
| Premises, equipment and other assets | **37** | 36 | | |
| Investment in an associate | **38** | – | 6 | 136 |
| Intangible assets | **55** | 55 | 17 | 143 |
| **TOTAL ASSETS** | **2,361** | 2,493 | | |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Call accounts | **263** | 116 | 18 | 144 |
| Term and institutional accounts | **151** | 300 | 19 | 144 |
| Payables and accrued expenses | **202** | 226 | 20 | 144 |
| Negative fair value of derivatives | **23** | 39 | 26 | 148 |
| Medium and long term debt | **514** | 617 | 21 | 145 |
| Deferred fees | **63** | 72 | 22 | 146 |
| **TOTAL LIABILITIES** | **1,216** | 1,370 | | |
| **EQUITY** | | | | |
| Preference share capital | **123** | 123 | 23 | 146 |
| Ordinary shares at par value | **200** | 200 | 23 | 146 |
| Reserves | **321** | 322 | | |
| Treasury shares | **(74)** | (5) | | |
| Retained earnings | **540** | 447 | | |
| *Ordinary shareholders' equity excluding proposed appropriations and other reserves* | **987** | 964 | | |
| Proposed appropriations | **38** | 41 | 25 | 148 |
| Other reserves | **(3)** | (5) | 24 | 147 |
| **TOTAL EQUITY** | **1,145** | 1,123 | | |
| **TOTAL LIABILITIES AND EQUITY** | **2,361** | 2,493 | | |

DR. YOUSEF HAMAD AL-EBRAHEEM
Chairman

MOHAMMED BIN MAHFOODH
BIN SAAD ALARDHI
Executive Chairman

The attached Notes 1 to 34 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, 2019

| | | | Reserves | | | |
|---|---|---|---|---|---|---|
| $millions | Preference share capital | Ordinary share capital | Share premium | Statutory reserve | Fair value reserve | Total |
| **Balance at July 1, 2017** | 223 | 200 | 226 | 100 | (5) | 321 |
| Total comprehensive income | – | – | – | – | (6) | (6) |
| Transferred to retained earnings upon derecognition | – | – | – | – | 4 | 4 |
| Depreciation on revaluation reserve transferred to retained earnings | – | – | – | – | – | – |
| Treasury shares purchased during the year – net of sales and vesting | – | – | – | – | – | – |
| Gain on sale of treasury shares – net of loss on vesting | – | – | 3 | – | – | 3 |
| Preference shares redeemed during the year | (100) | – | – | – | – | – |
| Approved appropriations for fiscal 2017 paid | – | – | – | – | – | – |
| Proposed appropriations for fiscal 2018 | – | – | – | – | – | – |
| **Balance at June 30, 2018** | 123 | 200 | 229 | 100 | (7) | 322 |
| Total comprehensive income | **–** | **–** | **–** | **–** | **(9)** | **(9)** |
| Depreciation on revaluation reserve transferred to retained earnings | **–** | **–** | **–** | **–** | **–** | – |
| Treasury shares purchased during the year – net of sales and vesting | **–** | **–** | **–** | **–** | **–** | **–** |
| Gain on vesting of treasury shares | **–** | **–** | **8** | **–** | **–** | **8** |
| Approved appropriations for fiscal 2018 paid | **–** | **–** | **–** | **–** | **–** | **–** |
| Proposed appropriations for fiscal 2019 | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at June 30, 2019** | **123** | **200** | **237** | **100** | **(16)** | **321** |

The attached Notes 1 to 34 are an integral part of these consolidated financial statements.

| | | | Other Reserves | | | |
|---|---|---|---|---|---|---|
| Treasury shares | Retained earnings | Proposed appropriations | Cash flow hedges | Revaluation reserve on premises and equipment | Total | Total equity |
| (3) | 366 | 44 | (11) | 5 | (6) | 1,145 |
| – | 125 | – | 2 | – | 2 | 121 |
| – | (4) | – | – | – | – | – |
| – | 1 | – | – | (1) | (1) | – |
| 1 | – | – | – | – | – | 1 |
| (3) | – | – | – | – | – | – |
| – | – | – | – | – | – | (100) |
| – | – | (44) | – | – | – | (44) |
| – | (41) | 41 | – | – | – | – |
| (5) | 447 | 41 | (9) | 4 | (5) | 1,123 |
| **–** | **131** | – | **2** | **–** | **2** | **124** |
| **–** | **0** | – | **–** | **–** | **–** | **–** |
| **(61)** | – | – | **–** | **(0)** | **(0)** | **(61)** |
| **(8)** | – | – | **–** | **–** | **–** | **–** |
| **–** | – | **(41)** | **–** | **–** | **–** | **(41)** |
| **–** | **(38)** | **38** | **–** | **–** | **–** | **–** |
| **(74)** | **540** | **38** | **(7)** | **4** | **(3)** | **1,145** |

INVESTCORP BANK B.S.C.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

| $millions | 2019 | 2018 | Notes | Page |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Profit before tax | **142** | 138 | | |
| Adjustments for non-cash items in profit before tax : | | | | |
| Depreciation | **5** | 5 | 7 | 137 |
| Provisions for impairment | **4** | 4 | 16 | 143 |
| Amortization of transaction costs of borrowings and management contracts | **7** | 8 | | |
| Employee deferred awards | **27** | 25 | | |
| Operating profit adjusted for non-cash items | **185** | 180 | | |
| **Changes in:** | | | | |
| Operating capital | | | | |
| Placements with financial institutions and other liquid assets (non-cash equivalent) | **2** | 126 | | |
| Receivables and prepayments | **(102)** | (20) | 9 | 138 |
| Advances | **8** | (8) | 10 | 138 |
| Underwritten and warehoused investments | **112** | 14 | 11 | 139 |
| Call accounts | **147** | (100) | 18 | 144 |
| Payables and accrued expenses | **(29)** | 44 | 20 | 144 |
| Deferred fees | **(9)** | (15) | 22 | 146 |
| Co-investments | | | | |
| Private equity investment | **122** | (91) | 12 | 139 |
| Credit management investment | **(64)** | (13) | 13 | 141 |
| Absolute return investments | **77** | 48 | 14 | 141 |
| Real estate investment | **12** | 3 | 15 | 142 |
| Fair value of derivatives | **36** | 1 | | |
| Other assets | **–** | 1 | | |
| Income taxes paid | **(9)** | (11) | | |
| **NET CASH FROM OPERATING ACTIVITIES** | **488** | 159 | | |
| **FINANCING ACTIVITIES** | | | | |
| Term and institutional accounts | **(149)** | 115 | 19 | 144 |
| Debt repaid – net of transaction costs and new issuances | **(148)** | (180) | 21 | 145 |
| Treasury shares purchased – net of sales | **(84)** | (12) | | |
| Dividends paid | **(41)** | (44) | | |
| Preference shares redeemed during the year | **–** | (100) | | |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(422)** | (221) | | |
| **INVESTING ACTIVITIES** | | | | |
| Investment in an associate and a subsidiary | **(39)** | – | | |
| Investment in premises and equipment | **(6)** | (4) | | |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(45)** | (4) | | |
| Net increase/(decrease) in cash and cash equivalents | **21** | (66) | | |
| Cash and cash equivalents at beginning of the year | **369** | 435 | | |
| Cash and cash equivalents at end of the year | **390** | 369 | | |
| **Cash and cash equivalents comprise of:** | | | | |
| Cash and short-term funds | **57** | 105 | | |
| Placements with financial institutions and other liquid assets with an original maturity of three months or less | **333** | 264 | | |
| | **390** | 369 | | |

In addition to the above, the Group has an undrawn and available balance of $686 million (June 30, 2018: $625 million) from its revolving medium-term facilities.

| Additional cash flow information $millions | 2019 | 2018 |
|---|---|---|
| Interest paid | **(51)** | (59) |
| Interest received | **40** | 46 |

The attached Notes 1 to 34 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

## 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.

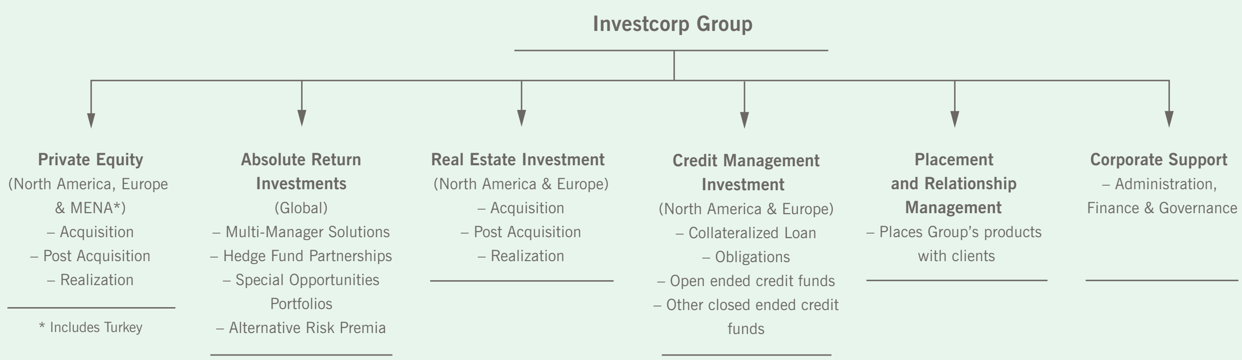
The registered office of the Bank is at Investcorp House, Building 499, Road 1706, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 12411-1 issued by the Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain.

The consolidated financial statements for the year ended June 30, 2019 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 6, 2019.

### (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 coinvesting 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 private equity investment, absolute return investments, 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.

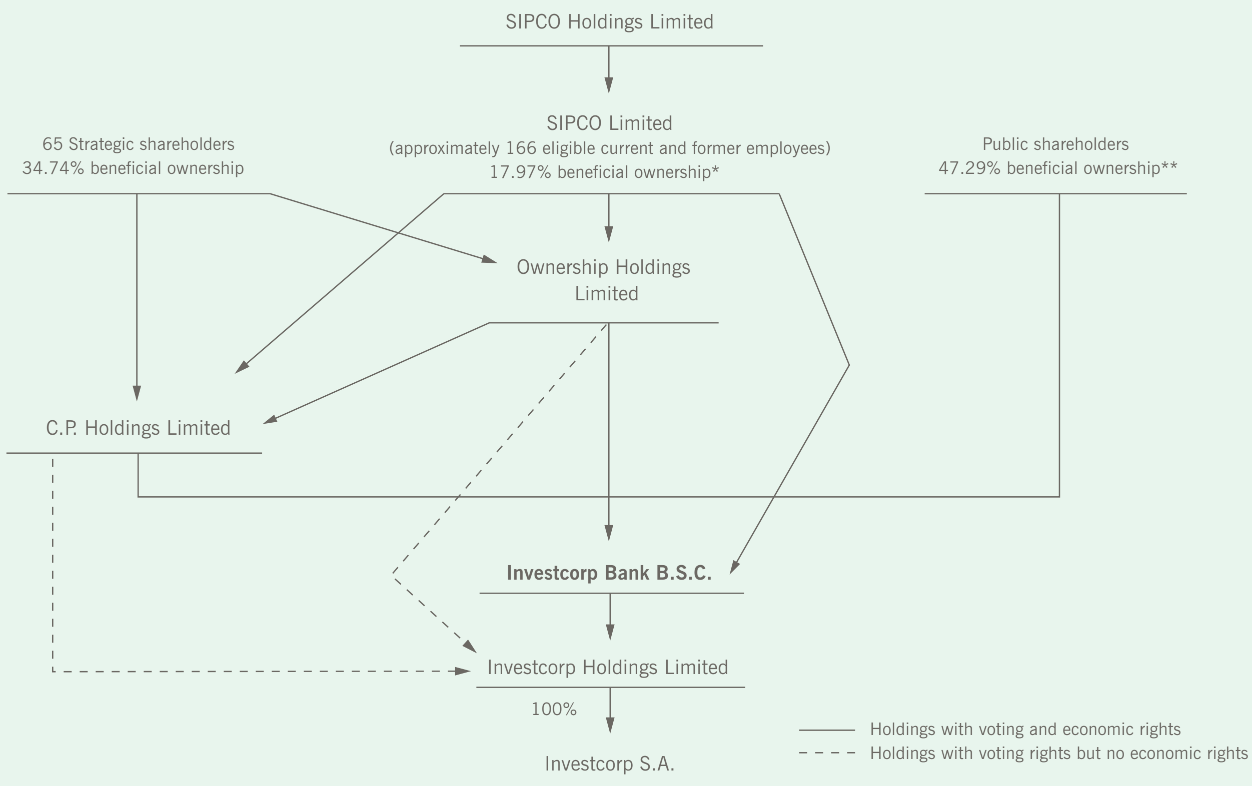


INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

## (iii) Ownership




* Includes 7% shares granted but not acquired and ungranted shares under the various Employee Share Ownership Plans. The Bank has approval from the Central Bank of Bahrain ('CBB') to hold up to 40% of its shares for various Employee Share Ownership Plans. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

** Includes 0.03% beneficial ownership held in the form of unlisted Global Depositary Receipts.

As at June 30, 2019, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 51.4% of Investcorp Bank's Ordinary Shares directly and through CP Holdings Limited ('CPHL'), a Cayman Islands company. CPHL is controlled by OHL which, in turn, has SIPCO Limited ('SIPCO') as its largest shareholder. Strategic shareholders own the balance of CPHL and OHL. SIPCO, a subsidiary of SHL, is the entity through which employees own beneficial interests in the Bank's ordinary shares.

As a result of the Bank's ownership structure, the directors of SIPCO, comprised of certain of the Bank's directors and senior executive officers who are also the directors of OHL's sole director, which is a Cayman Islands corporation, have the ability to control the voting of 52.7% 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 Annual Report. Please see Ownership Structure, Corporate Governance and Regulation section of the Annual Report. 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 Single Manager Enterprises Limited (Cayman Islands) | Company that provides corporate management and administrative services |
| | Investcorp Investment Advisers Limited (Cayman Islands) | Company that provides investment management and advisory services to investment funds including absolute return investments (ARI) and is an SEC registered |
| | 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 ARI products. |
| | Investcorp International Limited (UK) | The Group's principal operating subsidiary in the UK which employs the group's UK-based employees. |
| | Investcorp Securities Ltd. (UK) | Company that provides M & A consulting services for deal execution in Europe and acts as a Small AIFM and RIA, regulated by the UK FCA and the SEC. |
| | Investcorp International Holdings Inc. (USA) | The Group's holding company in the United States of America. |
| | Investcorp International Inc. (USA) | Employs the group's United States-based employees. |
| | N A Investcorp LLC (USA) | Company is a SEC registered broker dealer that provides marketing services in the United States for the ARI 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 ARI, and is an SEC registered investment advisor. |
| | Investcorp Credit Management US LLC (USA) | Company that provides investment management and advisory services to various debt funds in the US and is an SEC registered investment adviser. |
| | Investcorp Financial Services BSC | Company that provides investment management and advisory services in MENA region and acts as principal agent in Bahrain for placements of the products offered by |
| | Investcorp Europe Holdings Limited (UK) | Company that acts as a holding company for Banque Paris Bertrand Sturdza |
| | Investcorp Credit Management EU Limited (UK) | Company that provides investment management and advisory services to various debt funds in the UK and is regulated by the UK FCA. |
| | Investcorp Asia Services Pte. Ltd. (Singapore) | Company that acts as principal agent of the Group in Asia for placements of alternative asset investment products. |
| | Investcorp India Asset Managers Private Limited (India) | Company that acts as the Fund Manager and Investment adviser for investments in India |
| | Investcorp Investments LLC (Qatar) | Company that acts as principal agent of the Group in Qatar for placements of the products offered by the Group. |
| | Investcorp Saudi Arabia Financial Investments Co. (Saudi Arabia) | Company that acts as principal agent of the Group in Saudi Arabia for placements of the products offered by the Group. |

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

## 2. ASSETS UNDER MANAGEMENT

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

| | June 30, 2019 | | | | June 30, 2018 (Restated) | | | |
|---|---|---|---|---|---|---|---|---|
| $millions | Clients | Investcorp | Affiliates and co-investors | Total | Clients | Investcorp | Affiliates and co-investors | Total |
| **Private equity investment** | | | | | | | | |
| Closed-end committed funds | 815 | 34 | 19 | 868 | 380 | 20 | 10 | 410 |
| Closed-end invested funds | 1,402 | 77 | 21 | 1,500 | 718 | 81 | 18 | 817 |
| Deal-by-deal | 2,544 | 398* | 177 | 3,119 | 2,749 | 524* | 139 | 3,412 |
| Deal-by-deal underwriting | – | 52 | – | 52 | – | 123 | – | 123 |
| Strategic and other investments | – | 18 | – | 18 | – | 20 | – | 20 |
| Special opportunity portfolio | 181 | 5 | – | 186 | – | – | – | – |
| Investment in associate | – | 38 | – | 38 | – | – | – | – |
| **Total private equity investment** | 4,942 | 622 | 217 | 5,781 | 3,847 | 768 | 167 | 4,782 |
| **Credit management investment** | | | | | | | | |
| Closed-end invested funds | 10,975 | 356 | – | 11,331 | 10,772 | 272 | – | 11,044 |
| Open-end invested funds | 258 | 10 | – | 268 | 355 | 25 | – | 380 |
| Warehousing | – | 5 | 266 | 271 | – | 42 | – | 42 |
| **Total Credit management investment** | 11,233 | 371 | 266 | 11,870 | 11,127 | 339 | – | 11,466 |
| **Absolute return investments**** | | | | | | | | |
| Multi-manager solutions | 1,605 | 29 | – | 1,634 | 2,004 | 45 | – | 2,049 |
| Hedge funds partnerships | 1,949 | 30 | – | 1,979 | 1,371 | 65 | – | 1,436 |
| Special opportunities portfolios | 96 | 43 | – | 139 | 121 | 55 | – | 176 |
| Alternative risk premia | 38 | 10 | – | 48 | 38 | 24 | – | 62 |
| Special opportunities portfolios underwriting | – | – | – | – | – | 11 | – | 11 |
| **Total absolute return investments** | 3,688 | 112 | – | 3,800 | 3,534 | 200 | – | 3,734 |
| **Real estate investment** | | | | | | | | |
| Closed-end invested funds | 134 | – | – | 134 | 6 | 5 | – | 11 |
| Deal-by-deal*** | 4,820 | 588 | 306 | 5,714 | 4,654 | 543 | 417 | 5,614 |
| Deal-by-deal underwriting*** | – | 278 | – | 278 | – | 269 | – | 269 |
| Strategic and other investments | – | – | – | – | – | 6 | – | 6 |
| **Total real estate investment** | 4,954 | 866 | 306 | 6,126 | 4,660 | 823 | 417 | 5,900 |
| **Client call accounts held in trust** | 576 | – | – | 576 | 393 | – | – | 393 |
| **Total** | 25,393 | 1,971 | 789 | 28,153 | 23,561 | 2,130 | 584 | 26,275 |
| **Associate's assets under management****** | 5,661 | – | – | 5,661 | – | – | – | – |
| **Summary by products:** | | | | | | | | |
| Closed-end committed funds | 815 | 34 | 19 | 868 | 380 | 20 | 10 | 410 |
| Closed-end invested funds | 1,536 | 77 | 21 | 1,634 | 724 | 86 | 18 | 828 |
| Credit management funds | 11,233 | 366 | – | 11,599 | 11,127 | 297 | – | 11,424 |
| Absolute return investments | 3,688 | 112 | – | 3,800 | 3,534 | 189 | – | 3,723 |
| Deal-by-deal*** | 7,364 | 986 | 483 | 8,833 | 7,403 | 1,067 | 556 | 9,026 |
| Underwriting and warehousing*** | – | 335 | 266 | 601 | – | 445 | – | 445 |
| Client monies held in trust | 576 | – | – | 576 | 393 | – | – | 393 |
| Strategic and other investments | – | 18 | – | 18 | – | 26 | – | 26 |
| Special opportunity portfolio | 181 | 5 | – | 186 | – | – | – | – |
| Investment in associate | – | 38 | – | 38 | – | – | – | – |
| **Total** | 25,393 | 1,971 | 789 | 28,153 | 23,561 | 2,130 | 584 | 26,275 |
| **Associate's assets under management****** | 5,661 | – | – | 5,661 | – | – | – | – |
| **Summary by asset classes:** | | | | | | | | |
| Private equity investment | 4,942 | 604 | 217 | 5,763 | 3,847 | 748 | 167 | 4,762 |
| Credit management investment | 11,233 | 371 | 266 | 11,870 | 11,127 | 339 | – | 11,466 |
| Absolute return investments | 3,688 | 112 | – | 3,800 | 3,534 | 200 | – | 3,734 |
| Real estate investment*** | 4,954 | 866 | 306 | 6,126 | 4,660 | 817 | 417 | 5,894 |
| Client call accounts held in trust | 576 | – | – | 576 | 393 | – | – | 393 |
| Strategic and other investments | – | 18 | – | 18 | – | 26 | – | 26 |
| **Total** | 25,393 | 1,971 | 789 | 28,153 | 23,561 | 2,130 | 584 | 26,275 |
| **Associate's assets under management****** | 5,661 | – | – | 5,661 | – | – | – | – |

* Includes Group's commitment of $4 million (June 30, 2018: $4 million) to a private equity deal.

** Stated at gross value of the underlying exposure. Also, includes $2.9 billion (June 30, 2018: $2.4 billion) of hedge fund partnerships (including exposure through multi-manager solutions) managed by third party managers and assets subject to a non-discretionary advisory mandate where Investcorp receives fees calculated on the basis of AUM.

*** Real estate investment stated at gross asset value.

**** Represents AUM managed by an associate where Investcorp is entitled to net return based on the proportionate indirect ownership of the associate.

In the above table, all absolute return investments and real estate investment exposures and Investcorp's co-investment amounts for private equity investment and credit management exposures are stated at current fair values while the other categories are stated at their carrying cost.

During the current year, there has been a change in the presentation of real estate investment AUMs from net asset value to gross asset value. Accordingly, the prior year real estate investment AUMs have also been restated.

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

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

## 3. BUSINESS COMBINATION

During the year, the Group acquired the private equity and real estate asset management business of IDFC Alternatives Limited, India and added these to its asset classes and product offerings.

The fair value of the assets acquired was the same as their carrying value as of the date of acquisition. At the date of acquisition, net current liabilities of $0.6 million were transferred to the Group. This comprises of current assets of $0.3 million and current liabilities of $0.9 million.

Total goodwill of $1 million was recognized on the acquisition of the business as this transaction will enable the business to leverage upon Investcorp's strategic commitment, capital and distribution capabilities and will support the Indian private equity and real estate asset management business in its next phase of global growth.

## 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, India 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 private equity investment deals, absolute return investments, real estate investment deals and credit management investment deals are classified as asset based income.

INVESTCORP BANK B.S.C.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

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

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

### (i) Private equity Investment (PE)

The PE teams are based in London, New York, the Kingdom of Bahrain and India. The PE teams based in London and New York arrange private equity investments in mid-size companies, in North America and Western Europe, with a strong track record and potential for growth. The PE team based in the Kingdom of Bahrain and India primarily looks at growth capital investments in the wider MENA region, (including Turkey) and India respectively. These PE 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 investors. The Group retains a small portion as a co-investment on its consolidated statement of financial position. These investments are held until realization.

### (ii) Credit Management Investment (CM)

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

### (iii) Absolute Return Investments (ARI)

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

### (iv) Real Estate Investment (RE)

The RE teams are based in New York, London and India. The RE teams arrange investments in North American, European and Indian properties with strong cash flows and/or potential for attractive capital gains over a three to five year holding period. Several properties are assembled into diversified portfolios that are then placed with the Group's investor base in the Arabian Gulf states, with the Group retaining a small portion as a co-investment on its own consolidated statement of financial position. Further, the Group also provides its investor base with mezzanine investment opportunities through fund structures, with the Group retaining a small portion as a co-investment on its own consolidated statement of financial position. The real estate investments are held until realization.

## C. REVENUE GENERATION

### (i) Fee income

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

#### AUM fees

AUM fees consist of:

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

#### Deal fees

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

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

Performance fees on PE 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 PE, RE, ARI and investment in associate which are measured at Fair Value Through Profit or Loss ('FVTPL'), cash or pay-in-kind interest net of impairment from various RE and CM debt investments carried at amortized cost and rental income distributions from RE coinvestments.

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

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

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

Having determined the assets directly attributable to each reporting segment, and the economic capital requirements, the Group allocates liabilities (debt funding) to each reporting segment based on the relative maturity profile of the segment's assets. Long term debt including loans secured by co-investments in CM are allocated to the Coinvestment Business to the extent possible with the residual being allocated to Fee Business. Call accounts, term and institutional accounts, medium term debt, other associated working capital and the fair value of derivatives are allocated to the Fee Business. The allocation of liabilities determined above, in turn, drives the allocation of interest expense for each reporting segment.

## 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 coinvestment business in the form of incentive payments if the net asset based income from the Co-investment Business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business.

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## G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS

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

### PERFORMANCE BY BUSINESS SEGMENT

| $millions | 2019 | 2018 |
|---|---|---|
| **FEE BUSINESS** | | |
| AUM fees | | |
| Private equity investment | **97** | 95 |
| Credit management investment | **50** | 46 |
| Absolute return investments | **13** | 13 |
| Real estate investment | **21** | 19 |
| Total AUM fees | **181** | 173 |
| Deal fees | | |
| Private equity investment | **127** | 90 |
| Credit management investment | **1** | 2 |
| Absolute return investments | **–** | 2 |
| Real estate investment | **67** | 54 |
| Total deal fees | **195** | 148 |
| Investment in an associate | **5** | – |
| Treasury and other asset based income | **13** | 10 |
| **Gross income attributable to fee business (a)** | **394** | 331 |
| Provisions for impairment | **(4)** | (4) |
| Interest expense (b) | **(12)** | (16) |
| Operating expenses attributable to fee business (c)* | **(262)** | (233) |
| **FEE BUSINESS PROFIT (d)** | **116** | 78 |
| **CO-INVESTMENT BUSINESS** | | |
| **Asset-based income** | | |
| Private equity investment | **29** | 65 |
| Credit management investment | **22** | 28 |
| Absolute return investments | **8** | 10 |
| Real estate investment | **29** | 24 |
| Asset based income excluding fair value change of legacy investments | **88** | 127 |
| Fair value change of legacy investments | **(17)** | (4) |
| **Gross income attributable to co-investment business (e)** | **71** | 123 |
| Interest expense (f) | **(39)** | (40) |
| Operating expenses attributable to co-investment business (g)* | **(17)** | (36) |
| **CO-INVESTMENT BUSINESS PROFIT (h)** | **15** | 47 |
| **PROFIT FOR THE YEAR (d) + (h)** | **131** | 125 |
| **PROFIT FOR THE YEAR EXCLUDING FAIR VALUE CHANGE OF LEGACY INVESTMENTS** | **148** | 129 |
| **Gross operating income (a) + (e)** | **465** | 454 |
| **Gross operating expenses (c) + (g)*** | **(279)** | (269) |
| **Interest expense (b) + (f)** | **(51)** | (56) |

* Including income tax expense.

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues during the year (2018: nil).

$166.9 million (2018: $128.6 million) of deal fees relates to activity fees and $27.8 million (2018: $19.8 million) represents performance fees.

Treasury and other asset based income includes $11.5 million (2018: $11.6 million) of interest income. RE and CM asset based income includes $26.5 million (2018: $30 million) of interest income.

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

All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues and cashflows by region has not been presented. Notes 11, 12, 13, 15 and 29 (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.

The consolidated statements of financial position by reporting segments are as follows:

| | June 30, 2019 | | |
|---|---|---|---|
| $millions | Co-investment Business | Fee Business | Total |
| **Assets** | | | |
| Cash and short-term funds | – | 57 | 57 |
| Placements with financial institutions and other liquid assets | – | 333 | 333 |
| Positive fair value of derivatives | – | 44 | 44 |
| Receivables and prepayments | 100 | 264 | 364 |
| Advances | – | 82 | 82 |
| Underwritten and warehoused investments | – | 334 | 334 |
| **Co-investments** | | | |
| Private equity investment | 505 | – | 505 |
| Credit management investment | 332 | – | 332 |
| Absolute return investments | 112 | – | 112 |
| Real estate investment | 68 | – | 68 |
| Premises, equipment and other assets | – | 37 | 37 |
| Investment in an associate | – | 38 | 38 |
| Intangible assets | – | 55 | 55 |
| **Total assets** | 1,117 | 1,244 | 2,361 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Call accounts | – | 263 | 263 |
| Term and institutional accounts | – | 151 | 151 |
| Payables and accrued expenses | 18 | 184 | 202 |
| Negative fair value of derivatives | – | 23 | 23 |
| Medium and long term debt | 369 | 118 | 514 |
| Deferred fees | – | 63 | 63 |
| **Total liabilities** | 414 | 802 | 1,216 |
| **Total equity** | 703 | 442 | 1,145 |
| **Total liabilities and equity** | 1,117 | 1,244 | 2,361 |

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| | June 30, 2018 | | |
|---|---|---|---|
| $millions | Co-investment Business | Fee Business | Total |
| **Assets** | | | |
| Cash and short-term funds | – | 105 | 105 |
| Placements with financial institutions and other liquid assets | – | 266 | 266 |
| Positive fair value of derivatives | – | 55 | 55 |
| Receivables and prepayments | 92 | 184 | 276 |
| Advances | – | 92 | 92 |
| Underwritten and warehoused investments | – | 446 | 446 |
| **Co-investments** | | | |
| Private equity investment | 625 | – | 625 |
| Credit management investment | 272 | – | 272 |
| Absolute return investments | 189 | – | 189 |
| Real estate investment | 76 | – | 76 |
| Premises, equipment and other assets | – | 36 | 36 |
| Intangible assets | – | 55 | 55 |
| **Total assets** | 1,254 | 1,239 | 2,493 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Call accounts | – | 116 | 116 |
| Term and institutional accounts | – | 300 | 300 |
| Payables and accrued expenses | 9 | 217 | 226 |
| Negative fair value of derivatives | – | 39 | 39 |
| Medium-term debt | – | 167 | 167 |
| Long-term debt | 448 | 2 | 450 |
| Deferred fees | – | 72 | 72 |
| **Total liabilities** | 457 | 913 | 1,370 |
| **Total equity** | 797 | 326 | 1,123 |
| **Total liabilities and equity** | 1,254 | 1,239 | 2,493 |

## 5. 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, 2019 | | | | |
|---|---|---|---|---|---|
| $millions | FVTPL Investments | Items at amortized cost | FVOCI Investments | Derivatives | Total |
| **Financial assets** | | | | | |
| Cash and short-term funds | – | 57 | – | – | 57 |
| Placements with financial institutions and other liquid assets | 0 | 333 | – | – | 333 |
| Positive fair value of derivatives | – | – | – | 44 | 44 |
| Receivables | – | 325 | – | – | 325 |
| Advances | – | 82 | – | – | 82 |
| Underwritten and warehoused investments | 334 | – | – | – | 334 |
| **Co-investments** | | | | | |
| Private equity investment | 477 | – | 28 | – | 505 |
| Credit management investment | 16 | 183 | 133 | – | 332 |
| Absolute return investments | 104 | – | 8 | – | 112 |
| Real estate investment | 64 | – | 4 | – | 68 |
| Investment in associate | 38 | – | – | – | 38 |
| **Total financial assets** | 1,033 | 980 | 173 | 44 | 2,230 |
| **Non-financial assets** | | | | | |
| Prepayments | | | | | 39 |
| Premises, equipment and other assets | | | | | 37 |
| Intangible assets | | | | | 55 |
| **Total assets** | | | | | 2,361 |
| **Financial liabilities** | | | | | |
| Call accounts | – | 263 | – | – | 263 |
| Term and institutional accounts | – | 151 | – | – | 151 |
| Payables and accrued expenses | – | 202 | – | – | 202 |
| Negative fair value of derivatives | – | – | – | 23 | 23 |
| Medium-term and long-term debt* | – | 514 | – | – | 514 |
| **Total financial liabilities** | – | 1,130 | – | 23 | 1,153 |
| **Non-financial liabilities** | | | | | |
| Deferred fees | | | | | 63 |
| **Total liabilities** | | | | | 1,216 |

* Adjusted for related fair value hedges.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| $millions | FVTPL Investments | Items at amortized cost | FVOCI Investments | Derivatives | Total |
| **Financial assets** | | | | | |
| Cash and short-term funds | – | 105 | – | – | 105 |
| Placements with financial institutions and other liquid assets | 123 | 143 | – | – | 266 |
| Positive fair value of derivatives | – | – | – | 55 | 55 |
| Receivables | – | 237 | – | – | 237 |
| Advances | – | 92 | – | – | 92 |
| Underwritten and warehoused investments | 389 | 42 | 15 | – | 446 |
| **Co-investments** | | | | | |
| Private equity investment | 550 | – | 75 | – | 625 |
| Credit management investment | – | 207 | 65 | – | 272 |
| Absolute return investments | 180 | – | 9 | – | 189 |
| Real estate investment | 64 | 2 | 10 | | 76 |
| **Total financial assets** | 1,306 | 828 | 174 | 55 | 2,363 |
| **Non-financial assets** | | | | | |
| Prepayments | | | | | 39 |
| Premises, equipment and other assets | | | | | 36 |
| Intangible assets | | | | | 55 |
| **Total assets** | | | | | 2,493 |
| **Financial liabilities** | | | | | |
| Call accounts | – | 116 | – | – | 116 |
| Term and institutional accounts | – | 300 | – | – | 300 |
| Payables and accrued expenses | – | 226 | – | – | 226 |
| Negative fair value of derivatives | – | – | – | 39 | 39 |
| Medium-term and long-term debt* | – | 617 | – | – | 617 |
| **Total financial liabilities** | – | 1,259 | – | 39 | 1,298 |
| **Non-financial liabilities** | | | | | |
| Deferred fees | | | | | 72 |
| **Total liabilities** | | | | | 1,370 |

* Adjusted for related fair value hedges.

## 6. INVESTMENT IN ASSOCIATE

During the year, the Group acquired a 46.51% indirect ownership stake in the ordinary shares of Banque Pâris Bertrand, a private bank based in Geneva and Luxembourg which provides investment advisory services and customized investment solutions to high net-worth individuals, family offices and institutional clients mainly from Switzerland and Europe.

This investment is presented as investment in an associate in the consolidated statement of financial position and is designated at fair value through profit and loss. Investment in an associate is initially recorded at acquisition cost (being the initial fair value) and is re-measured to fair value at each reporting date, with the resulting unrealized gains or losses being recorded as fair value changes in the consolidated statement of profit or loss. The fair value of investment in associate is determined by using a multiples-based approach applied to the most recent performance metric (typically EBITDA or AUM) of the underlying company.

## 7. OPERATING EXPENSES

| $millions | 2019 | 2018 |
|---|---|---|
| Staff compensation and benefits | **174** | 164 |
| Other personnel and compensation charges | **14** | 11 |
| Professional fees | **25** | 29 |
| Travel and business development | **12** | 12 |
| Administration and research | **18** | 16 |
| Technology and communication | **8** | 7 |
| Premises | **12** | 12 |
| Depreciation | **5** | 5 |
| **Total** | **268** | 256 |

## 8. INCOME TAX

The Group's current tax expense and deferred tax expense amounts to $9 million (2018: $3.2 million) and $2 million (2018: $10 million) respectively. The current tax liability includes $5 million (June 30, 2018: $4.1 million) as shown in Note 20. The deferred tax asset amounts to $10.6 million (June 30, 2018: $12.5 million) as shown in Note 9. The deferred tax asset relates to an excess of depreciation over capital allowances amounting to $2.6 million (June 30, 2018: $3.1 million), losses available for offset against future taxable income and other intangibles amounting to $1.1 million (June 30, 2018: $0.4 million) and deferred compensation amounting to $6.9 million (June 30, 2018: $9.0 million).

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

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

| | 2019 | 2018 |
|---|---|---|
| United States | **31%** | 28% |
| United Kingdom | **20%** | 20% |
| Kingdom of Saudi Arabia | **20%** | 20% |
| India | **36%** | – |
| Qatar | **10%** | 10% |

During 2018, the applicable statutory federal corporation tax rate in the United States changed from 34% to 21% and has resulted in a blended tax rate of 27.5%.

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## 9. RECEIVABLES AND PREPAYMENTS

| $millions | **June 30, 2019** | June 30, 2018 |
|---|---|---|
| Subscriptions receivable | **146** | 72 |
| Receivables from investee and holding companies | **88** | 78 |
| Investment disposal proceeds receivable | **81** | 78 |
| ARI related receivables | **10** | 8 |
| Accrued interest receivable | **7** | 6 |
| Prepaid expenses | **28** | 26 |
| Deferred tax asset (see Note 8) | **11** | 13 |
| Other receivables | **6** | 7 |
| | **377** | 288 |
| Provisions for impairment (see Note 16) | **(13)** | (12) |
| **Total** | **364** | 276 |

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 private equity investments and real estate investments. They also include redemption proceeds receivable from underlying investment managers relating to the Group's ARI co-investments.

ARI 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.

## 10. ADVANCES

| $millions | **June 30, 2019** | June 30, 2018 |
|---|---|---|
| Advances to investment holding companies | **81** | 73 |
| Advances to employee investment programs | **16** | 16 |
| Advances to PE closed-end funds | **3** | 17 |
| Other advances | **–** | 1 |
| | **100** | 107 |
| Provisions for impairment (see Note 16) | **(18)** | (15) |
| **Total** | **82** | 92 |

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 PE 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.

The advances, in management's opinion, represent a low risk to the Group.

## 11. UNDERWRITTEN AND WAREHOUSED INVESTMENTS

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

The Group's current underwritten investment balances in Private Equity Investments, Absolute Return Investments, Real Estate Investments and Credit Management Investments classified as FVTPL comprise the following:

| | June 30, 2019 | | | | June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| $millions | North America | Europe | MENA | Total | North America | Europe | MENA | Total |
| **Underwritten investments** | | | | | | | | |
| **Private equity investment:** | | | | | | | | |
| Industrial/ Business Services | 36 | – | – | 36 | 24 | – | – | 24 |
| Healthcare | 15 | – | – | 15 | – | – | 38 | 38 |
| Industrial Products | – | – | – | – | 11 | 50 | – | 61 |
| **Total private equity investment** | 51 | – | – | 51 | 35 | 50 | 38 | 123 |
| **Absolute return investments:** | | | | | | | | |
| Special opportunities portfolio | – | – | – | – | 11 | – | – | 11 |
| **Total absolute return investments** | – | – | – | – | 11 | – | – | 11 |
| **Real estate investment:** | | | | | | | | |
| Core/Core Plus | 236 | 42 | – | 278 | 187 | 83 | – | 270 |
| **Total real estate investment** | 236 | 42 | – | 278 | 187 | 83 | – | 270 |
| **Warehoused investments** | | | | | | | | |
| **Credit management Investments** | | | | | | | | |
| CLO Investments | 5 | – | – | 5 | 30 | 12 | – | 42 |
| **Total credit management investment** | 5 | – | – | 5 | 30 | 12 | – | 42 |
| **Total** | 292 | 42 | – | 334 | 263 | 145 | 38 | 446 |

## 12. PRIVATE EQUITY CO-INVESTMENTS

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| PE co-investments [See Note 12 (A)] | 491 | 609 |
| Strategic and other investments [See Note 12 (B)] | 14 | 16 |
| **Total** | 505 | 625 |

## 12. (A) PE CO-INVESTMENTS

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

### Legacy investment

The PE co-investments include an investment of $90.8 million (June 30, 2018: $107.3 million) that was made prior to the financial crisis in 2008. This investment is considered and categorized as a legacy investment for financial reporting purposes as it is monitored separately from other PE co-investments. Any asset-based income relating to the legacy investment is disclosed separately in the consolidated statement of profit or loss to ensure more relevant information is presented.

The valuation technique for measuring the fair value of the legacy investment is same as that for PE co-investments.

The carrying values of the Group's PE co-investments at June 30, 2019 and June 30, 2018 are:

| | **June 30, 2019** | | | | | June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| $millions | **North America** | **Europe** | **MENA*** | **Asia** | **Total** | North America | Europe | MENA* | Total |
| Consumer Products | **57** | **32** | **24** | **–** | **113** | 63 | 72 | 32 | 167 |
| Consumer Services | **–** | **–** | **5** | **–** | **5** | 22 | – | 9 | 31 |
| Healthcare | **7** | **49** | **83** | **–** | **139** | – | 8 | 45 | 53 |
| Industrial Products | **7** | **7** | **–** | **–** | **14** | 7 | 18 | 4 | 29 |
| Industrial/ Business Services | **44** | **8** | **61** | **–** | **113** | 28 | 8 | 59 | 95 |
| Telecom** | **91** | **–** | **–** | **–** | **91** | 107 | – | – | 107 |
| Technology | | | | | **–** | | | | |
| Big Data | **1** | **9** | **–** | **4** | **14** | 1 | 89 | – | 90 |
| Internet/Mobility | **–** | **–** | **1** | **–** | **1** | – | 8 | 2 | 10 |
| Security | **–** | **1** | **–** | **–** | **1** | 14 | 13 | – | 27 |
| **Total** | **207** | **106** | **174** | **4** | **491** | 242 | 216 | 151 | 609 |

* Including Turkey.
** Represents Legacy Investment.

## 12. (B) STRATEGIC AND OTHER INVESTMENTS

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

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

Strategic investments in equity instruments are held as FVOCI investments. For FVOCI investments, during the year, $0.5 million (2018: $0.3 million) of dividend income was recognized in the consolidated statement of profit or loss and $2.1 million (2018: $5.1 million) of losses were recognized in other comprehensive income. No investment was de-recognized during the year and accordingly, no loss (2018: $2.5 million) was recycled to retained earnings.

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

## 13. CREDIT MANAGEMENT INVESTMENTS (CM)

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| European CLO Investments | **274** | 254 |
| US CLO Investments | **48** | 18 |
| Risk Retention Fund | **10** | – |
| **Total** | **332** | 272 |

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

During the year, the Group has invested in a risk retention fund. The purpose of the risk retention fund is to generate income from long term investments in debt instruments including to act as an originator and invest in CLO warehouse first loss tranches and hold a minimum of 5% in CLOs via the equity tranche to meet European risk retention rule for CLOs to be managed by CM business. The interests in the risk retention fund will be in the form of profit participating notes which give the Group full rights to the proportionate profits and losses. The investment is classified as FVTPL.

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

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

Certain of the Group's CLO co-investments amounting to $84 million (June 30, 2018: $42 million) are utilized to secure amounts drawn under repurchase agreements. At June 30, 2019, $84 million (June 30, 2018: $42 million) was the outstanding balance from financing under repurchase agreements (See Note 21).

## 14. ABSOLUTE RETURN INVESTMENTS CO-INVESTMENTS

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

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Multi-manager solutions | **29** | 45 |
| Hedge funds partnerships | **30** | 65 |
| Alternative risk premia | **10** | 24 |
| Special opportunities portfolios | **43** | 55 |
| **Total** | **112** | 189 |

The net asset value of the Group's ARI 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 ARI co-investments which are classified under Level 3 of the fair value hierarchy (see Note 30) 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.

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Of the above, co-investments amounting to $8.0 million (June 30, 2018: $9.0 million) are classified as FVOCI investments. For FVOCI investments, during the year, gain of $0.2 million (2018: gain of $1.0 million) were recognized in other comprehensive income. These investments comprise funds which are not immediately available for redemption due to the liquidity profile of the instruments held by the underlying managers and are classified as Level 3 investments in the fair value hierarchy.

Of the above, co-investments amounting to $23.7 million (June 30, 2018: $18.8 million) are subject to a lock up-period. Such investments are classified as Level 2 investments in the fair value hierarchy.

## 15. REAL ESTATE CO-INVESTMENTS

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

- Co-investments in equity of real estate acquired after the global financial crisis in 2008-2009 are classified as FVTPL investments.

- Co-investments in equity of real estate acquired prior to global financial crisis in 2008-2009 and strategic investments are classified as FVOCI investments.

- Debt investments in real estate properties are carried at amortised cost.

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

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

Debt investments in real estate properties carried at amortised cost amount to $0.1 million (June 30, 2018: $2.2 million). Investments which are classified as FVOCI investments amount to $4.2 million (June 30, 2018: $9.7 million). For FVOCI investments, during the year, $3.7 million (2018: $0.2 million) of losses were recognized in other comprehensive income and no gain or loss (2018: nil) 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, 2019 and June 30, 2018 were located in United States and Europe are:

| | **June 30, 2019** | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| $millions<br>Portfolio Type | **North America** | **Europe** | **Total** | North America | Europe | Total |
| Core/Core Plus | **60** | **7** | **67** | 61 | 7 | 68 |
| Debt | **0** | **–** | **0** | 2 | – | 2 |
| Opportunistic | **1** | **–** | **1** | 1 | – | 1 |
| Strategic | **0** | **–** | **0** | 5 | – | 5 |
| **Total** | **61** | **7** | **68** | 69 | 7 | 76 |

## 16. PROVISIONS FOR IMPAIRMENT

Impairment provisions are as follows:

| $millions<br>Categories | Balance<br>At beginning | Charge | At end* |
|---|---|---|---|
| **12 months to June 30, 2019** | | | |
| Receivables (Note 9) | **12** | **1** | **13** |
| Advances (Note 10) | **15** | **3** | **18** |
| Co-investments – debt | **1** | **–** | **1** |
| Cash and short-term funds | **0** | **–** | **0** |
| Placement with financial institutions and other liquid assets | **0** | **–** | **0** |
| **Total** | **28** | **4** | **32** |

* Of the total provision, $1.0 million relates to stage 1, $2.7 million relates to stage 2 and $28.6 million relates to stage 3 assets. Of the stage 1 and 2 provision, $2.9 million relates to advances. During the year, there was a movement in loss allowance of $0.2 million from stage 2 to stage 3 assets.

| $millions<br>Categories | Balance<br>At beginning | Charge | At end* |
|---|---|---|---|
| 12 months to June 30, 2018 | | | |
| Receivables (Note 9) | 10 | 2 | 12 |
| Advances (Note 10) | 13 | 2 | 15 |
| Co-investments – debt | 1 | – | 1 |
| Cash and short-term funds | 0 | – | 0 |
| Placement with financial institutions and other liquid assets | 0 | – | 0 |
| **Total** | 24 | 4 | 28 |

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

## 17. INTANGIBLE ASSETS

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Management Contracts | **5** | 6 |
| Goodwill | **50** | 49 |
| **Total** | **55** | 55 |

Intangible assets were primarily recognized on the acquisition of the credit management business acquired through business combination.

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

The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on-balance sheet is impaired. No impairment was recognized in 2019 as the result of the goodwill impairment assessment.

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

| $millions | Goodwill | Management Contracts | Total |
|---|---|---|---|
| **Balance at July 1, 2017** | 49 | 9 | 58 |
| Amortization during the year | – | (3) | (3) |
| **Balance at June 30, 2018** | 49 | 6 | 55 |
| Additions during the year | 1 | – | 1 |
| Amortization during the year | – | (1) | (1) |
| **Balance at June 30, 2019** | **50** | **5** | **55** |

## 18. CALL ACCOUNTS

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Investment holding companies accounts | **156** | 107 |
| Other call accounts | **107** | 9 |
| **Total** | **263** | 116 |

Investment holding companies' accounts represent excess cash of the investment holding companies placed 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.

All these balances bear interest at market rates.

## 19. TERM AND INSTITUTIONAL ACCOUNTS

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Institutional accounts on call | **131** | 251 |
| Term deposits | **20** | 49 |
| **Total** | **151** | 300 |

All these balances bear interest at market rates.

## 20. PAYABLES AND ACCRUED EXPENSES

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Vendor and other payables | **93** | 66 |
| Accrued expenses – employee compensation | **83** | 77 |
| Unfunded deal acquisitions | **13** | 71 |
| Tax liability (see Note 8) | **7** | 6 |
| Accrued interest payable | **6** | 6 |
| **Total** | **202** | 226 |

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.

## 21. MEDIUM AND LONG-TERM DEBT

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

| | | June 30, 2019 | | June 30, 2018 | |
|---|---|---|---|---|---|
| $millions | Final Maturity | Facility Size | Current outstanding | Facility Size | Current outstanding |
| **MEDIUM-TERM DEBT** | | | | | |
| **REVOLVING CREDIT** | | | | | |
| 4-year syndicated revolving facility | | | | | |
| | March 2020 | – | – | 25 | – |
| | March 2021 | – | – | 400 | 50 |
| | March 2023 | 436 | – | – | – |
| 3-year syndicated revolving facility | December 2020 | 250 | – | 250 | – |
| **BONDS** | | | | | |
| 5-year fixed rate bonds | June 2019 | | – | | 139 |
| **TOTAL MEDIUM-TERM DEBT** | | | – | | 189 |
| **LONG-TERM DEBT** | | | | | |
| **PRIVATE NOTES** | | | | | |
| JPY 37 Billion Private Placement | March 2030 | | 332 | | 332 |
| $50 Million Private Placement | July 2032 | | 50 | | 50 |
| **SECURED FINANCING** | | | | | |
| Repurchase agreement | October 2030 | | 20 | | 20 |
| Repurchase agreement | April 2031 | | 22 | | 22 |
| Repurchase agreement | October 2031 | | 21 | | – |
| Repurchase agreement | July 2031 | | 21 | | – |
| **TOTAL LONG-TERM DEBT** | | | 466 | | 424 |
| Foreign exchange translation adjustments | | | 10 | | (11) |
| Fair value adjustments relating to interest rate hedges | | | 45 | | 27 |
| Transaction costs of borrowings | | | (7) | | (12) |
| **TOTAL MEDIUM AND LONG-TERM DEBT** | | | 514 | | 617 |

All medium-term facilities, except for the 5-year fixed rate bonds, carry floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The syndicated revolving facilities and the fixed rate bonds are subject to certain customary covenants, including maintaining certain minimum levels of net worth and operating below maximum leverage ratios.

During the year, the Group has amended and extended two of the revolving credit facilities maturing in march 2020 and 2021 resulting in an increase in facility size from $425 million to $436 million and extended maturity to 2023 with an option of one year's extension.

### Private Notes

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

### Secured Financing

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

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 22. DEFERRED FEES

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Deferred fees relating to placements | **63** | 72 |
| **Total** | **63** | 72 |

Deferred fees relating to placements represent a portion of placement fees received from investors at the time of placement, 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 $40.6 million (2018: $42.3 million).

## 23. SHARE CAPITAL AND RESERVES

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

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | No. of shares | Par value $ | $millions | No. of shares | Par value $ | $millions |
| **Authorized share capital** | | | | | | |
| – Ordinary shares | **400,000,000** | **2.50** | **1,000** | 400,000,000 | 2.50 | 1,000 |
| – Preference and other shares | **1,000,000** | **1,000** | **1,000** | 1,000,000 | 1,000 | 1,000 |
| | | | **2,000** | | | 2,000 |
| **Issued share capital** | | | | | | |
| – Ordinary shares | **80,000,000** | **2.50** | **200** | 80,000,000 | 2.50 | 200 |
| – Preference shares | **123,239** | **1,000** | **123** | 123,239 | 1,000 | 123 |
| | | | **323** | | | 323 |

### 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 28).

### Statutory reserve

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

### Fair value reserve

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

### Treasury shares

5,603,338 (June 30, 2018: 586,343) ordinary shares were held as treasury shares, which includes 63,329 shares (June 30, 2018: 337,408 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 1,058,641 shares (June 30, 2018: 1,184,852 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2019, are not counted as treasury shares.

### Preference share capital

The preference shares are non-cumulative, non-convertible, non-voting, nonparticipating 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.

## 24. OTHER RESERVES

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

Movements relating to other reserves are set out below:

| $millions | Cash flow hedges | Revaluation reserve on premises and equipment | Total |
|---|---|---|---|
| Balance at June 30, 2017 | (11) | 5 | (6) |
| Net realized gain recycled to statement of profit or loss | (1) | – | (1) |
| Net unrealized gain for the year | 3 | – | 3 |
| Transfer of depreciation to retained earnings | – | (1) | (1) |
| **Balance at June 30, 2018** | (9) | 4 | (5) |
| Net realized loss recycled to statement of profit or loss | 0 | – | – |
| Net unrealized gain for the year | 2 | – | 2 |
| Transfer of depreciation to retained earnings | – | (0) | (0) |
| **Balance at June 30, 2019** | **(7)** | **4** | **(3)** |

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

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

| | 2019 | 2018 |
|---|---|---|
| Profit for the year ($millions) | **131** | 125 |
| Less : Preference shares dividend – proposed ($millions) | **(16)** | (22) |
| Profit attributable to ordinary shareholders ($millions) | **115** | 103 |
| Weighted average ordinary shares for basic earnings per ordinary share (millions) | **76** | 77 |
| Basic earnings per ordinary share – on weighted average shares ($) | **1.52** | 1.34 |
| Weighted average ordinary shares for fully diluted earnings per ordinary shares (millions) | **78** | 79 |
| Fully diluted earnings per ordinary share – on weighted average diluted shares ($) | **1.47** | 1.30 |
| *Proposed appropriations:* | | |
| Ordinary shares dividend ($millions) | **22** | 19 |
| Preference shares dividend ($millions) | **16** | 22 |
| | **38** | 41 |

The proposed ordinary share dividend is 30 cents (2018: 24 cents) per share payable only on issued shares (excluding treasury shares), that are held on the date of approval of dividend by the ordinary shareholders.

The proposed preference share dividend of $15.6 million (2018: $22.3 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 $13.26 per share (June 30, 2018: $12.13 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.

## 26. 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 30) 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.

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

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| **Description**<br>$millions | **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 | **341** | **5** | **–** | 302 | – | (17) |
| **ii) Cash flow hedges** | | | | | | |
| Forecasted transactions | **44** | **0** | **(0)** | 51 | 0 | (0) |
| Coupon on long-term debt | **46** | **1** | **–** | 48 | – | (3) |
| **Total forward foreign exchange contracts** | **431** | **6** | **(0)** | 401 | 0 | (20) |
| **Interest rate risk being hedged using interest rate swaps** | | | | | | |
| **i) Fair value hedges – fixed rate debt** | **437** | **21** | **–** | 490 | 28 | (2) |
| **ii) Cash flow hedges – floating rate debt** | **25** | **–** | **(3)** | 25 | – | – |
| **Total interest rate hedging contracts** | **462** | **21** | **(3)** | 515 | 28 | (2) |
| **Total hedging derivatives** | **893** | **27** | **(3)** | 916 | 28 | (22) |
| **B) OTHER DERIVATIVES** | | | | | | |
| Interest rate swaps | **200** | **11** | **(11)** | 623 | 10 | (9) |
| Forward foreign exchange contracts | **1,457** | **6** | **(9)** | 668 | 9 | (3) |
| Currency options | **–** | **–** | **–** | 36 | 0 | – |
| Cross currency swaps | **–** | **–** | **–** | 363 | 8 | (5) |
| **Total other derivatives** | **1,657** | **17** | **(20)** | 1,690 | 27 | (17) |
| **TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS** | **2,550** | **44** | **(23)** | 2,606 | 55 | (39) |

* Net collateral received by the Group amounting to $70.1 million has been taken against the fair values above (June 30, 2018: $50.7 million).

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

| | June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Notional amounts by term to maturity | | | | |
| $millions | 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 | 341 | – | – | – | 341 |
| Interest rate swaps | – | – | – | 437 | 437 |
| **Derivatives held as cash flow hedges:** | | | | | |
| Forward foreign exchange contracts | 61 | 29 | – | – | 90 |
| Interest rate swaps | – | – | – | 25 | 25 |
| **Other Derivatives:** | | | | | |
| Interest rate swaps | 100 | 50 | – | 50 | 200 |
| Forward foreign exchange contracts | 1,434 | 23 | – | – | 1,457 |
| | 1,936 | 102 | – | 512 | 2,550 |

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Notional amounts by term to maturity | | | | |
| $millions | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | Over 5 years | Total |
| **Derivatives held as fair value hedges:** | | | | | |
| Forward foreign exchange contracts | 302 | – | – | – | 302 |
| Interest rate swaps | – | 63 | 6 | 421 | 490 |
| **Derivatives held as cash flow hedges:** | | | | | |
| Forward foreign exchange contracts | 87 | 12 | – | – | 99 |
| Interest rate swaps | – | – | – | 25 | 25 |
| **Other Derivatives:** | | | | | |
| Interest rate swaps | – | 573 | – | 50 | 623 |
| Forward foreign exchange contracts | 620 | 48 | – | – | 668 |
| Cross currency swaps | – | 322 | – | 41 | 363 |
| Currency options | 36 | – | – | – | 36 |
| | 1,045 | 1,018 | 6 | 537 | 2,606 |

## Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2019 were $28.5 million (2018: losses of $28.2 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $30.5 million (2018: gains of $27.3 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 (2018: $0.9 million) on derivative instruments classified as other derivatives.

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## 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, 2019 | | | | |
|---|---|---|---|---|---|
| $millions | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | Over 5 years | Total |
| **Currency risk*** | | | | | |
| Coupon on long-term debt | **(6)** | **(6)** | **(48)** | **(72)** | **(132)** |
| Operating expenses | **(6)** | **(6)** | **–** | **–** | **(12)** |
| Fee income | **11** | **23** | **–** | **–** | **34** |
| **Interest rate risk*** | | | | | |
| Interest on liabilities | **(2)** | **(2)** | **(18)** | **(37)** | **(59)** |
| | **(3)** | **9** | **(66)** | **(109)** | **(169)** |

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| $millions | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | Over 5 years | Total |
| **Currency risk*** | | | | | |
| Coupon on long-term debt | – | (12) | (47) | (82) | (141) |
| Operating expenses | (43) | (3) | – | – | (46) |
| Fee income | 15 | 10 | – | – | 25 |
| **Interest rate risk*** | | | | | |
| Interest on liabilities | (2) | (3) | (19) | (43) | (67) |
| | (30) | (8) | (66) | (125) | (229) |

* 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, 2019 was a loss of $0.1 million (2018: gain of $0.8 million).

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Investment commitments to funds and co-investments | **64** | 66 |
| Investment commitments for strategic acquisitions | **78** | – |
| Non-cancelable operating leases: | | |
| Up to 1 year | **10** | 6 |
| 1 year to 5 years | **39** | 40 |
| Over 5 years | **49** | 63 |
| Total non-cancelable operating leases | **98** | 109 |
| Guarantees and letters of credit issued to third parties | **21** | 10 |

Investment commitments to funds and co-investments represent the Group's unfunded co-investment commitments to various private equity, absolute return investments and credit management investments.

Investment commitments for strategic acquisitions relates to transactions where Investcorp has entered into definitive purchase agreements to acquire 100% of Mercury Capital Advisors, a capital raising and investment advisory enterprise, and a majority stake in CM Investment Partners LLC, an investment adviser. These transactions are expected to close in the next fiscal year.

Non-cancelable operating leases relate to the Group's commitments in respect of its New York, London, Riyadh, Abu Dhabi and Singapore office premises. Guarantees and letters of credit issued to third parties include financial guarantees provided to facilitate investee companies' on-going operations and leasing of equipment and facilities.

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

The Group is engaged in litigation cases in various jurisdictions. The litigation cases involve claims made by and against the Group which have arisen in the ordinary course of business. The management of the Group, after reviewing the claims pending against the Group companies and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group and accordingly no provision has been made in the consolidated financial statements.

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## 28. 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, 2019** | | June 30, 2018 | | |
|---|---|---|---|---|---|
| $millions | **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 | **57** | **57** | 105 | 105 | |
| Placements with financial institutions and other liquid assets | **333** | **333** | 266 | 266 | |
| Positive fair value of derivatives | **44** | **44** | 55 | 55 | |
| Receivables | **336** | **336** | 250 | 250 | |
| Advances | **82** | **82** | 92 | 92 | |
| Underwritten investments | **334** | **334** | 446 | 446 | |
| Co-investments – retention | | | | | |
| Private equity investment | **505** | **505** | 625 | 625 | |
| Credit management investment | **332** | **332** | 272 | 272 | |
| Absolute return investments | **112** | **112** | 189 | 189 | |
| Real estate investment | **68** | **68** | 76 | 76 | |
| Prepayments | **28** | **28** | 26 | 26 | |
| Premises, equipment and other assets | **37** | **24** | 36 | 21 | |
| Investment in associate | **38** | **38** | | | |
| Intangible assets | **55** | **–** | 55 | – | |
| Goodwill | **–** | **50** | – | 49 | |
| Other Intangibles** | **–** | **18** | – | 21 | *F* |
| **Total assets** | **2,361** | **2,361** | 2,493 | 2,493 | |
| **Liabilities and Equity** | | | | | |
| **Liabilities** | | | | | |
| Call accounts | **263** | **263** | 116 | 116 | |
| Term and institutional accounts | **151** | **151** | 300 | 300 | |
| Payables and accrued expenses | **202** | **202** | 226 | 226 | |
| Negative fair value of derivatives | **23** | **23** | 39 | 39 | |
| Medium-term and long term debt | **514** | **514** | 617 | 617 | |
| Deferred fees | **63** | **63** | 72 | 72 | |
| **Total liabilities** | **1,216** | **1,216** | 1,370 | 1,370 | |
| **Equity** | | | | | |
| Paid-in-share capital | | | | | |
| Of which form part of Common Equity Tier 1 (CET1) | | | | | |
| Ordinary share capital | **200** | **200** | 200 | 200 | *A1* |
| Treasury shares | **(74)** | **(74)** | (5) | (5) | *A2* |
| Reserves and accumulated other comprehensive income | | | | | |
| Of which form part of Common Equity Tier 1 (CET1) | | | | | |
| Statutory reserve | **100** | **100** | 100 | 100 | *C1* |
| Share premium | **237** | **237** | 229 | 229 | *C2* |
| Fair value reserve | **(16)** | **(16)** | (7) | (7) | *C3* |
| Retained earnings | **409** | **409** | 322 | 322 | *B1* |
| Current cumulative net income | **131** | **131** | 125 | 125 | *B2* |
| Proposed appropriations | **38** | **38** | 41 | 41 | *B3* |
| Cash flow hedge reserve | **(7)** | **(7)** | (9) | (9) | *C4* |
| Of which form part of Additional Tier 1 (AT1) | | | | | |
| Preference share capital | **123** | **123** | 123 | 123 | *D* |
| Fixed asset revaluation reserve | **4** | **4** | 4 | 4 | *E* |
| **Total equity** | **1,145** | **1,145** | 1,123 | 1,123 | |
| **Total liabilities and equity** | **2,361** | **2,361** | 2,493 | 2,493 | |

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

| $millions | June 30, 2019 PIR | June 30, 2019 Amounts subject to Pre-2015 Treatment | June 30, 2018 PIR | June 30, 2018 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 | **126** | | 195 | | *A1+A2* |
| Retained earnings | **578** | | 488 | | *B1+B2+B3* |
| Accumulated other comprehensive income (and other reserves) | **314** | | 313 | | *C1+C2+ C3+C4* |
| **CET1 capital before regulatory adjustments** | **1,018** | | 996 | | |
| **Less regulatory adjustments to CET 1** | | | | | |
| Intangibles | **(13)** | **15** | (12) | 15 | *F* |
| Goodwill | **(50)** | | (49) | | |
| Cash-flow hedge reserve | **7** | | 9 | | *C4* |
| Total regulatory adjustments to Common equity Tier 1 | **(56)** | | (52) | | |
| **Common Equity Tier 1 capital (CET1)** | **962** | | 944 | | |
| **Additional Tier 1 capital (AT1): instruments** | | | | | |
| Directly issued qualifying Additional Tier 1 instruments | **123** | | 123 | | *D* |
| **Additional Tier 1 capital before regulatory adjustments** | **123** | | 123 | | |
| **Total regulatory adjustments to Additional Tier 1 capital** | **–** | | – | | |
| **Additional Tier 1 capital (AT1)** | **123** | | 123 | | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **1,085** | | 1,067 | | |
| **Tier 2 capital (T2)** | | | | | |
| Fixed asset revaluation reserve | **4** | | 4 | | *E* |
| Expected credit losses on advances (see Note 16) | **3** | | 3 | | |
| **Tier 2 capital before regulatory adjustments** | **7** | | 7 | | |
| **Total regulatory adjustments to Tier 2 capital** | **–** | | – | | |
| **Tier 2 capital (T2)** | **7** | | 7 | | |
| **Total capital (TC = T1 + T2)** | **1,092** | | 1,074 | | |

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

- standardized approach for credit risk and market risk
- basic indicator approach for operational risk

The following table outlines the corresponding Basel III methodology by asset class

| **Asset class segment** | **Basel III Methodology June 30, 2019** | **Basel III risk weight** |
|---|---|---|
| Private equity investments | Standardized approach ('STA') | 150% |
| Real estate investments | Standardized approach ('STA') | 200% |
| Absolute return investments | Standardized approach ('STA') | 150% |
| Credit management investments and warehousing | Standardized approach ('STA') | 100% to 1250% |
| PE and RE underwriting | Standardized approach ('STA') | 100% |
| Operational risk | Basic indicator approach ('BIA') | 15% |

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

| $millions | **June 30, 2019** | June 30, 2018 |
|---|---|---|
| Tier 1 capital | **1,085** | 1,067 |
| Tier 2 capital | **7** | 7 |
| **Regulatory capital base under Basel III (TC=T1+T2)** | **1,092** | 1,074 |

| | **June 30, 2019** | | June 30, 2018 | |
|---|---|---|---|---|
| **Risk weighted exposure** $millions | **Principal/ Notional amounts** | **Risk-weighted equivalents** | Principal/ Notional amounts | Risk-weighted equivalents |
| **Credit risk** | | | | |
| Claims on sovereigns | **26** | **–** | 1 | – |
| Claims on banks | **358** | **178** | 348 | 160 |
| Claims on corporates | **407** | **407** | 345 | 344 |
| Co-investments (including underwriting) | **1,351** | **1,856** | 1,608 | 2,159 |
| Other assets | **47** | **63** | 50 | 69 |
| **Off-balance sheet items** | | | | |
| Commitments and contingent liabilities | **261** | **102** | 185 | 82 |
| Derivative financial instruments | **61** | **35** | 65 | 36 |
| Credit risk weighted exposure | | **2,641** | | 2,850 |
| **Market risk** | | | | |
| Market risk weighted exposure | | **1** | | 1 |
| **Operational risk** | | | | |
| Operational risk weighted exposure | | **593** | | 562 |
| **Total risk weighted exposure (RWE)** | | **3,235** | | 3,413 |
| **Tier 1 capital ratio (T1)/(RWE)** | | **33.5%** | | 31.3% |
| **Capital adequacy ratio (TC)/(RWE)** | | **33.8%** | | 31.5% |
| Minimum required as per CBB regulatory guidelines under Basel III | | **12.5%** | | 12.5% |
| Capital cushion over minimum required as per CBB guidelines | | **688** | | 647 |

Fair value unrealized gain on fair valued investments amounting to $25.8 million (June 30, 2018: gains of $69.3 million) are reflected in retained earnings, which is part of Tier 1 Capital.

## 29. 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 28). The economic capital requirement for each reporting segment is determined for a one year horizon and subsequently aggregated to determine the total economic capital. This total economic capital is then stress tested under a dynamic VaR approach. The dynamic VaR is calculated by using a five-year planning horizon, a 99% one-tailed confidence level and by recognizing diversification benefits across asset classes.

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

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

### (i) Counterparty credit risk

The Group is exposed to counterparty credit risk on its short term funds, placements, fair value of derivatives, receivables, advances, debt investments and guarantees. The Group manages counterparty credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Counterparty credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 26). 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 10) were restructured.

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

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | | | | | |
| $millions | High | Standard | | | | |
| Short-term funds | **2** | **55** | **–** | **–** | **(0)** | **57** |
| Placements with financial institutions and other liquid assets | **176** | **157** | **–** | **–** | **(0)** | **333** |
| Positive fair value of derivatives | **20** | **24** | **–** | **–** | **–** | **44** |
| Receivables | **–** | **183** | **143** | **12** | **(13)** | **325** |
| Advances | **–** | **85** | **–** | **15** | **(18)** | **82** |
| Co-investments – debt | **–** | **333** | **–** | **–** | **(1)** | **332** |
| Guarantees | **–** | **21** | **–** | **–** | **–** | **21** |
| **Total** | **198** | **858** | **143** | **27** | **(32)** | **1,194** |

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | | | | | |
| $millions | High | Standard | | | | |
| Short-term funds | 1 | 104 | – | – | (0) | 105 |
| Placements with financial institutions and other liquid assets | 123 | 143 | – | – | (0) | 266 |
| Positive fair value of derivatives | 5 | 50 | – | – | – | 55 |
| Receivables | – | 169 | 68 | 12 | (12) | 237 |
| Advances | – | 95 | – | 12 | (15) | 92 |
| Co-investments – debt | – | 275 | – | – | (1) | 274 |
| Guarantees | – | 10 | – | – | – | 10 |
| **Total** | 129 | 846 | 68 | 24 | (28) | 1,039 |

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

| $millions | **June 30, 2019** | June 30, 2018 |
|---|---|---|
| Up to 1 month | **42** | 32 |
| > 1 up to 3 months | **15** | 27 |
| > 3 up to 6 months | **10** | 5 |
| > 6 months | **76** | 4 |
| **Total** | **143** | 68 |

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, 2019 amounts to $827.7 million (June 30, 2018: $915.8 million).

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

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| **Geographical Region** | | |
| North America | **28** | 24 |
| Europe | **1** | 1 |
| Other | **3** | 3 |
| **Total** | **32** | 28 |

| $millions | June 30, 2019 | June 30, 2018 |
|---|---|---|
| **Industry Sector** | | |
| Banking and Finance | **7** | 7 |
| Consumer products | **2** | 0 |
| Real estate | **19** | 18 |
| Technology and Telecom | **1** | – |
| Healthcare | **3** | 3 |
| **Total** | **32** | 28 |

## Securitization

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

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

Capital requirements are measured using the standardized approach in line with CBB regulatory requirements. Refer to Note 28 for risk weighting.

## (ii) Credit Risk Measurement

### Significant increase in credit risk

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

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

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

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

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

### Measurement of ECL

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

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

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

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

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

### (iii) Funding liquidity risk

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

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

| | June 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $millions | Up to 3 months | >3 months up to 1 year | Sub-Total up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Non-cash items | Total |
| **Assets** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and short-term funds | 57 | – | 57 | – | – | – | – | 57 |
| Placement with financial institutions and other liquid assets | 323 | 10 | 333 | – | – | – | – | 333 |
| Positive fair value of derivatives | 5 | 0 | 5 | – | 1 | 38 | | 44 |
| Receivables | 208 | 10 | 218 | 107 | – | – | – | 325 |
| Advances | 12 | 13 | 25 | 57 | – | – | – | 82 |
| Underwritten and warehoused investments | 334 | – | 334 | – | – | – | – | 334 |
| *Co-investments* | | | | | | | | |
| Private equity investment | – | 73 | 73 | 432 | – | – | – | 505 |
| Credit management investment | 6 | 19 | 25 | 132 | 175 | – | – | 332 |
| Absolute return investments | 27 | 49 | 76 | 36 | – | – | – | 112 |
| Real Estate Investment | – | – | – | 68 | – | – | – | 68 |
| Investment in associate | – | – | – | – | – | 38 | – | 38 |
| **Total financial assets** | 972 | 174 | 1,146 | 832 | 176 | 76 | – | 2,230 |
| **Non-financial assets** | | | | | | | | |
| Prepayments | – | – | – | – | – | – | 39 | 39 |
| Premises, equipment and other assets | – | – | – | – | – | – | 37 | 37 |
| Intangibles | – | – | – | – | – | – | 55 | 55 |
| **Total assets** | 972 | 174 | 1,146 | 832 | 176 | 76 | 131 | 2,361 |
| **Liabilities** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Call accounts | 107 | – | 107 | 156 | – | – | – | 263 |
| Term and institutional accounts | 52 | 34 | 86 | 65 | – | – | – | 151 |
| Payables and accrued expenses | 162 | 22 | 184 | 18 | – | – | – | 202 |
| Negative fair value of derivatives | 9 | 0 | 9 | – | 3 | 11 | – | 23 |
| Medium-term and long term debt | – | – | – | (4) | 84 | 434 | – | 514 |
| **Total financial liabilities** | 330 | 56 | 386 | 235 | 87 | 445 | – | 1,153 |
| **Non-financial liability** | | | | | | | | |
| Deferred fees | – | – | – | – | – | – | 63 | 63 |
| **Total liabilities** | 330 | 56 | 386 | 235 | 87 | 445 | 63 | 1,216 |
| Net gap | 642 | 118 | 760 | 597 | 89 | (369) | 68 | 1,145 |
| Cumulative liquidity gap | 642 | 760 | 760 | 1,357 | 1,446 | 1,077 | 1,145 | |

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| $millions | Up to 3 months | >3 months up to 1 year | Sub-Total up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Non-cash items | Total |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2018 | | | | | | | |
| **Assets** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and short-term funds | 105 | – | 105 | – | – | – | – | 105 |
| Placement with financial institutions and other liquid assets | 262 | 4 | 266 | – | – | – | – | 266 |
| Positive fair value of derivatives | 5 | 4 | 9 | 1 | – | 45 | – | 55 |
| Receivables | 167 | 2 | 169 | 68 | – | – | | 237 |
| Advances | 1 | 17 | 18 | 74 | – | – | – | 92 |
| Underwritten and warehoused investments | 446 | – | 446 | – | – | – | – | 446 |
| *Co-investments* | | | | | | | | |
| Private equity investment | – | 36 | 36 | 589 | – | – | – | 625 |
| Credit management investment | 5 | 17 | 22 | 168 | 82 | – | – | 272 |
| Absolute return investments | 67 | 37 | 104 | 85 | – | – | – | 189 |
| Real Estate Investment | – | – | – | 76 | – | – | – | 76 |
| **Total financial assets** | 1,058 | 117 | 1,175 | 1,061 | 82 | 45 | – | 2,363 |
| **Non-financial assets** | | | | | | | | |
| Prepayments | – | – | – | – | – | – | 39 | 39 |
| Premises, equipment and other assets | – | – | – | – | – | – | 36 | 36 |
| Intangibles | – | – | – | – | – | – | 55 | 55 |
| **Total assets** | 1,058 | 117 | 1,175 | 1,061 | 82 | 45 | 130 | 2,493 |
| **Liabilities** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Call accounts | 9 | – | 9 | 107 | – | – | – | 116 |
| Term and institutional accounts | 95 | 76 | 171 | 129 | – | – | – | 300 |
| Payables and accrued expenses | 159 | 15 | 174 | 52 | – | – | – | 226 |
| Negative fair value of derivatives | 23 | 5 | 28 | – | – | 11 | – | 39 |
| Medium-term and long term debt | 41 | 126 | 167 | – | 42 | 408 | – | 617 |
| **Total financial liabilities** | 327 | 222 | 549 | 288 | 42 | 419 | – | 1,298 |
| **Non-financial liability** | | | | | | | | |
| Deferred fees | – | – | – | – | – | – | 72 | 72 |
| **Total liabilities** | 327 | 222 | 549 | 288 | 42 | 419 | 72 | 1,370 |
| Net gap | 731 | (105) | 626 | 773 | 40 | (374) | 58 | 1,123 |
| Cumulative liquidity gap | 731 | 626 | 626 | 1,399 | 1,439 | 1,065 | 1,123 | |

## 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, 2019 | | | | | |
|---|---|---|---|---|---|---|
| $millions | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Total |
| Financial liabilities | | | | | | |
| Call accounts | **109** | **3** | **166** | **–** | **–** | **278** |
| Term and institutional accounts | **44** | **43** | **72** | **–** | **–** | **159** |
| Payables and accrued expenses | **162** | **22** | **18** | **–** | **–** | **202** |
| Medium-term and long term debt | **8** | **9** | **65** | **98** | **493** | **673** |
| | **323** | **77** | **321** | **98** | **493** | **1,312** |
| Derivatives: | | | | | | |
| Contracts settled on a gross basis: | | | | | | |
| Contractual amounts payable | **1,755** | **40** | **–** | **–** | **–** | **1,795** |
| Contractual amounts receivable | **(1,756)** | **(40)** | **–** | **–** | **–** | **(1,796)** |
| Contracts settled on a net basis: | | | | | | |
| Contractual amounts payable (receivable) | **(4)** | **(4)** | **(36)** | **(38)** | **(8)** | **(90)** |
| Commitments | **120** | **11** | **59** | **35** | **15** | **240** |
| Guarantees | **–** | **–** | **–** | **21** | **–** | **21** |
| **Total undiscounted financial liabilities** | **438** | **84** | **344** | **116** | **500** | **1,482** |

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| $millions | Up to 3 months | >3 months up to 1 year | >1 year up to 5 years | >5 years up to 10 years | >10 years up to 20 years | Total |
| Financial liabilities | | | | | | |
| Call accounts | 9 | 2 | 148 | – | – | 159 |
| Term and institutional accounts | 97 | 79 | 135 | – | – | 311 |
| Payables and accrued expenses | 159 | 15 | 19 | – | – | 193 |
| Medium and long-term debt | 52 | 146 | 66 | 122 | 426 | 812 |
| | 317 | 242 | 368 | 122 | 426 | 1,475 |
| Derivatives: | | | | | | |
| Contracts settled on a gross basis: | | | | | | |
| Contractual amounts payable | 932 | 244 | 40 | – | – | 1,216 |
| Contractual amounts receivable | (917) | (248) | (43) | – | – | (1,208) |
| Contracts settled on a net basis: | | | | | | |
| Contractual amounts payable (receivable) | (1) | (8) | (30) | (31) | (11) | (81) |
| Commitments | 7 | 46 | 59 | 48 | 15 | 175 |
| Guarantees | – | – | – | 10 | – | 10 |
| **Total undiscounted financial liabilities** | 338 | 276 | 394 | 149 | 430 | 1,587 |

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### (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, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| $millions | Assets exposed to credit risk | Off-balance sheet items exposed to credit risk | Total credit risk exposure | Assets exposed to credit risk | Off-balance sheet items exposed to credit risk | Total credit risk exposure |
| **Geographical Region** | | | | | | |
| North America | **441** | **21** | **462** | 664 | 10 | 674 |
| Europe | **529** | **–** | **529** | 330 | – | 330 |
| MENA* | **195** | **–** | **195** | 35 | – | 35 |
| Asia | **8** | **–** | **8** | – | – | – |
| **Total** | **1,173** | **21** | **1,194** | 1,029 | 10 | 1,039 |

* Including Turkey.

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| $millions | Assets exposed to credit risk | Off-balance sheet exposed to credit risk | Total credit risk exposure | Assets exposed to credit risk | Off-balance sheet exposed to credit risk | Total credit risk exposure |
| **Industry Sector** | | | | | | |
| Banking and Finance | **821** | **–** | **821** | 776 | – | 776 |
| Consumer products | **35** | **21** | **56** | 32 | – | 32 |
| Consumer services | **0** | **–** | **0** | 67 | – | 67 |
| Healthcare | **75** | **–** | **75** | – | – | – |
| Industrial/business services | **31** | **–** | **31** | 33 | 10 | 43 |
| Industrial products | **14** | **–** | **14** | 42 | – | 42 |
| Real estate | **127** | **–** | **127** | 32 | – | 32 |
| Technology and Telecom | **43** | **–** | **43** | 36 | – | 36 |
| Others | **27** | **–** | **27** | 11 | – | 11 |
| **Total** | **1,173** | **21** | **1,194** | 1,029 | 10 | 1,039 |

### (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 absolute return investments, private equity investments and real estate investments, as well as on its debt financings. For the purpose of managing market price risks, the Group has established appropriate procedures and limits approved by the Board of Directors.

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

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

## (v) (a) Foreign currency risk

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

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

| $millions | June 30, 2019 | | June 30, 2018 | |
|---|---|---|---|---|
| **Long (Short)** | **Net hedged exposure** | **Net unhedged exposure** | Net hedged exposure | Net unhedged exposure |
| Bahraini Dinar* | **–** | **23** | – | 29 |
| Saudi Riyal* | **–** | **0** | – | (0) |
| Euro | **50** | **0** | 210 | (0) |
| Pounds Sterling | **19** | **0** | 74 | 0 |
| Swiss Francs | **25** | **(0)** | (132) | 0 |
| Japanese Yen | **(344)** | **0** | (335) | 0 |
| | **(250)** | **23** | (183) | 29 |

* 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 1-day holding period VaR for the Group's foreign currency exposures.

| $millions | 2019 | 2018 |
|---|---|---|
| Average FX VaR | **8** | 44 |
| Year end FX VaR | **4** | 4 |
| Maximum FX VaR | **46** | 533 |
| Minimum FX VaR | **3** | 1 |

The foreign exchange loss recognized in the consolidated 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 (2018: $0.9 million).

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## (v) (b) Interest rate risk

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

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

- Credit management Investments amounting to $331.9 million (June 30, 2018: 272.3 million), which earn interest at an effective rate ranging between 2.7% to 15.7% (June 30, 2018: 5.0% to 15.7%) per annum.
- Term and institutional accounts amounting to $20.2 million (June 30, 2018: $48.8 million) on which interest is paid at an effective rate of 3.4% (June 30, 2018: 3.1%) per annum.

The following table depicts the sensitivity of the Group's net income to a 200 basis points change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the year end.

| $millions | Sensitivity to profit/(loss) for +200 basis points | Sensitivity to profit/(loss) for –200 basis points |
|---|---|---|
| Currency | June 30, 2019 | |
| Euro | **(6)** | **1** |
| Pounds Sterling | **(0)** | **0** |
| Japanese Yen | **1** | **–** |
| US Dollar | **5** | **(3)** |
| Others | **(2)** | **0** |
| **Total** | **(2)** | **(2)** |

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%.

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

a) Figures in parenthesis above represent loss.
b) The downside case of -200bps impact is calculated with the assumption that the yield curve will not go below 0%.

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 private equity investment, real estate investment and absolute return investments.

### Co-investments in private equity investment and real estate investment

The Group manages the equity price risk of its co-investments in private equity 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 PE, RE and CM to changes in multiples / capitalization rates / discount rates/ quoted bid prices.

**June 30, 2019**

| $millions | Factor | Change | Balance sheet exposure | Projected Balance Sheet Exposure For increase | Projected Balance Sheet Exposure For decrease | Impact on Income For increase | Impact on Income For decrease |
|---|---|---|---|---|---|---|---|
| CI co-investments | **EBITDA Multiples** | **+/– 0.5x** | **478*** | **490** | **466** | **12** | **(12)** |
| | **Revenue Multiples** | **+/– 0.5x** | **8** | **9** | **7** | **1** | **(1)** |
| | | | | For decrease | For increase | For decrease | For increase |
| RE co-investments | **Capitalization Rate** | **–/+ 1%** | **64*** | **72** | **56** | **8** | **(8)** |

June 30, 2018

| $millions | Factor | Change | Balance sheet exposure | Projected Balance Sheet Exposure For increase | Projected Balance Sheet Exposure For decrease | Impact on Income For increase | Impact on Income For decrease |
|---|---|---|---|---|---|---|---|
| CI co-investments | EBITDA Multiples | +/– 0.5x | 592* | 640 | 558 | 48 | (34) |
| | Revenue Multiples | +/– 0.5x | 11 | 12 | 10 | 1 | (1) |
| | | | | For decrease | For increase | For decrease | For increase |
| RE co-investments | Capitalization Rate | –/+ 1% | 64* | 73 | 58 | 9 | (6) |

*Includes exposures of $229m (2018: $40m) which are fair valued based on recent transaction prices or bids on which sensitivity is not applicable.

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 coinvestments.

### Co-investments in absolute return investments

The Group manages the market price risk in its ARI 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 Absolute Return Investments exposure.

| $millions | 2019 | 2018 |
|---|---|---|
| Average VaR | **2** | 5 |
| Year end VaR | **2** | 3 |
| Maximum VaR | **3** | 6 |
| Minimum VaR | **2** | 3 |

### (vi) Operational risk

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

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

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

## 30. 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 carried at amortized cost amounts to $189.3 million (June 30, 2018: $212.0 million) as compared to the carrying value of $183.2 million (June 30, 2018: $207.0 million). The fair value of CLO co-investments is based on inputs from independent third parties including broker quotes and Markit and falls under Level 3 of the fair value hierarchy disclosure. The fair value of medium and long term debt amounts to $431.0 million (June 30, 2018: $567.9 million) as compared to the carrying value of $513.7 million (June 30, 2018: $617.3 million). The fair value of medium and long term debt is based on inputs from third party banks and falls under Level 3 of the fair value hierarchy described below.

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

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

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

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

During the current financial year, there was no transfer from level 3 to level 1 (2018: nil) under co-investments in private equity investments. Under absolute return investments, an exposure of $8.0 million (June 30, 2018: $9.0 million) is comprised of illiquid side pocket investments which are classified as Level 3. The year to date fair value changes on this ARI exposure amounts to a gain of $0.2 million (June 30, 2018: gain of $1.0 million) and the net redemptions amount to $0.7 million (June 30, 2018: $10.7 million).

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques which are explained in Notes 12, 13, 14, 15 and 26 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, 2019 | | | |
|---|---|---|---|---|
| $millions | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Positive fair value of derivatives | – | 44 | – | 44 |
| **Co-investments** | | | | |
| Private equity investment | 5 | – | 500 | 505 |
| Credit management investment | – | – | 149 | 149 |
| Absolute return investments | – | 104 | 8 | 112 |
| Real estate investment | – | – | 68 | 68 |
| Investment in an associate* | – | – | 38 | 38 |
| Underwritten and warehoused investments** | – | – | 334 | 334 |
| **Total financial assets** | 5 | 148 | 1,097 | 1,250 |
| **Financial liabilities** | | | | |
| Negative fair value of derivatives | – | 23 | – | 23 |
| **Total financial liabilities** | – | 23 | – | 23 |

* The effect on consolidated statement of profit or loss due to change in multiple by 0.5x on Investment in an associate will be US$ 1.1 million.

** Underwritten investments amounting to $408 million were placed with the clients during the year. Fair value gain of $3.1 million was recognized on underwritten investments during the year.

| | June 30, 2018 | | | |
|---|---|---|---|---|
| $millions | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Positive fair value of derivatives | – | 55 | – | 55 |
| **Co-investments** | | | | |
| Private equity investment | 6 | – | 619 | 625 |
| Credit management investment | – | – | 65 | 65 |
| Absolute return investments | – | 180 | 9 | 189 |
| Real estate investment | – | – | 74 | 74 |
| Underwritten and warehoused investments** | – | – | 446 | 446 |
| **Total financial assets** | 6 | 235 | 1,213 | 1,454 |
| **Financial liabilities** | | | | |
| Negative fair value of derivatives | – | 39 | – | 39 |
| **Total financial liabilities** | – | 39 | – | 39 |

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

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

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| $millions | At beginning | Net new acquisitions* | Fair value movements** | Movements relating to realizations | Other movements*** | At end |
| PE co-investments | **619** | **106** | **9** | **(236)** | **2** | **500** |
| ICM co-investments | **65** | **97** | **(7)** | **(5)** | **(1)** | **149** |
| RE co-investments | **74** | **24** | **(4)** | **(25)** | **(1)** | **68** |
| Investment in an associate | **–** | **32** | **5** | **0** | **1** | **38** |
| **Total** | **758** | **259** | **3** | **(266)** | **1** | **755** |

* Includes an investment in PE of $38 million that has been transferred from underwriting to co-investment.
** Includes $9.4 million fair value loss on FVOCI investments and unrealized fair value loss of $21.4 million on FVTPL investments.
*** Other movements include add-on funding, foreign currency translation adjustments, deferred remuneration awards to employees and transfer from level 3 to level 1 on listing of an unquoted investment.

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

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

## 31. 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 riskadjusted 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 coinvestment programs and share-linked programs as described briefly below.

### Programs for Investment Profit Participation

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

### Programs for Investment Participation

Investment professionals and relationship managers also participate in a co-investment program pursuant to which they acquire an interest in the Investcorp Group's investments that they manage at the Investcorp Group's Consolidated Statement of Financial Position carrying value, thereby resulting in no gain or loss to Investcorp except for any potential impairment losses on the financing provided.

Under certain legacy co-investment programs, the Group provided financing at market rates to or on behalf of eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage varied on a product to product and program to program basis. The aggregate remaining amount of such financing provided to or on behalf of employees as of June 30, 2019 is $15.9 million (June 30, 2018: $16.0 million).

A portion of the deferred remuneration awarded to eligible employees is also in the form of co-investment exposures. These awards have different vesting conditions and are not transferable. An expense charge of $12.9 million (2018: $11.1 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 nontransferability and the indirect nature of the underlying beneficial ownership. The value of SIPCO shares granted during the year is $20.1 million (2018: $22.9 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 $12.8 million (2018: $12.5 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 $19.0 million (2018: $16.0 million). The details of shares granted, vested and forfeited during the year are as follows:

| Number of shares | 2019 | 2018 |
|---|---|---|
| Granted during the year | **1,768,622** | 2,171,182 |
| Vested during the year | **1,794,959** | 1,806,674 |
| Forfeited during the year | **219,785** | 272,746 |

## 32. 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 ARI, and SIPCO Limited.

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

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

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In addition to the compensation and benefits to employees disclosed in Note 31, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

| $millions | | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| AUM fees | Investee and investment holding companies | **134** | 128 |
| Deal fees | Investee and investment holding companies | **149** | 100 |
| Asset based income | Investee companies | **32** | 33 |
| Provisions for impairment | Employee investment programs | **(0)** | (0) |
| Interest expense | Investment holding companies | **(4)** | (3) |
| Operating expenses | Directors' remuneration | **(1)** | (2) |
| Operating expenses | Professional fees | **(2)** | (1) |

Of the staff compensation for the year set out in Note 31 and assets noted above, $70.4 million (2018: $71.8 million) is attributable to senior management. Of the above mentioned remuneration of senior management, $49.6 million (2018: $49.7 million) is in the form of salaries and other short term benefits.

In addition to the compensation and benefits to employees disclosed in Note 31, the balances with related parties included in these consolidated financial statements are as follows:

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| $millions | Assets | Liabilities | Off-balance sheet | Assets | Liabilities | Off-balance sheet |
| **Outstanding balances** | | | | | | |
| Co-investments | **1,012** | **–** | **–** | 1,156 | – | – |
| Underwritten and warehoused investments | **334** | **–** | **–** | 446 | – | – |
| Investment in an associate | **38** | **–** | **–** | – | – | – |
| Strategic shareholders | **9** | **12** | **–** | 8 | 12 | – |
| Investee companies | **59** | **2** | **21** | 51 | – | 10 |
| Investment holding companies | **100** | **117** | **64** | 107 | 138 | 29 |
| Institutional accounts on call | **–** | **131** | **–** | – | 251 | – |
| Fund companies associated with the ARI | **10** | **–** | **–** | 34 | – | – |
| Directors and senior management | **0** | **8** | **–** | – | 10 | – |
| | **1,562** | **270** | **85** | 1,802 | 411 | 39 |

## 33. SIGNIFICANT ACCOUNTING POLICIES

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

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

The significant accounting policies adopted in the preparation of these consolidated financial statements are the same as those followed in the preparation of the audited consolidated financial statements for the year ended June 30, 2018.

New standards, amendments and interpretations issued but not yet effective:

- IFRS 16 Leases: effective for periods beginning on or after 1 January 2019;
- IAS 19 Employee Benefits (amendments) (effective for annual periods beginning on or after 1 January 2019); and
- Annual Improvements Cycle 2015-2017 (effective for annual periods beginning on or after 1 January 2019)

The Group's management is currently evaluating the impact of the above standard and amendments on the consolidated financial statements.

### (i) Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of financial instruments under IFRS 9 and revaluation of premises and equipment.

### (ii) Going concern

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

### (iii) Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries. A subsidiary is an entity which is controlled by the Group. Control is achieved when the Group is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect these returns through its power over the entity. The Group consolidates its subsidiaries excluding entities which meet the below criteria:

(a) Where there are contractual or other restrictions imposed on the Group's ability to appoint the majority of the Board of Directors, or

(b) Where a majority of the economic risk and reward accrues to third parties other than the Group, or

(c) Where the exception to consolidate subsidiaries of an Investment entity is applied, as defined in IFRS 10.

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

The results of all subsidiaries are included in the consolidated statement of profit or loss from the effective date of formation or acquisition. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

### (iv) Business Combinations

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

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

### (v) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to:

(a) The determination of the fair values of FVTPL co-investments in private equity investments and real estate investments (see Notes 12 and 15), the determination of performance fees on assets under management, impairment provisions for financial assets other than FVTPL investments and FVOCI equity investments (see Note 16) 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 coinvestments 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 judgments covered in the following section, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

### (vi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

### (vii) Offsetting

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

### (viii) Foreign currencies

A foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies that are held at the Statement of Financial Position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on retranslation are recognized in the consolidated statement of profit or loss under treasury and other asset based income.

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Nonmonetary 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 the consolidated statement of other comprehensive income.

### (ix) Income

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Asset based income from all FVTPL investments is recognized on the basis of realized and unrealized changes in fair value as at the end of the reporting period.

Fee income is recognized when services are rendered. Performance fees are recognized when earned. Performance fees are calculated based on the underlying agreements and assuming all investments will be sold at their fair values at the reporting date. The actual amount of performance fees received will depend on cash realizations of these investments and the valuations may change in the next financial year.

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

### Revenue from contracts with customers

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

Investcorp has reviewed and analyzed the terms of the contracts that it has entered into with its investors arising from the placement of its investments. Based on this review, the Group has determined the following two types of performance obligations that Investcorp is expected to satisfy:

i. services provided by Investcorp during the year 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.

### (x) Expenses

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

### (xi) Taxation of foreign operations

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign subsidiaries is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

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

### (xii) Cash and cash equivalents

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

### (xiii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. These are carried at cost less provision for impairment.

### (xiv) Advances

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

### (xv) Classification of financial assets

#### (a) Investments

The group classifies the financial assets into various categories as set out in Note 5.

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

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

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

### (b) Other liquid assets

Other liquid assets, which form part of “placements with financial institutions and other liquid assets”, are recorded at amortized cost less any impairment in value other than those assets which contain embedded derivatives requiring either separation of the embedded derivative or classification of the entire instrument as FVTPL assets. The management has designated such assets as FVTPL assets.

### (xvi) Co-investments in private equity investment and real estate investment

The Group’s co-investments in private equity 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 remeasured 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 private equity investment and real estate investment are carried at amortized cost, less provision for impairment, if any.

### (xvii) Co- investments in credit management investment

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

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

### (xviii) Co-investments in absolute return investments

The Group’s co-investments in absolute return investments 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.

### (xix) Impairment and un-collectability of financial assets

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

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

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

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

For the purposes of calculation of ECL, the Group categorizes such financial assets into

Stage 1, Stage 2 and Stage 3 as described below:

Stage 1 – Performing: when such financial assets are first recognized, the Group recognizes an allowance based up to 12- month ECL.

Stage 2 – Significant increase in credit risk: when such financial assets shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.

Stage 3 – Impaired: the Group recognizes the lifetime ECL for such financial assets.

### (xx) De-recognition of financial instruments

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

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

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

### (xxi) Derivative financial instruments

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

Derivatives that qualify for hedge accounting are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 26.

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.

### (xxii) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Bank carries its building on freehold land and certain operating assets at revalued amounts, being the fair value of the assets at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized directly in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. A transfer from the asset revaluation reserve to retained earnings is made for any difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset.

All other items are recorded at cost less accumulated depreciation.

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

| | |
|---|---|
| Buildings on freehold land | 25 years |
| Leasehold and building improvements | 10 – 15 years |
| Operating assets | 3 – 23 years |

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

### (xxiii) Intangible assets

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

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

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

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

### (xxiv) Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and the terms of benefit plans approved by the Board of Directors (see Note 31).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### (xxv) Unfunded deal acquisitions

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

### (xxvi) Borrowings

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings and subsequently recognized as interest expense over the expected life of these borrowings.

### (xxvii) Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is treated as non-distributable and included in a share premium reserve under equity. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against any previously established reserve from past transactions in treasury shares, and where such reserve is insufficient, then any difference is charged to retained earnings.

### (xxviii) Share awards

Share awards to employees are accounted and expense recognized over the vesting period. The determination of the amount to be recognized is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

### (xxix) Dividends

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities.

## 34. POST BALANCE SHEET EVENTS

During fiscal year 2019, the Group decided to re-align its structure in Bahrain taking into account the evolution of the CBB's regulatory framework for wholesale banks and investment firms, as well as the development of Investcorp's business model. With the approval of shareholders and the CBB, the Group (i) incorporated a category 1 investment business firm in Bahrain called Investcorp Financial Services BSC (c) ('IFS'), and (ii) engaged with clients, strategic partners and other stakeholders to transition it's regulated marketing, placement and MENA private equity investment advisory and asset management services to IFS.

Subsequent, to the year end, the Group has completed the process of transitioning the regulated marketing, placements and MENA private equity investment advisory and asset management services to IFS. The Group is now in the final stages of working with the CBB and the local Ministry of Industry, Commerce and Tourism to finalize the conversion of the parent company, being Investcorp Bank BSC, from a wholesale bank into a holding company. The CBB has issued a non-objection letter supporting this process. The holding company will continue to be listed on the Bahrain Bourse while the investment business firm will continue to serve its customers in the same manner as the Group has historically done. Other Investcorp group entities will continue to be subject to local regulatory oversight in all of the countries in which they conduct regulated activities.

# 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 & 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)

**Yusef Al Yusef**
Placement & Relationship Management
Joined Investcorp: 2005
Prior experience: Arcapita Bank (4), Ahli United Bank (0.5), National Bank of Bahrain (4), Unilever (2)

**Jan Erik Back**
Chief Financial Officer
Joined Investcorp: 2018
Prior experience: SEB (10), Vattenfall (1.8), Skandia Group (8), Handelsbanken (11.5)

**Yasser Bajsair**
Placement & Relationship Management
Joined Investcorp: 2010
Prior experience: Global Investment House (1), Al Kabeer Merchant Finance Corporation (1), Arab National Bank (3)

**Hazem Ben-Gacem**
Co-Chief Executive Officer
Joined Investcorp: 1994
Prior experience: Credit Suisse First Boston (2)

**Maud Brown**
Private Equity – North America
Joined Investcorp: 2001
Prior experience: Merrill Lynch (1.8), Salomon Smith Barney (2)

**Andrea Davis**
Private Equity – 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 and Investment Accounting
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**
Compensation
Joined Investcorp: 2010
Prior experience: The Blackstone Group (0.5), Towers Perrin (1.5), Morgan Stanley (11)

**Sean Elliott**
Human Resources
Joined Investcorp: 2005
Prior experience: Ernst and Young (1.5), AT Kearney (5.5), Parkwell Management Consultants (2), British Army (8)

**Lionel Erdely**
Absolute Return Investments (ARI)
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**
Placement & Relationship Management – US
Joined Investcorp: 1997
Prior experience: Citicorp (4)

**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)

**Neil Hasson**
Real Estate Investment
Joined Investcorp: 2016
Prior Experience: Macquarie (2), Citi (7), Donaldson, Lufkin & Jenrette (4)

Numbers in brackets indicate years of experience.
List reflects staff employed at June 30, 2019.

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## MANAGING DIRECTORS (continued)

**Gareth Henry**
Placement & Relationship Management
Joined Investcorp: 2019
Prior experience: Angelo Gordon & Co (2), Fortress Investment Group (8.5), Schroders (2), SEI Investments (1.5), Watson Wyatt (3)

**Mark Horncastle**
Legal and Compliance
Joined Investcorp: 2017
Prior experience: General Electric/ GE Capital (17), Nomura International (1), Freshfields (8)

**Grahame Ivey**
Finance Business Support and Investment Administration
Joined Investcorp: 1988
Prior experience: Touche Ross (7), John Laing Developments (2)

**Gilbert Kamieniecky**
Private Equity – 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)

**Kevin Keough**
Private Equity – North America
Joined Investcorp: 2017
Prior experience: Arcapita (11), FirstEnergy Corp (7), McKinsey & Co. (10), US Army (5)

**Richard Kramer**
Risk Management
Joined Investcorp: 2011
Prior experience: Credit Suisse (14), Robert Fleming (2)

**Daniel Lopez-Cruz**
Private Equity – Europe
Joined Investcorp: 2005
Prior experience: Morgan Stanley (7), UBS (3), The Prudential Insurance Company of America (3), Arthur Andersen (1)

**Walid Majdalani**
Private Equity – MENA
Joined Investcorp: 2007
Prior experience: ABN AMRO Bank (10), Oracle Corporation (5)

**Timothy A. Mattar**
Placement & Relationship Management
Joined Investcorp: 1995
Prior experience: Banque Indosuez (5), Arthur Andersen (2), Grant Thornton (5)

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List reflects staff employed at June 30, 2019.

**Steve Miller**
Private Equity – North America
Joined Investcorp: 2007
Prior experience: Credit Suisse (2)

**Fahad H. Murad**
Placement & 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)

**Girish Nadkarni**
Private Equity – India
Joined Investcorp: 2019
Prior experience: IDFC Alternatives (7), Rallis India (2), Tata Chemicals (2), Tata Industries (6), Tata Power (9)

**Kevin Nickelberry**
Private Equity – 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)

**Jose Pfeifer**
Private Equity – Europe
Joined Investcorp: 2006
Prior experience: Citigroup (2)

**Anand Radhakrishnan**
Placement & Relationship Management – US
Joined Investcorp: 2002
The Carlyle Group (2), Robertson Stephens (2),

**Heinrich Riehl**
Placement & Relationship Management – Europe
Joined Investcorp: 2018
Prior experience: TCW (7), Societe Generale (5), REFCO Securities (1), Exane (3), JP Morgan (1), CA Cheuvreux (6), Commerzbank (3)

**Gaurav Sharma**
Private Equity – India
Joined Investcorp: 2019
Prior experience: IDFC Alternatives (4), Prime Gourmet Private Limited (2.5), Providence Equity Partners (5), Deutsche Bank (5.5), Trinayana Auto (5)

**Harsh Shethia**
Placement & Relationship Management
Joined Investcorp: 2002
Prior experience: Goldman Sachs (2), Deloitte Consulting (4), Tata Consulting Services (2)

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## MANAGING DIRECTORS (continued)

**Babak Sultani**
Placement & Relationship Management
Joined Investcorp: 2008
Prior experience: Addax Bank (2), Bahrain Financial Harbour (2), ReeMoon BDC (1), TAIB Bank (3), United Advertising Publications (1.5)

**David Tayeh**
Private Equity – North America
Joined Investcorp: 2015
Previous experience: CVC Capital Partners (4), Investcorp International Inc. (11), Donaldson Lufkin & Jenrette. (4)

**Nick Vamvakas**
Absolute Return Investments (ARI)
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 – Treasury
Joined Investcorp: 2016
Previous experience:
Transmed S.A.L. (1), Majid Al Futtaim Group (7), Panalpina World Transport (5), Nestle (9)

**Ritesh Vohra**
Real Estate Investment – India
Joined Investcorp: 2019
Prior experience: IDFC Alternatives (7), Saffron Advisors (7), Entrepreneur (5), Jones Lang LaSalle (1), Chesterton Meghraj (1)

**Philip Yeates**
Investcorp Credit Management
Joined Investcorp: 2018
Prior experience: N M Rothschild & Sons (24), NatWest Markets (4), Hill Samuel Merchant Bank (3), National Westminster Bank (6)

## SENIOR AND PROFESSIONAL STAFF

**Mohamed Aamer**
Placement & Relationship Management

**Ghassan Abdulaal**
Placement & Relationship Management

**Ahmed Abdulrahim**
Placement & Relationship Management

**Habib Abdur-Rahman**
Administration & Corporate Development

**Edmond AbiSaleh**
Private Equity – MENA

**Shrooq Abualif**
Placement & Relationship Management

**Nabil AbuAyshe**
Data Center

**Anugrah Aggarwal**
Private Equity – India

**Muna Ahmed**
Legal & Compliance

**Affan Ahmed**
Real Estate (RE)

**Abdulla Ahmed**
Placement & Relationship Management

**Naweed Akram**
Applications

**Khalifa Al Jalahma**
Private Equity – MENA

**Ayman Al-Arrayed**
Corporate and Investment Accounting

**Manal AlAlaiwat**
Corporate General Services – Bahrain

**Khaled Alalawi**
Placement & Relationship Management

**Ahmed AlAlawi**
Corporate and Investment Accounting

**Loai Alarayedh**
Placement & Relationship Management

**Ashraf Alaydi**
Legal & Compliance

**Abdulla AlBastaki**
Human Resources

**Yousef Alhozaimy**
Placement & Relationship Management

**Yasser Alkhaja**
Placement & Relationship Management

**Feras AlMeri**
Corporate and Investment Accounting

**Ali AlRahma**
Placement & Relationship Management

**Bashayer Alraqraq**
Corporate and Investment Accounting

**Mohammed AlSada**
Placement & Relationship Management

**Aala AlSaleh**
Private Equity – MENA

**Eyad Alsaleh**
Placement & Relationship Management

**Naser Alshakhoori**
Corporate and Investment Accounting

**Hasan AlShuwaikh**
Private Equity – MENA

**Mohamed AlTaweel**
Corporate and Investment Accounting

**Ahmed AlZayani**
Placement & Relationship Management

Numbers in brackets indicate years of experience.
List reflects staff employed at June 30, 2019.

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**Ameer Ameeri**
Placement & Relationship Management

**Mohammed Aminuddin**
Data Center

**Russell Arco**
Real Estate (RE)

**Ali Ardati**
Placement & Relationship Management

**Sarah Aziz**
Corporate Communications

**Gaurav Babbar**
Investcorp Credit Management

**Gene Basov**
Investcorp Credit Management

**Eitan Bass**
Business support – NYLON

**Ryan Bassett**
Real Estate (RE)

**Jose Benitez**
Data Center

**Julian Bennet**
Private Equity – Technology

**Alexander Bennett**
Real Estate (RE)

**Gregory Berman**
Absolute Return Investments (ARI)

**Vincent Berthelemy**
Absolute Return Investments (ARI)

**Guillaume Bertin**
Investcorp Credit Management

**Thomas Best**
Investment Admin.

**Kajetan Betz**
Private Equity – Technology

**Sunil Bhilotra**
Private Equity – MENA

**Sebastian Boron**
Placement & Relationship Management – US

**Robert Bostock**
Private Equity – Europe

**Vitali Bourchtein**
Private Equity – North America

**Hugh Boyle**
Placement & Relationship Management – US

**James Brailey**
Investcorp Credit Management

**Rebecca Bronk**
Investcorp Credit Management

**Jesse Brundige**
Real Estate (RE)

**Michael Busacco**
Data Center

**Melissa Butler**
Investcorp Credit Management

**Kelly Byun**
Real Estate (RE)

**Camilla Campion-Awwad**
Private Equity – Technology

**Kieran Carmody**
Investcorp Credit Management

**Christopher Carolan**
Corporate and Investment Accounting

**Enrique Casafont**
Private Equity – North America

**Dhanraj Chandiramani**
Absolute Return Investments (ARI)

**Francis Chang**
Investcorp Credit Management

**Jia Chen**
Business support – NYLON

**Mikaela Chronopoulou**
Investcorp Credit Management

**Dean Clinton**
Corporate and Investment Accounting

**Edgar Coatman**
Placement & Relationship Management – US

**Matthew Coleman**
Business Management – MENA

**Anthony Colon**
Investcorp Credit Management

**Philip Comerford**
Private Equity – North America

**Brian Cook**
Investcorp Credit Management

**Dominic Courtman**
Investcorp Credit Management

**Darryl D’Souza**
Business support – NYLON

**Gordon D’Souza**
Private Equity – India

**Khaled Daair**
Business Analysis and Planning

**Sebastien De Bock**
Private Equity – Europe

**Pierre De La Rochefoucauld**
Real Estate Europe

**Mikael De Pedro Nejjai**
Investcorp Credit Management

**Ilyas Degia**
End-User Computing

**Dale Didulo**
Data Center

**Alptekin Diler**
Private Equity – MENA

List reflects staff employed at June 30, 2019.

MANAGING DIRECTORS, SENIOR AND PROFESSIONAL STAFF

## SENIOR AND PROFESSIONAL STAFF (continued)

**Polina Dimopoulou**
End-User Computing

**Vikas Dugar**
Private Equity – India

**Merime Durakovic**
Legal & Compliance

**Khulood Ebrahim**
Placement & Relationship Management

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List reflects staff employed at June 30, 2019.

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**Narendra Karki**
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