INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)

CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2020
FISCAL YEAR 2020

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP HOLDINGS B.S.C. (FORMERLY 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 Holdings B.S.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 30 June 2020, 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 2020, 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 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

1. Valuation of unquoted investments, related fair value changes and performance fees	
Key audit matter	**How the key audit matter was addressed in the audit**
The Group's investment portfolio comprises of a number of unquoted private equity (disclosed as private equity, strategic capital and strategic investments in the consolidated statement of financial position), credit management, real estate investments and investments in an associate and joint ventures (included within strategic investments in the consolidated statement of financial position). The Group has used a combination of discounted cash flow analysis approach, PE multiples-based approach and bids or indicative prices, where available, obtained from potential buyers engaged in the sale process to determine the fair value of these investments. 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. The exit value is dependent on a number of factors and will be determined at the time of realisation and therefore despite the valuation policy adopted and judgments made by management, the final sales value may differ materially from the valuation at the year end. 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. The risk around these judgements and estimates made by management has increased in the current year due to continuously evolving impacts of COVID-19 pandemic on valuations.	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. We attended calls with the management of a sample of investee companies, accompanied by our valuation specialists to corroborate our understanding of, and gain specific insights into, the underlying investments. For a sample of unquoted investments, we obtained and reviewed the relevant documents supporting the valuations and the assumptions used. We also corroborated key inputs in the valuation models such as earnings and net debt to the source data. We checked the mathematical accuracy of the valuation models for the sample selected. 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. We have considered the impact of COVID-19 pandemic throughout the procedures performed on the valuations of the selected sample of unquoted investments, by challenging whether the valuation methodologies and assumptions used are appropriate.

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

1. Valuation of unquoted investments, related fair value changes and performance fees (continued)	
Key audit matter	**How the key audit matter was addressed in the audit**
There are multiple performance fee arrangements in place and the process of determining these fees relies on manual calculations. Due to the complexities inherent in the arrangements and the manual nature of the recognition process, there is a risk that the performance fees are incorrectly calculated or recognised in the wrong period. Refer to the critical accounting estimates and judgments and disclosures of investments in notes 11, 12, 14, 15, 16 (A), 16 (B), 16 (D), 28, and 31 to the consolidated financial statements.	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.

Other Information Included in the Group's 2020 Annual Report
Other information consists of the information included in the Group's 2020 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 2020 Annual Report, and the remaining sections are expected to be made available to us after that date.

- Message to shareholders
- Business Highlights
- Discussion of Results
- Assets Under Management
- Portfolio Review

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 above 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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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.

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

- 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 and 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 and 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Audit and 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.) (continued)

Report on Other Legal and Regulatory Requirements

We report that:

a) as required by the Bahrain Commercial Companies Law,

   i. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
   ii. the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements; and
   iii. satisfactory explanations and information have been provided to us by management in response to all our requests.

b) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 30 June 2020 that might have had a material adverse effect on the business of the Group or on its consolidated financial position.

c) As required by Article 8 of section 2 of Chapter 1 of the Bahrain Corporate Governance Code, we report that the Company:

   i. has appointed a Corporate Governance Officer; and
   ii. has a board approved written guidance and procedures for corporate governance.

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

Ernst + Young

Partner's Registration No. 117
5 August 2020
Manama, Kingdom of Bahrain

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2020

$millions	***2020***	***2019***	*Notes*
FEE INCOME			
AUM fees	170	181	
Deal fees	118	195	
Fee income (a)	288	376	
ASSSET BASED INCOME			
Private equity investment	(96)	12	
Credit management investment	(22)	22	
Absolute return investments	(5)	8	
Real estate investment	31	29	
Strategic investments	(27)	5	
Treasury and other income	9	13	
Asset based (loss) income (b)	(110)	89	
Gross operating income (a) + (b)	178	465	
Provisions for impairment	(26)	(4)	18
Interest expense	(40)	(51)	
Operating expenses	(275)	(268)	6
(LOSS) PROFIT BEFORE TAX	(163)	142	
Income tax expense	(2)	(11)	7
(LOSS) PROFIT FOR THE YEAR	(165)	131	
(Loss) profit for the year attributable to :			
Equity holders of the parent	(165)	131	
Non-controlling interest	0	-	
	(165)	131	
EARNINGS PER SHARE			
Basic earnings per ordinary share ($)	(2.57)	1.52	24
Fully diluted earnings per ordinary share ($)	(2.57)	1.47	24

Dr. Yousef Hamad Al-Ebraheem

Chairman

Mohammed Mahfoodh Al Ardhi

Executive Chairman

The attached Notes 1 to 31 are an integral part of these consolidated financial statements.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

$millions	*2020*	*2019*	*Notes*
(LOSS) PROFIT FOR THE YEAR	(165)	131	
Other comprehensive (loss) 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	(14)	(3)	
Other comprehensive loss that will not be recycled to statement of profit or loss			
Movements - Fair value through other comprehensive income investments	(29)	(6)	
Other comprehensive loss	(45)	(7)	
TOTAL COMPREHENSIVE (LOSS) INCOME	(210)	124	
Total comprehensive (loss) income attributable to:			
Equity holders of the parent	(210)	124	
Non-controlling interest	0	-	
	(210)	124	

Dr. Yousef Hamad Al-Ebraheem

Chairman

Mohammed Mahfoodh Al Ardhi

Executive Chairman

The attached Notes 1 to 31 are an integral part of these consolidated financial statements.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

$millions	***June 30, 2020***	***June 30, 2019***	*Notes*
ASSETS			
Cash, placements and other liquid assets	309	390	
Positive fair value of derivatives	45	44	25
Receivables and prepayments	285	364	8
Advances	158	82	9
Underwritten and warehoused investments	192	334	10
Co-investments			
Private equity investment	339	491	11
Credit management investment	317	332	12
Absolute return investments	81	112	13
Real estate investment	71	68	14
Strategic capital investment	2	-	15
Total co-investments	810	1,003	
Strategic investments and intangible assets	189	107	16
Premises, equipment and other assets	135	37	17
TOTAL ASSETS	2,123	2,361	
LIABILITIES AND EQUITY			
LIABILITIES			
Payables and accrued expenses	186	241	19
Negative fair value of derivatives	26	23	25
Financing	981	889	20
Deferred fees	62	63	21
TOTAL LIABILITIES	1,255	1,216	
EQUITY			
Preference share capital	123	123	22
Ordinary shares at par value	200	200	22
Reserves	296	321	
Treasury shares	(104)	(74)	
Retained earnings	335	540	
Ordinary shareholders' equity excluding proposed appropriations and other reserves	727	987	
Proposed appropriations	22	38	
Other reserves	(5)	(3)	23
Non-controlling interests	1	-	
TOTAL EQUITY	868	1,145	
TOTAL LIABILITIES AND EQUITY	2,123	2,361	

Dr. Yousef Hamad Al-Ebraheem

Chairman

Mohammed Mahfoodh Al Ardhi

Executive Chairman

The attached Notes 1 to 31 are an integral part of these consolidated financial statements.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2020

		Ordinary shareholders' equity excluding proposed appropriations and other reserves								Other Reserves				
$millions	**Preference share capital**	**Ordinary share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Statutory reserve**	**Fair value reserve**	**Total**	**Proposed appropriations**	**Cash flow hedges**	**Revaluation reserve on premises and equipment**	**Total**	**Non-controlling interests**	**Total equity**
Balance at July 1, 2018	**123**	**200**	**229**	**(5)**	**447**	**100**	**(7)**	**964**	**41**	**(9)**	**4**	**(5)**	**-**	**1,123**
Total comprehensive income	-	-	-	-	131	-	(9)	122	-	2	-	2	-	124
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	0	-	-	0	-	-	(0)	(0)	-	-
Treasury shares purchased during the year - net of sales and vesting	-	-	-	(61)	-	-	-	(61)	-	-	-	-	-	(61)
Gain on vesting of treasury shares	-	-	8	(8)	-	-	-	-	-	-	-	-	-	-
Approved appropriations for fiscal 2018 paid	-	-	-	-	-	-	-	-	(41)	-	-	-	-	(41)
Proposed appropriations for fiscal 2019	-	-	-	-	(38)	-	-	(38)	38	-	-	-	-	-
Balance at June 30, 2019	**123**	**200**	**237**	**(74)**	**540**	**100**	**(16)**	**987**	**38**	**(7)**	**4**	**(3)**	**-**	**1,145**
Balance at July 1, 2019	**123**	**200**	**237**	**(74)**	**540**	**100**	**(16)**	**987**	**38**	**(7)**	**4**	**(3)**	**-**	**1,145**
Restatement arising from adoption of IFRS 16	-	-	-	-	(2)	-	-	(2)	-	-	-	-	-	(2)
Balance at July 1, 2019	**123**	**200**	**237**	**(74)**	**538**	**100**	**(16)**	**985**	**38**	**(7)**	**4**	**(3)**	**-**	**1,143**
Total comprehensive loss	-	-	-	-	(165)	-	(43)	(208)	-	(2)	-	(2)	0	(210)
Transferred to retained earnings upon derecognition	-	-	-	-	(16)	-	16	-	-	-	-	-	-	-
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	0	-	-	0	-	-	(0)	(0)	-	-
Treasury shares purchased during the year - net of sales and vesting	-	-	-	(28)	-	-	-	(28)	-	-	-	-	-	(28)
Gain on vesting of treasury shares	-	-	2	(2)	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Approved appropriations for fiscal 2019 paid	-	-	-	-	-	-	-	-	(38)	-	-	-	-	(38)
Proposed appropriations for fiscal 2020	-	-	-	-	(22)	-	-	(22)	22	-	-	-	-	-
Balance at June 30, 2020	**123**	**200**	**239**	**(104)**	**335**	**100**	**(43)**	**727**	**22**	**(9)**	**4**	**(5)**	**1**	**868**

The attached Notes 1 to 31 are an integral part of these consolidated financial statements.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

$millions	*2020*	*2019*	*Notes*
OPERATING ACTIVITIES			
(Loss) profit before tax	(163)	142	
Adjustments for non-cash items in profit before tax :			
Depreciation and amortization	24	12	
Provisions for impairment	26	4	18
Employee deferred awards	33	27	
Operating (loss) profit adjusted for non-cash items	(80)	185	
Changes in:			
Operating capital			
Placements (non-cash equivalent)	(44)	2	
Receivables, prepayments and advances	(24)	(94)	8, 9
Underwritten and warehoused investments	142	112	10
Payables and accrued expenses	(56)	(29)	19
Deferred fees	(1)	(9)	21
Co-investments	151	147	11 to 15
Fair value of derivatives	5	36	
Income taxes paid	(12)	(9)	
NET CASH FROM OPERATING ACTIVITIES	81	341	
FINANCING ACTIVITIES			
Financing - net of transaction costs and new issuances	(25)	(150)	20
Treasury shares purchased - net of sales	(45)	(84)	
Dividends paid	(38)	(41)	
NET CASH USED IN FINANCING ACTIVITIES	(108)	(275)	
INVESTING ACTIVITIES			
Acquisition of subsidiaries	(21)	-	
Investment in associates and joint ventures	(6)	(39)	16
Other strategic investments	(61)	-	16
Investment in premises and equipment	(10)	(6)	
NET CASH USED IN INVESTING ACTIVITIES	(98)	(45)	
Net (decrease) increase in cash and cash equivalents	(125)	21	
Cash and cash equivalents at beginning of the year	390	369	
Cash and cash equivalents at end of the year	265	390	
Cash and cash equivalents comprise of:			
Cash and short-term funds	130	57	
Placements with financial institutions and other liquid assets	135	333	
	265	390	

Additional cash flow information

$millions	*2020*	*2019*
Interest paid	(39)	(51)
Interest received	40	40

Additional liquidity information

$millions	*2020*	*2019*	
Cash and cash equivalents at end of the year	265	390	
Placements (non-cash equivalent)	44	-	
Available / undrawn balances	917	686	20
Total available liquidity at end of the year	1,226	1,076	

The attached Notes 1 to 31 are an integral part of these consolidated financial statements.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

(i) Incorporation

Investcorp Holdings B.S.C. (the “Company” or “Parent”), formerly Investcorp Bank B.S.C., is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability. The Company is listed on the Bahrain Bourse. The ultimate parent of the Group is SIPCO Holdings Limited (“SHL”) incorporated in the Cayman Islands. The Company is a holding company owning various subsidiaries (together the “Group” or “Investcorp”). The activities of the Company are substantially transacted through its subsidiaries and joint ventures.

Prior to September 2, 2019, the Parent was operating under a Wholesale Banking License issued by the Central Bank of Bahrain (the “CBB”). During fiscal year 2019, the Group re-aligned 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. 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 the Parent’s regulated marketing, placement and MENA private equity investment advisory and asset management services to IFS.

On September 2, 2019, with the approval of shareholders, the CBB and the local Ministry of Industry, Commerce and Tourism, the Parent completed the process of transition and converted from a wholesale bank into a holding company. Other Investcorp group entities will continue to be subject to local regulatory oversight in all of the countries in which they conduct regulated activities.

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

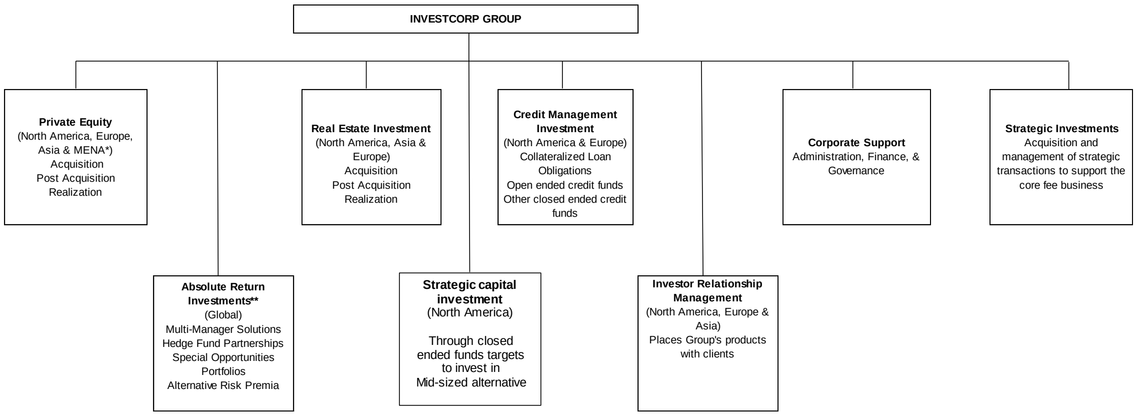
The consolidated financial statements for the year ended June 30, 2020 were authorized for issue in accordance with a resolution of the Board of Directors effective on August 5, 2020.

1. ORGANIZATION (CONTINUED)

(ii) Activities

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

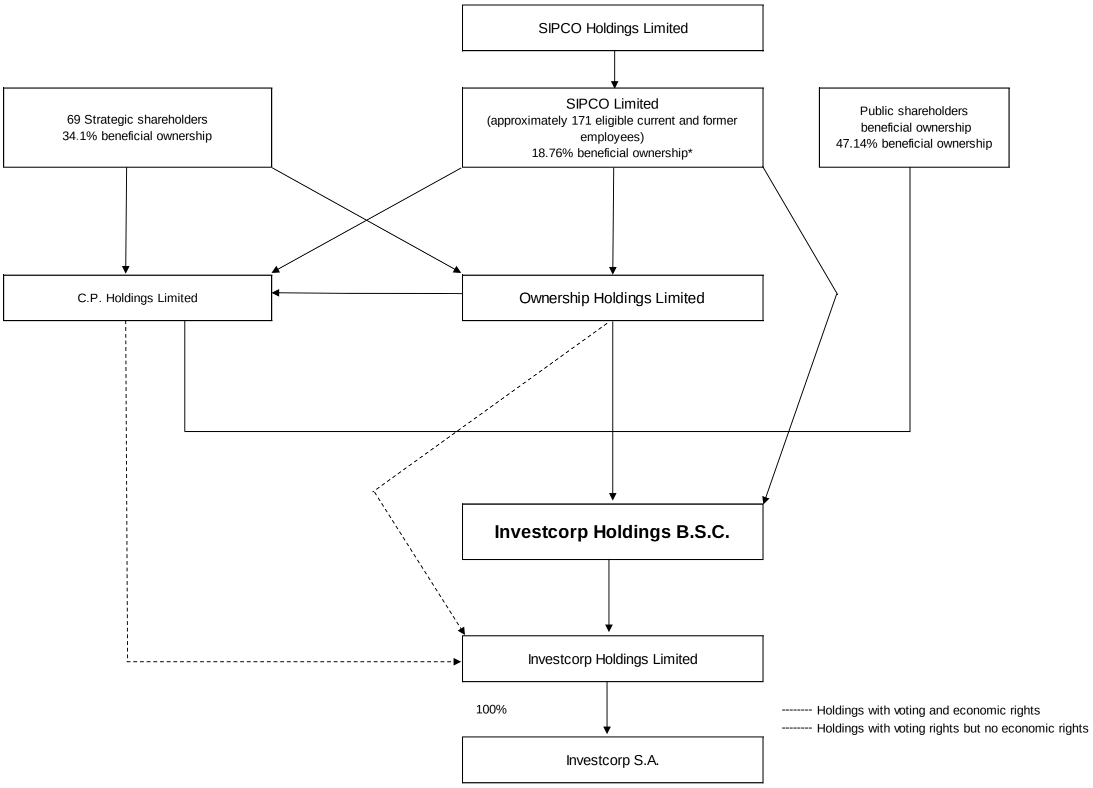
In performing its principal roles, the Group provides products in five investment asset classes. The investment asset classes in which the Group specializes are private equity investments, credit management investments, absolute return investments, real estate investments and strategic capital investments. Each of the asset classes is comprised of its own dedicated team of investment professionals and is supported by a common investment relationship management (previously called "placement and relationship management") team and corporate support units.



*Includes Turkey
**In May 2020, Investcorp entered into a joint venture with Tages Group to which the ARI business was transitioned (Note 3).

1. ORGANIZATION (CONTINUED)

(iii) Ownership



* Includes 9.7% shares granted but not acquired and ungranted shares under the various Employee Share Ownership Plans. The Company 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.

As at June 30, 2020, Ownership Holdings Limited ('OHL'), a Cayman Islands company, has control of 51.4% of the Company's Ordinary Shares directly and through C.P. 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 Company's ordinary shares.

As a result of the Company's ownership structure, the directors of SIPCO, comprised of certain of the Company'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 52.9% of the Company's ordinary shares.

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

1. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies

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

The Company 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.

1. ORGANIZATION (CONTINUED)

(iv) Subsidiary companies (continued)

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

Parent	Wholly owned significant subsidiaries	Description of principal activities
Investcorp Holdings 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 private equity and real estate investments.
	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 investment advisor.
	Investcorp Funding Limited (Cayman Islands)	Company that provides short-term funding to investee and client investment holding companies.
	Investcorp Trading Limited (Cayman Islands)	Company that executes the Group's money market, foreign exchange and derivative financial contracts, invests in hedge funds partners and manages the Group's excess liquidity.
	CIP AMP Limited (Cayman Islands)	Company through which the Group co-invests in 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 an 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.
	CM Investment Partners LLC (USA)	Company that provides investment advisory services in the United States for investments in floating rate first lien, second lien, unitranche loans, mezzanine loans/structured equity and in the equity of middle-market companies.
	Investcorp Financial Services BSC (c)	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 the Group.
	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 Asia Financial Services Pte Ltd (Singapore)	Company that provides investment management and advisory services in Asia region and acts as principal agent in Asia for placements of the products offered by the Group.
	Investcorp Investments LLC (Qatar)	Company that acts as principal agent of the Group in Qatar for placements of the products offered by the Group.
	Investcorp 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.

2. ASSETS UNDER MANAGEMENT

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

$millions	June 30, 2020 Clients	June 30, 2020 Investcorp	June 30, 2020 Affiliates and co-investors	June 30, 2020 Total	June 30, 2019 Clients	June 30, 2019 Investcorp	June 30, 2019 Affiliates and co-investors	June 30, 2019 Total
Private equity investment								
Closed-end committed funds	1,170	93	144	1,407	996	39	19	1,054
Closed-end invested funds	1,488	58	16	1,562	1,402	77	21	1,500
Deal-by-deal	2,251	269 *	143	2,663	2,544	398 *	177	3,119
Deal-by-deal underwriting	-	59	16	75	-	52	-	52
Total private equity investment	**4,909**	**479**	**319**	**5,707**	**4,942**	**566**	**217**	**5,725**
Credit management investment								
Closed-end invested funds	12,001	294	-	12,295	10,890	322	-	11,212
Closed-end committed funds	491	34	-	525	85	34	-	119
Open-end invested funds	314	10	-	324	258	10	-	268
Warehousing	-	0	-	0	-	5	266	271
Total credit management investment	**12,806**	**338**	**-**	**13,144**	**11,233**	**371**	**266**	**11,870**
Absolute return investments**								
Multi-manager solutions	2,939	28	3	2,970	1,436	29	-	1,465
Hedge funds partnerships	2,479	24	-	2,503	2,110	30	-	2,140
Special opportunities portfolios	564	29	2	595	104	43	-	147
Alternative risk premia	40	-	-	40	38	10	-	48
Total absolute return investments	**6,022**	**81**	**5**	**6,108**	**3,688**	**112**	**-**	**3,800**
Real estate investment								
Closed-end committed funds	65	15 *	-	80	-	-	-	-
Closed-end invested funds	119	-	-	119	134	-	-	134
*Deal-by-deal****	5,134	565	316	6,015	4,820	588	306	5,714
*Deal-by-deal underwriting****	-	125	66	191	-	278	-	278
Total real estate investment	**5,318**	**705**	**382**	**6,405**	**4,954**	**866**	**306**	**6,126**
Strategic Capital investment								
Closed-end invested funds	87	40	6	133	-	-	-	-
Deal-By-Deal	28	-	-	28	-	-	-	-
Total strategic capital investment	**115**	**40**	**6**	**161**	**-**	**-**	**-**	**-**
Strategic investments								
Strategic and other investments	-	74	-	74	-	18	-	18
Total strategic investments	**-**	**74**	**-**	**74**	**-**	**18**	**-**	**18**
Client balances with trusts	**567**	**-**	**-**	**567**	576	-	-	576
Total	**29,737**	**1,717**	**712**	**32,166**	**25,393**	**1,933**	**789**	**28,115**
*Associate's assets under management*****	**6,000**	**-**	**-**	**6,000**	**5,661**	**-**	**-**	**5,661**
Summary by products:								
Closed-end committed funds	1,235	108	144	1,487	996	39	19	1,054
Closed-end invested funds	1,694	98	22	1,814	1,536	77	21	1,634
Credit management funds	12,806	338	-	13,144	11,233	366	-	11,599
Absolute return investments	6,022	81	5	6,108	3,688	112	-	3,800
*Deal-by-deal****	7,413	834	459	8,706	7,364	986	483	8,833
*Underwriting and warehousing****	-	184	82	266	-	335	266	601
Client monies held in trust	567	-	-	567	576	-	-	576
Strategic and other investments	-	74	-	74	-	18	-	18
Total	**29,737**	**1,717**	**712**	**32,166**	**25,393**	**1,933**	**789**	**28,115**
*Associate's assets under management*****	**6,000**	**-**	**-**	**6,000**	**5,661**	**-**	**-**	**5,661**
Summary by asset classes:								
Private equity investment	4,909	479	319	5,707	4,942	566	217	5,725
Credit management investment	12,806	338	-	13,144	11,233	371	266	11,870
Absolute return investments	6,022	81	5	6,108	3,688	112	-	3,800
*Real estate investment****	5,318	705	382	6,405	4,954	866	306	6,126
Strategic capital investment	115	40	6	161	-	-	-	-
Client monies held in trust	567	-	-	567	576	-	-	576
Strategic and other investments	-	74	-	74	-	18	-	18
Total	**29,737**	**1,717**	**712**	**32,166**	**25,393**	**1,933**	**789**	**28,115**
*Associate's assets under management*****	**6,000**	**-**	**-**	**6,000**	5,661	-	-	5,661

** Includes Group's commitment of $4 million (June 30, 2019: $4 million) to a private equity deal and $15 million (June 30, 2019: nil) to a real estate fund.*

*** Stated at gross value of the underlying exposure. Also, includes $3.7 billion (June 30, 2019: $2.9 billion) of hedge fund partnerships (including exposure through multi-manager solutions) managed by third party managers and assets subject to a non-discretionary advisory mandate where Investcorp receives fees calculated on the basis of AUM. In May 2020, Investcorp entered into a joint venture with Tages Group through which the ARI business is transferred to the joint venture. During the year, the AUM introduced by Tages Group amounted to $1.7 billion (June 30 2019: Nil). Further, as at June 30, 2020, the total AUM held through the joint venture amounted to 6.0 billion (2019: Nil)*

**** 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, strategic capital investments, strategic investments and real estate investment exposures and Investcorp's co-investment amounts for private equity investment and certain credit management exposures are stated at current fair values while the other categories are stated at their cost.

2. ASSETS UNDER MANAGEMENT (CONTINUED)

Certain of the Group's clients invest their cash with various trusts (the "Trusts"). These Trusts are controlled by an independent third-party trustee, who have appointed a subsidiary of Investcorp for providing management services. The Trusts' balances are invested in highly liquid assets, which have a credit rating no lower than that of Investcorp, or are lent to the Group under a multicurrency term and revolving loan facility.

Client investments with the trusts earn the return generated from the investment of such assets, with a guaranteed minimum return equivalent to inter-bank based market rates.

Trust funds and other clients assets including, affiliates and co-investors, are managed in a fiduciary capacity by the Group. The Group has no entitlement to these assets and 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 a majority ownership interest in CM Investment Partners LLC ("CMIP"), a company incorporated in the US. This was achieved through the acquisition of 76% of equity positions in CMIP. CMIP is an investment adviser to CM Finance Inc., a company incorporated in the US, which primarily invests in floating rate first lien, second lien and unitranche loans, but also selectively invests in mezzanine loans/structured equity and in the equity of middle-market companies through warrants and other instruments. The total identifiable net assets of the business as at the date of acquisition were $5.8 million. Further, goodwill of $12.9 million was recognized on the acquisition of the business as this transaction will leverage upon the current distribution capabilities in the U.S. and alternative product offerings globally. As of June 30, 2020, the assets under management relating to CMIP amounted to $270.6 million.

Further, the Group also acquired a majority ownership interest in IVC Titan Acquisition LLC ("Titan"), a company incorporated in the US, through the acquisition of 80% of equity positions in Titan. Titan is a multifamily real estate investment manager with a full service property management affiliate. Titan manages investments throughout the Southeast, Northeast, Midwest and Texas. The total identifiable net assets of the business as at the date of acquisition were $0.2 million. Further, provisional goodwill of $2.3 million was recognized on the acquisition of the business.

CMIP and Titan are consolidated with Investcorp Group. The non-controlling interests in the consolidated financial statements represents the remaining 24% of equity position in CMIP and 20% of equity position in Titan.

During the year, Investcorp entered into a 50/50 joint venture agreement with Tages Group, a leading European alternative asset management firm. The new joint venture is named Investcorp-Tages Limited (the "JV") and has been structured as a standalone entity which will manage the absolute return investments of the combined entities. The Group's management believes that the JV will be able to better serve the evolving needs of more globally diversified investors for absolute return investments with a broader array of products across strategies and geographies with an expanded footprint and deeper bench of talent. As of June 30, 2020, the assets under management relating to Joint venture amounted to $6.1 billion. The investment in JV is carried at fair value.

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 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 intermediary services to clients.

ii) ***Co-investment Business***

The Group co-invests along with its clients in the investment products it offers to clients. Income from these co-investments in private equity investment deals, absolute return investments, real estate investment deals, strategic capital investment and credit management investment deals are earned during the life cycle of the investments either in form of fair value changes or cash flows in form of dividends, interest and rental yields.

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 - Closed-end fund(s)
2) Credit management investment	- Open-end fund(s) - Closed-end fund(s)
3) Absolute return investments	- Multi-manager solutions - Hedge fund partnerships - Alternative risk premia - Special opportunities portfolios
4) Real estate investment	- Deal by deal offerings - Closed-end fund(s)
5) Strategic capital investments	- Closed-end fund(s)

4. SEGMENT REPORTING (CONTINUED)

B. ASSETS CLASSES AND PRODUCTS (CONTINUED)

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, Singapore 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. The PE team in Singapore will start looking into opportunities in Asian markets once fully operational. These PE investments are placed primarily on a deal-by-deal basis and are also offered through conventional fund structures to investors. The Group retains a small portion as a co-investment.

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 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) ***Real Estate Investment (RE)***

The RE teams are based in New York, London and India. The RE teams in North America and Europe arrange investments in 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 and United States, with the Group retaining a small portion as a co-investment. 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. The RE India business currently has two active funds. The funds provide structured senior credit within the residential real estate sector.

iv) ***Strategic capital Investment (SC)***

The Group is executing an investment strategy, through a fund structure, focused on acquiring minority interests in alternative asset managers, particularly GPs who manage longer-duration private capital strategies (e.g. private equity, private credit, real estate). Through the New York-based team, the Group focuses on GPs with strong track records, exceptional teams, and attractive growth prospects.

4. SEGMENT REPORTING (CONTINUED)

B. ASSETS CLASSES AND PRODUCTS (CONTINUED)

v) Absolute Return Investments (ARI)

Prior to transitioning into a JV structure during the year, the ARI team, primarily operating from New York, managed Investcorp's ARI business which included proprietary co-investments as well as client assets under management. During the year, the ARI business was transitioned to the JV (Note 3). The JV now primarily operates out of New York and London. The ARI business continues to comprise of managing investments in 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.

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, RE and SC investments from client's investment holding companies, investee companies and closed-end funds;
- management, performance and other fees earned on CM assets under management;
- management, performance and other fees earned on ARI assets under management before the transition of the ARI business to the JV (Note 3); and
- fee paid by the ARI JV for services provided by Investcorp Group.

Deal fees

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

4. SEGMENT REPORTING (CONTINUED)

C. REVENUE GENERATION (CONTINUED)

ii) ***Asset based income***

This includes realized as well as unrealized gains and losses on investments which are measured at Fair Value Through Profit or Loss ("FVTPL"), interest on all debt instruments, rental income distributions from RE co-investments and impairment on all debt instruments classified as Fair Value Through other comprehensive income ("FVOCI") or held at amortized cost.

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 classified as treasury and other income.

D. SEGREGATION OF ASSETS

Assets directly attributable to the Co-investment Business are primarily in the form of co-investments by the Group in each asset class, and any associated working capital items. All other assets, including cash and receivables, 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 Co-investment Business to the extent possible with the residual being allocated to Fee Business. Short term financing, medium term debt, other associated working capital and the fair value of derivatives are allocated to the Fee Business. The allocation of liabilities determined above, in turn, drives the allocation of interest expense for each reporting segment.

F. ALLOCATION OF OPERATING EXPENSES

A portion of the operating expenses for the Co-investment Business are allocated using a fixed rate charge on the aggregate co-investments, excluding underwriting, at the beginning and middle of the year. There is an additional potential expense for the co-investment business in the form of incentive payments if the net asset based income from the Co-investment Business exceeds a certain hurdle. All residual operating expenses are allocated to the Fee Business.

4. SEGMENT REPORTING (CONTINUED)

G. PROFIT OR LOSS AND FINANCIAL POSITION BY REPORTING SEGMENTS

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

$millions	*2020*	*2019*
FEE BUSINESS		
AUM fees		
Private equity investment	76	97
Credit management investment	55	50
Absolute return investments	14	13
Real estate investment	22	21
Strategic capital investment	3	-
Total AUM fees	170	181
Deal fees		
Private equity investment	57	127
Credit management investment	0	1
Absolute return investments	-	-
Real estate investment	61	67
Total deal fees	118	195
Asset based income		
Strategic investments	(27)	5
Treasury and other income	9	13
Total asset based (loss) income	(18)	18
Gross income attributable to fee business (a)	270	394
Provisions for impairment	(26)	(4)
Interest expense (b)	(12)	(12)
Operating expenses attributable to fee business (c)*	(270)	(262)
FEE BUSINESS (LOSS) PROFIT (d)	(38)	116
CO-INVESTMENT BUSINESS		
Asset based income		
Private equity investment	(96)	12
Credit management investment	(22)	22
Absolute return investments	(5)	8
Real estate investment	31	29
Gross (loss) income attributable to co-investment business (e)	(92)	71
Interest expense (f)	(28)	(39)
Operating expenses attributable to co-investment business (g)*	(7)	(17)
CO-INVESTMENT BUSINESS (LOSS) PROFIT (h)	(127)	15
(LOSS) PROFIT FOR THE YEAR (d) + (h)	(165)	131
Gross operating income (a) + (e)	178	465
Gross operating expenses (c) + (g)	(277)	(279)
Interest expense (b) + (f)	(40)	(51)

* including income tax expense

4. SEGMENT REPORTING (CONTINUED)

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

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues during the year (2019: nil).

$118.3 million (2019: $166.9 million) of deal fees relates to activity fees and ($0.8) million of net performance fee reversal was recognized during the year (2019: $27.8 million).

Treasury and other income includes $10.6 million (2019: $11.5 million) of interest income. CM asset based income includes $18.0 million (2019: $26.5 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, 14 and 27 (iv) present the geographical split of assets and off-balance sheet items.

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

4. SEGMENT REPORTING (CONTINUED)

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

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

June 30, 2020 *$millions*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash, placements and other liquid assets	-	309	309
Positive fair value of derivatives	-	45	45
Receivables and prepayments	49	236	285
Advances	-	158	158
Underwritten and warehoused investments	-	192	192
Co-investments			
Private equity investment	339	-	339
Credit management investment	317	-	317
Absolute return investments	81	-	81
Real estate investment	71	-	71
Strategic capital investment	2	-	2
Strategic investments and intangible assets	47	142	189
Premises, equipment and other assets	-	135	135
Total assets	906	1,217	2,123
Liabilities and Equity			
Liabilities			
Payables and accrued expenses	5	181	186
Negative fair value of derivatives	-	26	26
Financing	335	646	981
Deferred fees	-	62	62
Total liabilities	340	915	1,255
Total equity	566	302	868
Total liabilities and equity	906	1,217	2,123

4. SEGMENT REPORTING (CONTINUED)

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

June 30, 2019 *$millions*	*Co-investment Business*	*Fee Business*	*Total*
Assets			
Cash, placements and other liquid assets	-	390	390
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	491	-	491
Credit management investment	332	-	332
Absolute return investments	112	-	112
Real estate investment	68	-	68
Strategic investments and intangible assets	14	93	107
Premises, equipment and other assets	-	37	37
Total assets	1,117	1,244	2,361
Liabilities and Equity			
Liabilities			
Payables and accrued expenses	18	223	241
Negative fair value of derivatives	-	23	23
Financing	396	493	889
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

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, 2020 *$millions*	*FVTPL Investments*	*FVOCI Investments*	*Items at amortized cost*	*Derivatives*	*Total*
Financial assets					
Cash, placements and other liquid assets	132	-	177	-	309
Positive fair value of derivatives	-	-	-	45	45
Receivables	-	-	242	-	242
Advances	-	-	158	-	158
Underwritten and warehoused investments	192	-	-	-	192
Co-investments					
Private equity investment	303	36	-	-	339
Credit management investment	1	179	137	-	317
Absolute return investments	75	6	-	-	81
Real estate investment	41	30	0	-	71
Strategic capital investments	-	2	-	-	2
Strategic investments	72	46	-	-	118
Total financial assets	816	299	714	45	1,874
Non-financial assets					
Prepayments					43
Premises, equipment and other assets					135
Intangible assets					71
Total assets					2,123
Financial liabilities					
Payables and accrued expenses	-	-	186	-	186
Negative fair value of derivatives	-	-	-	26	26
Financing*	-	-	981	-	981
Total financial liabilities	-	-	1,167	26	1,193
Non-financial liabilities					
Deferred fees					62
Total liabilities					1,255

* Adjusted for related fair value hedges.

June 30, 2019 *$millions*	*FVTPL Investments*	*FVOCI Investments*	*Items at amortized cost*	*Derivatives*	*Total*
Financial assets					
Cash, placements and other liquid assets	0	-	390	-	390
Positive fair value of derivatives	-	-	-	44	44
Receivables	-	-	325	-	325
Advances	-	-	82	-	82
Underwritten and warehoused investments	334	0	-	-	334
Co-investments					
Private equity investment	477	14	-	-	491
Credit management investment	16	133	183	-	332
Absolute return investments	104	8	-	-	112
Real estate investment	64	4	-	-	68
Strategic investments	38	14	-	-	52
Total financial assets	1,033	173	980	44	2,230
Non-financial assets					
Prepayments					39
Premises, equipment and other assets					37
Intangible assets					55
Total assets					2,361
Financial liabilities					
Payables and accrued expenses	-	-	241	-	241
Negative fair value of derivatives	-	-	-	23	23
Financing*	-	-	889	-	889
Total financial liabilities	-	-	1,130	23	1,153
Non-financial liabilities					
Deferred fees					63
Total liabilities					1,216

* Adjusted for related fair value hedges.

6. OPERATING EXPENSES

$millions	***2020***	*2019*
Staff compensation and benefits	164	174
Other personnel and compensation charges	18	14
Professional fees	35	25
Travel and business development	9	12
Administration and research	18	18
Technology and communication	9	8
Premises and depreciation expense	22	17
Total	275	268

7. INCOME TAX

The Group's current tax expense and deferred tax expense amounts to $1.9 million (2019: $9 million) and $0.1 million (2019: $2 million) respectively. The current tax liability amounts to $2 million (June 30, 2019: $5 million). The deferred tax asset amounts to $10.5 million (June 30, 2019: $10.6 million) as shown in Note 8. The deferred tax asset relates to an excess of depreciation over capital allowances amounting to $1.4 million (June 30, 2019: $2.6 million), losses available for offset against future taxable income and other intangibles amounting to $2.0 million (June 30, 2019: $1.1 million) and deferred compensation amounting to $7.1 million (June 30, 2019: $6.9 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:

	2020	*2019*
United States	21%	31%
United Kingdom	19%	20%
Kingdom of Saudi Arabia	20%	20%
India	36%	36%
Qatar	10%	10%

8. RECEIVABLES AND PREPAYMENTS

$millions	*June 30, 2020*	*June 30, 2019*
Subscriptions receivable	111	146
Receivables from investee and holding companies	88	98
Investment disposal proceeds receivable	29	81
Accrued interest receivable	6	7
Prepaid expenses	32	28
Deferred tax asset (see Note 7)	11	11
Other receivables	11	6
	288	377
Provisions for impairment (see Note 18)	(3)	(13)
Total	285	364

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

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

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

Investment disposal proceeds receivable includes proceeds due from contracted disposals of 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.

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

9. ADVANCES

$millions	*June 30, 2020*	*June 30, 2019*
Advances to investment holding companies	97	81
Advances to employee investment programs	3	16
Advances to PE closed-end funds	64	3
	164	100
Provisions for impairment (see Note 18)	(6)	(18)
Total	158	82

9. ADVANCES (CONTINUED)

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.

10. UNDERWRITTEN AND WAREHOUSED INVESTMENTS

	June 30, 2020					June 30, 2019				
$millions	**North America**	**Europe**	**MENA**	**India**	**Total**	**North America**	**Europe**	**MENA**	**India**	**Total**
Underwritten investments										
Private equity investment:										
Industrial/ Business Services	-	-	-	-	-	36	-	-	-	36
Consumer products	-	-	-	-	-	15	-	-	-	15
Industrial Products	0	-	-	-	0	-	-	-	-	-
Distribution	43	-	-	-	43	-	-	-	-	-
Security	-	0	-	-	0	-	-	-	-	-
Consumer services	-	-	-	16	16	-	-	-	-	-
Total private equity investment	43	0	-	16	59	51	-	-	-	51
Real estate investment:										
Core / Core Plus	92	32	-	-	124	236	42	-	-	278
Total real estate investment	92	32	-	-	124	236	42	-	-	278
Strategic capital investment:										
Business Services	9	-	-	-	9	-	-	-	-	-
Total strategic capital investment	9	-	-	-	9	-	-	-	-	-
Warehoused investments										
Credit management Investments										
CLO Investments	-	-	-	-	-	5	-	-	-	5
Total credit management investment	-	-	-	-	-	5	-	-	-	5
Total	144	32	-	16	192	292	42	-	-	334

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 are classified as FVTPL.

11. PRIVATE EQUITY CO-INVESTMENTS

$millions	*June 30, 2020*	*June 30, 2019*
PE co-investments - target retention	305	491
PE co-investments - available for sale	34	-
Total	339	491

PE co-investments – target retention represents co-investments on which the Group targets to earn income in form of fair value changes or dividend cashflows throughout the AUM period as per the business model.

The Group has also earmarked a portion of certain PE co-investments for sale to investors and clients. This portion is classified as available for sale as the Group intends to realize these investments in the short to medium term.

The Group's PE co-investments are carried at fair value.

	June 30, 2020					*June 30, 2019*				
$millions	*North America*	*Europe*	*MENA**	*Asia***	*Total*	*North America*	*Europe*	*MENA**	*Asia*	*Total*
Consumer Products	6	23	28	-	57	57	32	24	-	113
Consumer Services	-	-	4	1	5	-	-	5	-	5
Distribution	3	-	-	-	3	-	-	-	-	-
Healthcare	6	12	73	1	92	7	49	83	-	139
Industrial Products	-	3	-	-	3	7	7	-	-	14
Industrial/ Business Services	58	9	51	-	118	44	8	61	-	113
*Telecom***	-	-	-	-	-	91	-	-	-	91
Big Data	1	11	-	4	16	1	9	-	4	14
Internet / Mobility	-	2	1	-	3	-	-	1	-	1
Security	-	8	-	-	8	-	1	-	-	1
Total target retention	74	68	157	6	305	207	106	174	4	491
Industrial/ Business Services	13	8	-	-	21	-	-	-	-	-
Healthcare	13	-	-	-	13	-	-	-	-	-
Total available for sale	26	8	-	-	34	-	-	-	-	-
Total PE coinvestments	100	76	157	6	339	207	106	174	4	491

**Including Turkey*

***Represents co-investments in China and India*

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.

11. PRIVATE EQUITY CO-INVESTMENTS (CONTINUED)

Of the above, co-investments amounting to $36 million (June 30, 2019: $14.0 million) are classified as FVOCI investments. For FVOCI investments, during the year, a loss of $23.2 million (2019: $0.4 million) was recognized in other comprehensive income and nil (2019: nil) amount was recycled to retained earnings on derecognition.

12. CREDIT MANAGEMENT CO-INVESTMENTS

$millions	*June 30, 2020*	*June 30, 2019*
European CLO Investments	220	274
US CLO Investments	71	48
Risk Retention Fund	26	10
Total	317	332

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.

The Group had 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 is in the form of profit participating notes which give the Group full rights to the proportionate profits and losses. The investment is classified as FVOCI.

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 original set 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 internal management assessment of the projected cashflows.

Of the above, co-investments amounting to $179 million (June 30, 2019: $132.7 million) are classified as FVOCI investments. For FVOCI investments, during the year, a loss of $16.4 million (2019: $3.4 million) was recognized in other comprehensive income and nil (2019: nil) amount was recycled to retained earnings on derecognition..

Certain of the Group's CLO co-investments amounting to $84 million (June 30, 2019: $84 million) are utilized to secure amounts drawn under repurchase agreements. At June 30, 2020, $84 million (June 30, 2019: $84 million) was the outstanding balance from financing under repurchase agreements (See Note 20).

13. ABSOLUTE RETURN INVESTMENTS CO-INVESTMENTS

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

$millions	*June 30, 2020*	*June 30, 2019*
Multi-manager solutions	28	29
Hedge funds partnerships	24	30
Alternative risk premia	-	10
Special opportunities portfolios	29	43
Total	81	112

The fair value of the Group's ARI co-investments is determined based on the net asset value of the underlying funds as reported by the administrators of these funds. 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 28) are closely monitored by the Group. Management holds regular discussions with the investment managers and uses pricing which is reflective of the investment's fair value.

Of the above, co-investments amounting to $5.7 million (June 30, 2019: $8.0 million) are classified as FVOCI investments. For FVOCI investments, during the year, a loss of $1.3 million (2019: gain of $0.2 million) was recognized in other comprehensive income and $4.8 million (2019: nil) of losses were recycled to retained earnings on derecognition. 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 $11 million (June 30, 2019: $23.7 million) are subject to a lock up-period. Such investments are classified as Level 2 investments in the fair value hierarchy.

14. REAL ESTATE CO-INVESTMENTS

The Group's co-investments in real estate are carried at fair value.

$millions PORTFOLIO TYPE	*June 30, 2020*				*June 30, 2019*			
	North America	**Europe**	**India**	**Total**	North America	Europe	India	Total
Core / Core Plus	52	18	1	71	60	7	-	67
Debt	-	-	-	-	0	-	-	0
Opportunistic	-	-	-	-	1	-	-	1
Total	52	18	1	71	61	7	-	68

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.

Debt investments in real estate properties carried at amortised cost amount to nil (June 30, 2019: $0.1 million).

Investments which are classified as FVOCI investments amounted to 30.1 million (June 30, 2019: $4.2 million). For FVOCI investments, during the year, $1.9 million (2019: $3.7 million) of losses were recognized in other comprehensive income and $6.5 million (2019: nil) of losses were recycled to retained earnings on derecognition. All other investments are classified as FVTPL.

15. STRATEGIC CAPITAL CO-INVESTMENTS

The Group has introduced a new asset class during the year called 'Strategic Capital' which has resulted from the launch of a new strategy. The new strategy will target investments in mid-sized managers across different alternative asset classes.

Co-investments for this new asset class are initially recorded at acquisition cost (being the initial fair value) and will be re-measured to fair value at each reporting date, with resulting unrealized gains or losses being recorded as fair value changes in other comprehensive income.

Valuation techniques for measuring the fair value of the strategic co-investments are similar to techniques used for valuations of private equity co-investments of the Group. The Group's current strategic capital co-investments were located in United States.

The current strategic capital co-investments are carried at FVOCI. During the year, a gain of $0.2 million (2019: nil) was recognized in other comprehensive income and nil (2019: nil) amount was recycled to retained earnings on derecognition.

16. STRATEGIC INVESTMENTS AND INTANGIBLE ASSETS

$millions	***June 30,2020***	*June 30,2019*
Investment in associates	41	38
Investment in joint ventures	3	-
Intangible assets	71	55
Other strategic investments	74	14
Total	189	107

16 (A) INVESTMENT IN ASSOCIATES

During the year ended June 30, 2019, 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 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.

The Group has no further commitments towards the associate and there are no restrictions on any fund flows of the associate.

16 (B) INVESTMENT IN JOINT VENTURES

During the year, the Group invested $2.7 million to form a joint venture with Tages Group, a leading European alternative investment manager. The Group's management believes that the joint venture would establish a mutually beneficial construct that would best position the Group's absolute return business ("ARI") for future growth.

The Group has no further commitments towards the joint ventures and there are no restrictions on any fund flows of the joint ventures.

16. STRATEGIC INVESTMENTS AND INTANGIBLE ASSETS (CONTINUED)

16 (C) INTANGIBLE ASSETS

$millions	*June 30, 2020*	*June 30, 2019*
Management contracts	5	5
Goodwill	66	50
Total	71	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 and new management contracts acquired on the acquisition of CMIP. 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 2020 as the result of the goodwill impairment assessment. A discount rate of 14.5% was applied to the cash flow projections used in the impairment analysis. An increase/decrease of 1% in the discount rate would not result in the impairment of the goodwill.

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

$millions	**Goodwill**	**Management contracts**	**Total**
Balance at July 1, 2018	49	6	55
Additions during the year	1	-	1
Amortization during the year	-	(1)	(1)
Balance at June 30, 2019	50	5	55
Additions during the year (Note 3)	16	2	18
Amortization during the year	-	(2)	(2)
Balance at June 30, 2020	**66**	**5**	**71**

16. STRATEGIC INVESTMENTS AND INTANGIBLE ASSETS (CONTINUED)

16 (D) OTHER STRATEGIC INVESTMENTS

Other strategic 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 primarily as FVOCI investments. For FVOCI investments, during the year, nil (2019: $0.5 million) amount of dividend income was recognized in the consolidated statement of profit or loss and $0.7 million (2019: $3.5 million) of losses were recognized in other comprehensive income. During the year, $4.8 million (2019: nil) of losses were recycled to retained earnings on derecognition.

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

17. PREMISES, EQUIPMENT AND OTHER ASSETS

$millions	***June 30, 2020***	*June 30,2019*
Premises, equipment and other assets	36	37
Right-of-use assets	99	-
Total	135	37

On adoption of IFRS 16, the Group recognized right-of-use assets of $106 million. The Group recognizes right of use of assets at the commencement date of the lease of office premises. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. During the year, the Group has recognised a depreciation expense of $ 8.7 million on its right of use assets .

18. PROVISIONS FOR IMPAIRMENT

Impairment provisions are as follows:

$millions				
Categories	***Balance At beginning***	***Charge***	***Write-off***	***At end****
12 months to June 30, 2020				
Receivables (Note 8)	13	5	(15)	3
Advances (Note 9)	18	21	(33)	6
Co-investments - debt	1	-	-	1
Cash, placements and other liquid assets	0	-	-	0
Total	32	26	(48)	10

* Of the total provision, $2.1 million relates to stage 1, $2 million relates to stage 2 and $5.7 million relates to stage 3 assets. Of the stage 1 and 2 provision, $3.3 million relates to advances. During the year, there was a movement in loss allowance of $1.4 million from stage 2 to stage 3 assets.

$millions				
Categories	***Balance At beginning***	***Charge***	***Write-off***	***At end****
12 months to June 30, 2019				
Receivables (Note 8)	12	1	-	13
Advances (Note 9)	15	3	-	18
Co-investments - debt	1	-	-	1
Cash, placements and other liquid assets	0	-	-	0
Total	28	4	-	32

* 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.

19. PAYABLES AND ACCRUED EXPENSES

$millions	***June 30, 2020***	***June 30, 2019***
Unfunded deal acquisitions	38	13
Vendor and other payables	90	132
Accrued expenses - employee compensation	48	83
Tax liability	5	7
Accrued interest payable	5	6
Total	186	241

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.

Accrued expenses for employee compensation primarily consists of the incentive and retention component of the Group's overall employee related costs.

20. FINANCING

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

		June 30, 2020		June 30, 2019	
$millions	*Final Maturity*	*Facility size*	*Current outstanding*	*Facility size*	*Current outstanding*
SHORT-TERM FINANCING					
Call, term and institutional accounts	Call		-		375
Multi currency term and revolving loan	Call		261		-
TOTAL SHORT-TERM FINANCING			261		375
MEDIUM-TERM DEBT					
REVOLVING CREDIT					
Multi currency syndicated revolving facility	June 2023*	82*	-	436	-
Multi currency syndicated revolving facility	June 2024*	352*	100	-	-
US Dollar syndicated revolving facility	March 2024	350	-	250	-
TOTAL MEDIUM-TERM DEBT			100		-
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		21
Repurchase agreement	July 2031		21		21
TOTAL LONG-TERM DEBT			466		466
LEASE LIABILITY			109		-
Foreign exchange translation adjustments			8		10
Fair value adjustments relating to interest rate hedges			52		45
Transaction costs of borrowings			(15)		(7)
TOTAL FINANCING			981		889

* During July 2020, the facility maturity was extended (refer Medium term facilities below)

Short term financing

As disclosed in note 1, the Parent converted from a wholesale bank into a holding company. As a result, the Parent transferred out it's balances maintained under call, term and institutional accounts of clients to various trusts (the "Trusts") controlled by an independent third party trustee, who have appointed a subsidiary of Investcorp for providing management services except for a small portion of call accounts which has been maintained in a separate bank account with the approval of the CBB. This portion is now presented within other payables. Further, call, term and institutional accounts were presented separately on the consolidated statement of financial position as of June 30, 2019.

20. FINANCING (CONTINUED)

Short term financing (continued)

During the year, the Group signed a multicurrency term and revolving loan facility with the Trusts. As per the terms, Investcorp Group can drawdown the entire balance available in the Trust. The balance available in Trust may vary from time to time and hence the balance available to Investcorp Group will also accordingly change. The amount drawdown under this facility is repayable on demand. As of June 30, 2020, the undrawn balance from Trusts amounted to $233 million.

Medium term facilities

All medium-term facilities, carry floating rates of interest when drawn. Revolvers carry a fixed rate of commitment fees when undrawn. The syndicated revolving facilities 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 one of the revolving credit facilities maturing in December 2020 resulting in an increase in facility size from $250 million to $350 million and extended maturity to March 2024.

Also in July 2020, the Group amended and extended the other revolving credit facility of $436 million maturing in March 2023 to a credit facility of $82 million maturing in June 2023 and a credit facility of $352 million maturing in June 2024.

Medium term facilities are all floating rate instruments with average margin over LIBOR of 275 basis points.

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. The private notes are fixed rate instruments, However through hedging the Group incurs a floating rate interest cost on these notes with margins over LIBOR of 100 basis points to 265 basis points.

Secured Financing

Secured financing relates to financing obtained under repurchase transaction arrangements entered into by the Group, with underlying assets being CLO co-investment 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.

Lease Liabilities

Upon adoption of IFRS 16, the Group has recognized lease liabilities of $108.1 million, $7 million of which is classified as payable within the next 12 months with the remainder classified as due for payment after 12 months. This is further explained in Note 31 of the consolidated financial statements. During the year, the Group has recognised a interest expense of US$ 3.5 million on its lease liabilities.

The Group recognizes lease liabilities at the commencement date of the lease measured at the present value of lease payments to be made over the lease term.

21. DEFERRED FEES

$millions	*June 30, 2020*	*June 30, 2019*
Deferred fees relating to placements	60	61
Deferred fees from investee companies	2	2
Total	62	63

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 $29.4 million (2019: $40.6 million).

22. SHARE CAPITAL AND RESERVES

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

	June 30, 2020			*June 30, 2019*		
	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 Company maintains an actively managed capital base to cover risks inherent in the business (see note 27).

Statutory reserve

The Bahrain Commercial Companies Law requires the maintenance of a statutory reserve equal to 50% of the Company'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.

22. SHARE CAPITAL AND RESERVES (CONTINUED)

Fair value reserve

Certain of the Group's PE, RE, ARI, SC, CM co-investments in equity instruments, strategic investments 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

7,731,712 (June 30, 2019: 5,603,338) ordinary shares were held as treasury shares, which includes 54,415 shares (June 30, 2019: 63,329 shares) that have been granted to employees as part of deferred remuneration but have not yet started vesting. 839,522 shares (June 30, 2019: 1,058,641 shares) that have been granted to employees and have commenced vesting, but have not fully vested as at June 30, 2020, are not counted as treasury shares.

Preference share capital

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

These preference shares are callable, at the Company's option, in part or in whole at par plus dividends due up to the call date.

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

23. 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, 2018	(9)	4	(5)
Net realized gain recycled to statement of profit or loss	0	-	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)
Net realized gain recycled to statement of profit or loss	2	-	2
Net unrealized loss for the year	(4)	-	(4)
Transfer of depreciation to retained earnings	-	(0)	(0)
Balance at June 30, 2020	(9)	4	(5)

24. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

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

	2020	*2019*
(Loss) profit for the year ($millions)	(165)	131
Less : Preference shares dividend - proposed ($millions)	(15)	(16)
(Loss) profit attributable to ordinary shareholders ($millions)	(180)	115
Weighted average ordinary shares for basic earnings per ordinary share (millions)	70	76
Basic earnings per ordinary share - on weighted average shares ($)	(2.57)	1.52
Weighted average ordinary shares for fully diluted earnings per ordinary shares (millions)	70	78
Fully diluted earnings per ordinary share - on weighted average diluted shares ($)	(2.57)	1.47
Proposed appropriations:		
Ordinary shares dividend ($millions)	7	22
Preference shares dividend ($millions)	15	16
	22	38

The proposed ordinary share dividend is 10 cents (2019: 30 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 million (2019: $15.6 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 $10.07 per share (June 30, 2019: $13.26 per share).

There was no dilution effect on the earning per share number for the year.

25. DERIVATIVE FINANCIAL INSTRUMENTS

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.

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 28) represent interest rate swaps, cross currency swaps, currency forwards and option contracts. For derivatives that are not valued using internal models, the Group's policy is to rely on third party valuations, whilst benchmarking them against observable market data.

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

	June 30, 2020			June 30, 2019		
$millions — *Description*	*Notional value*	*Positive fair value**	*Negative fair value*	*Notional value*	*Positive fair value**	*Negative fair value*
A) DERIVATIVES WHERE HEDGE ACCOUNTING IS APPLIED						
Currency risk being hedged using forward foreign exchange contracts						
i) Fair value hedges						
On balance sheet exposures	*332*	*8*	*-*	341	5	-
ii) Cash flow hedges						
Forecasted transactions	*53*	*1*	*-*	44	0	(0)
Coupon on long-term debt	*45*	*1*	*-*	46	1	-
Total forward foreign exchange contracts	430	10	-	431	6	(0)
Interest rate risk being hedged using interest rate swaps						
i) Fair value hedges - fixed rate debt	*431*	*12*	*-*	437	21	-
ii) Cash flow hedges - floating rate debt	*25*	*-*	*(6)*	25	-	(3)
Total interest rate hedging contracts	456	12	(6)	462	21	(3)
Total hedging derivatives	886	22	(6)	893	27	(3)
B) DERIVATIVES WHERE HEDGE ACCOUNTING IS NOT APPLIED						
Interest rate swaps	*200*	*16*	*(16)*	200	11	(11)
Forward foreign exchange contracts	*1,093*	*4*	*(4)*	1,457	6	(9)
Currency options	33	*0*	-	-	-	-
Options	57	3	(0)	-	-	-
Total other derivatives	1,383	23	(20)	1,657	17	(20)
TOTAL - DERIVATIVE FINANCIAL INSTRUMENTS	**2,269**	**45**	**(26)**	**2,550**	**44**	**(23)**

** Net collateral received by the Group amounting to $80.7 million has been taken against the fair values above (June 30, 2019: $70.1 million).*

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

June 30, 2020 $millions	Notional amounts by term to maturity				
	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	332	-	-	-	332
Interest rate swaps	-	-	-	431	431
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	51	47	-	-	98
Interest rate swaps	-	-	-	25	25
Other Derivatives:					
Interest rate swaps	-	-	150	50	200
Forward foreign exchange contracts	1,053	40	-	-	1,093
Cross currency swaps	33	-	-	-	33
Options	33	5	19	-	57
	1,502	92	169	506	2,269

June 30, 2019 $millions	Notional amounts by term to maturity				
	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Total
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	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

Fair value hedges

Gains arising from fair value hedges during the year ended June 30, 2020 were $22.6 million (2019: losses of $28.5 million) while the losses on the hedged items, attributable to interest rate and foreign currency risks, were $25.1 million (2019: gains of $30.5 million). These gains and losses are included in treasury and other 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 $2.5 million (2019: $1.9 million) on derivative instruments classified as other derivatives.

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Undiscounted cash flows for forecasted items hedged

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

June 30, 2020 $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)	(60)	(120)
Operating expenses	-	(9)	-	-	(9)
Fee income	6	30	-	-	36
Interest rate risk*					
Interest on liabilities	(2)	(2)	(16)	(31)	(51)
	(2)	13	(64)	(91)	(144)

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)

* 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, 2020 was a gain of $1.8 million (2019: loss of $0.1 million).

26. COMMITMENTS AND CONTINGENT LIABILITIES

$millions	***June 30, 2020***	*June 30, 2019*
Investment commitments to funds and co-investments	155	64
Investment commitments for strategic acquisitions (Note 3)	-	78
Non-cancelable operating leases:		
Up to 1 year	0	10
1 year to 5 years	0	39
Over 5 years	-	49
Total non-cancelable operating leases	0	98
Guarantees and letters of credit issued to third parties	22	21

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

Non-cancelable operating leases as of June 30, 2019 related to the Group's commitments in respect of its New York, London, Riyadh, Abu Dhabi, Singapore, Qatar and India office premises. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised. Before the adoption of IFRS 16, the Group classified each of its leases as an operating lease. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases (except for short-term leases) and has recognized right-of-use assets for these leases. The Group has applied the practical expedient for its short-term leases since the date of initial application of the Standard (refer note 31).

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.

27. 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. 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 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. 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 also categorized under the 'Standard' internal rating for financial reporting purposes.

27. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

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

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

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

Internal rating categories are summarized as follows:

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

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

Counterparty credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received. During the current and previous year, none of the advances (refer note 9) were restructured.

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

June 30, 2020 $millions	***Neither past due nor impaired (a)***		***Past due but not impaired (b)***	***Impaired (c)***	***Provisions (d)***	***Maximum credit risk (a+b+c+d)***
	Stage 1		**Stage 2**	**Stage 3**		
	Credit risk rating					
	High	**Standard**				
Short-term funds, placements and other liquid assets	227	82	-	-	(0)	309
Positive fair value of derivatives	25	20	-	-	-	45
Receivables	-	135	108	2	(3)	242
Advances	-	158	-	6	(6)	158
Co-investments - debt	-	318	-	-	(1)	317
Guarantees	-	22	-	-	-	22
Total	252	735	108	8	(10)	1,093

June 30, 2019 $millions	*Neither past due nor impaired (a)*		*Past due but not impaired (b)*	*Impaired (c)*	*Provisions (d)*	*Maximum credit risk (a+b+c+d)*
	Stage 1		Stage 2	Stage 3		
	Credit risk rating					
	High	Standard				
Short-term funds, placements and other liquid assets	178	212	-	-	(0)	390
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

27. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

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

$millions	**June 30, 2020**	June 30, 2019
Up to 1 month	14	42
> 1 up to 3 months	33	15
> 3 up to 6 months	40	10
> 6 months	21	76
Total	**108**	**143**

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, 2020 amounts to $891.4 million (June 30, 2019: $827.7 million).

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

$millions	***June 30, 2020***	***June 30, 2019***
Geographical Region		
North America	2	28
Europe	5	1
Other	3	3
Total	10	32

$millions	***June 30, 2020***	***June 30, 2019***
Industry Sector		
Banking and Finance	3	7
Consumer products	1	2
Real estate	3	19
Technology and Telecom	1	1
Industrial Services	2	-
Healthcare	0	3
Total	10	32

27. RISK MANAGEMENT (CONTINUED)

i) Counterparty credit risk (continued)

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 its risk relevant to the securitization activity in line with its risk management policies and procedures.

The Group's securitization 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 securitization positions with trading intent or to hedge positions with trading intent. The Group has not established and does not manage any synthetic securitization structures nor does it securitize revolving exposures.

27. RISK MANAGEMENT (CONTINUED)

ii) Credit Risk Measurement

Significant increase in credit risk

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

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

The Group considers financial instruments with an external rating grade of 'investment grade' as LCR for the short-term liquid asset portfolio.

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 macro-economic 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.

27. RISK MANAGEMENT (CONTINUED)

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 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, 2020 $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, placements and other liquid assets	265	-	265	-	-	44	-	309
Positive fair value of derivatives	5	0	5	0	28	12	-	45
Receivables	167	4	171	71	-	-	-	242
Advances	22	56	78	80	-	-	-	158
Underwritten and warehoused investments	192	-	192	-	-	-	-	192
Co-investments								
Private equity investment	-	-	-	339	-	-	-	339
Credit management investment	7	33	40	112	165	-	-	317
Absolute return investments	23	44	67	14	-	-	-	81
Real Estate Investment	-	-	-	71	-	-	-	71
Strategic capital Investment	-	-	-	2	-	-	-	2
Strategic investments (excluding intangibles)	-	-	-	-	-	118	-	118
Total financial assets	681	137	818	689	193	174	-	1,874
Non-financial assets								
Prepayments	-	-	-	-	-	-	43	43
Premises, equipment and other assets	-	-	-	-	-	-	135	135
Intangibles	-	-	-	-	-	-	71	71
Total assets	681	137	818	689	193	174	249	2,123
Liabilities								
Financial liabilities								
Payables and accrued expenses	169	17	186	-	-	-	-	186
Negative fair value of derivatives	4	0	4	1	6	15	-	26
Financing	64	74	138	248	458	137	-	981
Total financial liabilities	237	91	328	249	464	152	-	1,193
Non-financial liability								
Deferred fees	-	-	-	-	-	-	62	62
Total liabilities	237	91	328	249	464	152	62	1,255
Net gap	444	46	490	440	(271)	22	187	868
Cumulative liquidity gap	444	490	490	930	659	681	868	

27. RISK MANAGEMENT (CONTINUED)

iii) Funding liquidity risk (continued)

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, placements and other liquid assets	380	10	390	-	-	-	-	390
Positive fair value of derivatives	5	-	5	-	1	38	-	44
Receivables	208	10	218	107	-	-	-	325
Advances	12	13	25	57	-	-	-	82
Underwritten and warehoused investments	334	-	334	-	-	-	-	334
Investment in associate	-	-	-	-	-	38	-	38
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
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								
Payables and accrued expenses	162	22	184	18	-	-	-	202
Negative fair value of derivatives	9	-	9	-	3	11	-	23
Financing	159	34	193	217	84	434	-	928
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	

27. RISK MANAGEMENT (CONTINUED)

iii) Funding liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

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

June 30, 2020 $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						
Payables and accrued expenses	169	17	-	-	-	186
Financing	273	22	226	515	150	1,186
	442	39	226	515	150	1,372
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	1,366	41	33	-	-	1,440
Contractual amounts receivable	(1,375)	(41)	(33)	-	-	(1,449)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	(4)	(5)	(37)	(42)	(3)	(91)
Commitments	78	7	38	22	10	155
Guarantees	-	-	22	-	-	22
Total undiscounted financial liabilities	507	41	249	495	157	1,449

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						
Payables and accrued expenses	162	22	18	-	-	202
Financing	161	55	303	98	493	1,110
	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

27. RISK MANAGEMENT (CONTINUED)

iv) Concentration risk

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

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

	June 30, 2020			June 30, 2019		
$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	374	22	396	441	21	462
Europe	609	-	609	529	-	529
MENA*	75	-	75	195	-	195
Asia	13	-	13	8	-	8
Total	1,071	22	1,093	1,173	21	1,194

* including Turkey

	June 30, 2020			June 30, 2019		
$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	716	-	716	821	-	821
Distribution	32	-	32	-	-	-
Consumer products	48	22	70	35	21	56
Consumer services	2	-	2	0	-	0
Healthcare	21	-	21	75	-	75
Industrial /business services	32	-	32	31	-	31
Industrial products	14	-	14	14	-	14
Real estate	60	-	60	127	-	127
Technology and Telecom	138	-	138	43	-	43
Others	8	-	8	27	-	27
Total	1,071	22	1,093	1,173	21	1,194

27. RISK MANAGEMENT (CONTINUED)

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, strategic capital investments, strategic investments, credit management 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, 2020*		*June 30, 2019*	
Long (Short)	***Net hedged exposure***	***Net unhedged exposure***	*Net hedged exposure*	*Net unhedged exposure*
Bahraini Dinar*	18	(2)	-	23
Saudi Riyal*	83	(12)	-	0
Euro	224	0	50	0
Pounds Sterling	13	0	19	0
Swiss Francs	41	0	25	(0)
Japanese Yen	(344)	0	(344)	0
Swedish Krona	98	(0)	-	-
Norweign Krona	4	0	-	-
	137	(14)	(250)	23

* 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.

27. RISK MANAGEMENT (CONTINUED)

v) Market price risk (continued)

v) (a) Foreign currency risk (continued)

The following table summarizes the 99% confidence level over a 1-day holding period VaR for the Group’s foreign currency exposures.

$millions	*2020*	*2019*
Average FX VaR	9	8
Year end FX VaR	13	4
Maximum FX VaR	46	46
Minimum FX VaR	4	3

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 $2.4 million (2019: $1.9 million).

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 Company’s 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 $317 million (June 30, 2019: 332 million), which earn interest at an effective rate ranging between 2.7% to 18% (June 30, 2019: 2.7% to 15.7%) per annum.

The Group is currently assessing the impact of transition away from Libor on the consolidated financial statements.

27. RISK MANAGEMENT (CONTINUED)

v) Market price risk (continued)

v) (b)Interest rate risk (continued)

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, 2020	
Euro	(9)	1
Pounds Sterling	(0)	0
Japanese Yen	0	-
US Dollar	(2)	2
Others	(3)	0
Total	(14)	3

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, 2019	
Euro	(6)	1
Pounds Sterling	(0)	0
Japanese Yen	1	0
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%

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

27. RISK MANAGEMENT (CONTINUED)

v) Market price risk (continued)

v) (c)Equity price risk

The Group's equity price risk arises primarily from its co-investments in private equity investment, real estate investment and absolute return investments.

Co-investments in private equity investment, real estate investment and strategic capital 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 SC to changes in multiples / capitalization rates / discount rates/ quoted bid prices.

June 30, 2020 *$millions*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income on FVTPL investments*		*Impact on Equity on FVOCI investments*	
				For increase	For decrease	For increase	For decrease	For increase	For decrease
PE co-investments	EBITDA Multiples**	+/- 0.5x	305*	317	293	11	(11)	1	(1)
	Revenue Multiples	+/- 0.5x	11	12	10	1	(1)	0	(0)
				For decrease	For increase	For decrease	For increase	For decrease	For increase
RE co-investments***	Capitalization Rate **	-/+ 1%	50*	66	40	14	(9)	2	(1)
				For increase	For decrease	For increase	For decrease	For increase	For decrease
Strategic capital co-investments	EBITDA Multiples**	+/- 0.5x	2	2	2	-	-	(0)	0

June 30, 2019 *$millions*	*Factor*	*Change*	*Balance sheet exposure*	*Projected Balance sheet Exposure*		*Impact on Income on FVTPL investments*		*Impact on Equity on FVOCI investments*	
				For increase	For decrease	For increase	For decrease	For increase	For decrease
PE co-investments	EBITDA Multiples	+/- 0.5x	478*	490	466	12	(12)	0	(0)
	Revenue Multiples	+/- 0.5x	8	9	7	1	(1)	0	(0)
				For decrease	For increase	For decrease	For increase	For decrease	For increase
RE co-investments***	Capitalization Rate	-/+ 1%	64*	72	56	8	(8)	-	-

*Excludes exposures of $40m (2019: $229m) which are fair valued based on recent transaction prices or bids. The effect on equity due to a 5% change in the price/bids for these investments will be $2 million (2019: $11.5 million).

** Represents implied EBITDA Multiples and Capitalization Rate

*** Implied changes for investments valued using DCF model.

In the opinion of the Group's management, there is no material sensitivity in the net income of the Group to any reasonably possible changes in the fair value of strategic co-investments except for the investment in associate and one strategic investment mentioned in Note 28.

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	**2020**	2019
Average VaR	2	2
Year end VaR	1	2
Maximum VaR	2	3
Minimum VaR	1	2

27. RISK MANAGEMENT (CONTINUED)

vi) Operational risk

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

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout Investcorp. 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.

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 (15 per cent). 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.

28. 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.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 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 $136.8 million (June 30, 2019: $189.3 million) as compared to the carrying value of $137.4 million (June 30, 2019: $183.2 million). The fair value of CLO co-investments is based on inputs from independent third parties including broker quotes and falls under Level 3 of the fair value hierarchy disclosure. The fair value of medium and long term debt amounts to $425.4 million (June 30, 2019: $431.0 million) as compared to the carrying value of $510.8 million (June 30, 2019: $513.7 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 (2019: nil) under co-investments. Under absolute return investments, an exposure of $5.6 million (June 30, 2019: $8.0 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 loss of $1.2 million (June 30, 2019: gain of $0.2 million) and the net redemptions amount to $1.1 million (June 30, 2019: $0.7 million).

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques which are explained in Notes 11, 12, 13, 14, 15, 16 and 25 to the financial statements.

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

June 30, 2020 *$millions*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Placements and other liquid assets	132	-	-	132
Positive fair value of derivatives	-	45	-	45
Co-investments				
Private equity investment	4	-	335	339
Credit management investment	-	-	180	180
Absolute return investments	-	75	6	81
Real estate investment	-	-	71	71
Strategic capital investment	-	-	2	2
Investment in an associates and joint ventures*	-	-	44	44
Other strategic investments	-	-	74	74
Underwritten and warehoused investments**	-	-	192	192
Total financial assets	136	120	904	1,160
Financial liabilities				
Negative fair value of derivatives	-	26	-	26
Total financial liabilities	-	26	-	26

* 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$ 1.4 million.Further, the effect on consolidated statement of profit or loss due to change in multiple by 0.5% on other strategic investments will be US$ 0.6 million.

** Underwritten investments amounting to $278 million were placed with the clients during the year. Fair value loss of $3.2 million was recognized on underwritten investments during the year.

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	-	486	491
Credit management investment	-	-	149	149
Absolute return investments	-	104	8	112
Real estate investment	-	-	68	68
Investment in an associates and joint ventures*	-	-	38	38
Other strategic investments	-	-	14	14
Underwritten and warehoused investments**	-	-	334	334
Total financial assets	5	148	1,097	1,250
Financial liabilities				
Negative fair value of derivatives	-	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.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

A reconciliation of the opening and closing amounts of Level 3 co-investment in private equity investment, real estate investment, credit management investment, strategic capital investment, investment in associates and joint ventures and other strategic investments is given below:

June 30, 2020 $millions	At beginning	Net new acquisitions*	Fair value movements**	Movements relating to realizations	Other movements***	At end
PE co-investments	486	62	(126)	(103)	16	335
ICM co-investments	149	64	(26)	(6)	(1)	180
RE co-investments	68	26	14	(38)	1	71
Strategic capital co-investments	-	2	0	-	-	2
Investment in associates and joint ventures	38	3	1	-	2	44
Other strategic investments	14	100	(28)	(9)	(3)	74
Total	**755**	**257**	**(165)**	**(156)**	**15**	**706**

*Includes investment in PE and RE of $34.7 million and $14.4 million that has been transferred from underwriting to co-investment.
**Includes $31.9 million fair value loss on FVOCI investments and unrealized fair value loss of $154.5 million on FVTPL investments.
***Other movements include add-on funding, foreign currency translation adjustments, deferred remuneration awards to employees.

June 30, 2019 $millions	At beginning	Net new acquisitions*	Fair value movements**	Movements relating to realizations	Other movements***	At end
PE co-investments	605	106	8	(236)	3	486
ICM co-investments	65	97	(7)	(5)	(1)	149
RE co-investments	74	24	(4)	(25)	(1)	68
Investment in associates and joint ventures	0	32	5	0	1	38
Other strategic investments	21	-	(3)	(4)	-	14
Total	**765**	**259**	**(1)**	**(270)**	**2**	**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.

29. EMPLOYEE COMPENSATION

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

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

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

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

29. EMPLOYEE COMPENSATION (CONTINUED)

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, 2020 is $3.4 million (June 30, 2019: $15.9 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 $14.0 million (2019: $12.9 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 Company. These SIPCO awards have different vesting periods and are not transferable.

SIPCO shares or phantom SIPCO shares or performance-linked SIPCO share based awards are granted to the employees at their fair value on the grant date. The fair value of SIPCO shares for purposes of the plans is estimated considering their non-transferability and the indirect nature of the underlying beneficial ownership. The value of SIPCO shares granted during the year is $21.6 million (2019: $20.1 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.

29. EMPLOYEE COMPENSATION (CONTINUED)

An expense charge of $17.2 million (2019: $12.8 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 $26.8 million (2019: $19.0 million). The details of shares granted, vested and forfeited during the year are as follows:

Number of shares	***2020***	*2019*
Granted during the year	1,638,163	1,768,622
Vested during the year	2,245,992	1,794,959
Forfeited during the year	191,621	219,785

The fair value of shares granted during the year amounted to $21.7 million (2019: $21.5 million). The fair value of shares forfeited during the year amounted to $2.5 million (2019: $2.7 million).

30. 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, SIPCO Limited and the Trusts.

It also includes major shareholders, directors and senior management of the Company, 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.

In addition to the compensation and benefits to employees disclosed in Note 29, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

$millions		***June 30, 2020***	***June 30, 2019***
AUM fees	Investee and investment holding companies	135	134
Deal fees	Investee and investment holding companies	75	149
Asset based income	Investee companies	39	32
Interest expense	Investment holding companies	0	(4)
Operating expenses	Directors' remuneration	(2)	(1)
Operating expenses	Professional fees	(1)	(2)

Of the staff compensation for the year set out in Note 29 and assets noted above, $60.6 million (2019: $70.4 million) is attributable to senior management. Of the above mentioned remuneration of senior management, $39.5 million (2019: $49.6 million) is in the form of salaries and other short term benefits.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the compensation and benefits to employees disclosed in Note 29, the balances with related parties included in these consolidated financial statements are as follows:

	June 30, 2020			June 30, 2019		
$millions	*Assets*	*Liabilities*	*Off-balance sheet*	*Assets*	*Liabilities*	*Off-balance sheet*
Outstanding balances						
Co-investments	810	-	-	1,012	-	-
Underwritten and warehoused investments	192	-	-	334	-	-
Strategic investments	71	-	-	38	-	-
Strategic shareholders	10	-	-	9	12	-
Investee companies	61	2	22	59	2	21
Investment holding companies	185	0	155	110	117	64
Financing	-	261	-	-	131	-
Directors and senior management	-	2	-	0	8	-
	1,329	265	177	1,562	270	85

31. 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 4 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, 2019, except for IFRS 16 and investment in joint venture.

Adoption of IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of IFRS 16 (continued)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Group adopted IFRS 16 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect recognized in retained earnings as of July 1, 2019. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases except for its short-term leases. The right-of-use assets for all leases were recognized based on the carrying amount as if the standard had always been applied. Lease liabilities were recognized based on the present value of the remaining lease payments as of the date of initial application.

The effect of adoption of IFRS 16 as at July 1, 2019 is described below:

a) Comparative information has not been restated. The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 16 are recognized in retained earnings as at 1 July 2019. Accordingly, the information presented for fiscal year 2019 does not reflect the requirements of IFRS 16 and therefore is not comparable to the information presented for fiscal year 2020 under IFRS 16.

b) The following adjustments were made at the date of initial application.

   - The right-of-use assets of $106.3m were recognized and presented within Premises, equipment and other assets on the consolidated statement of financial position.

   - The lease liabilities of $108m were recognized and presented within Financing on the consolidated statement of financial position.

   - The net effect of these adjustments had been recognized as a loss of $1.7m in retained earnings.

c) New accounting policies with respect to right-of-use assets and lease liabilities (as summarized below) have been adopted and applied from the date of initial application of IFRS 16.

   - The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

   - The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of IFRS 16 (continued)

- At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees as applicable. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease terms that end within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$millions
Operating lease commitments as at 30 June 2019	98
Add: Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	40
Operating lease commitments as at 30 June 2019 (gross, without discounting)	138
Weighted average incremental borrowing rate as at 1 July 2019	3.25%
Lease liabilities at 1 July 2019	**108**

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards, amendments and interpretations issued but not yet effective

- Definition of a Business (Amendments to IFRS 3) - effective for annual periods beginning on or after 1 January 2020;
- Definition of Material (Amendments to IAS 1 and IAS 8) - effective for annual periods beginning on or after 1 January 2020;
- Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020
- Classification of liabilities (Amendments to IAS 1) - Annual periods beginning on or after 1 January 2022
- Cost of property, plant and equipment (Amendment to IAS 16) - Annual periods beginning on or after 1 January 2022
- Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 - Annual periods beginning on or after 1 January 2022
- Taxation in fair value measurements (IAS 41 Agriculture)
- Subsidiary as a first-time adopter - (IFRS 1 First-time Adoption of International Financial Reporting Standards)
- Test for derecognition of financial liabilities (IFRS 9 Financial Instruments)

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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries. A subsidiary is an entity which is controlled by the Group. Control is achieved when the Group is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect these returns through its power over the entity. The Group consolidates its subsidiaries excluding entities which meet the below criteria:

a) Where there are contractual or other restrictions imposed on the Group's ability to appoint the majority of the Board of Directors, or

b) Where a majority of the economic risk and reward accrues to third parties other than the Group, or

c) Where the exception to consolidate subsidiaries of an Investment entity is applied, as defined in IFRS 10.

The Group qualifies as an investment entity as defined under IFRS 10, and as such, measures its investments in accordance with the requirements set out in the standard.

The results of all subsidiaries are included in the consolidated statement of profit or loss from the effective date of formation or acquisition. The financial statements of the Company's subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances, income and expenses have been eliminated on consolidation.

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) 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).

vi) 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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vii) 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, credit management investments and real estate investments (see Notes 11, 12 and 14), the determination of performance fees on assets under management, impairment provisions for financial assets other than FVTPL investments and FVOCI equity investments (see Note 18) and allocation of placement fee to the performance obligations as described later.

b) The determination of performance fees on assets under management are dependent on the performance of the underlying investments and thus are highly susceptible to factors outside the Group's influence

c) The determination of cash flows which is the basis for performing the assessment of solely payments of principal and interest test on CLO co-investments which are being carried as debt instruments at amortized cost (see Note 12).

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.

Further, at June 30, 2020, the valuation approach was substantially consistent with our normal process and valuation policy. A key focus of the portfolio fair value at June 30, 2020 was an assessment of the impact of the COVID-19 pandemic on each investment. The approach considered the performance of each investment exposure before the outbreak of COVID-19, the projected short-term impact on their ability to generate earnings and cash flow and also longer-term view of their ability to recover and perform against their investment cases. Given the diversity of the portfolio, the impact has been varied, based on type of underlying exposure, industry exposure, expected recovery from the current crisis and current market inputs.

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. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined. Gains and losses on fair valuation of FVTPL investments are taken to the consolidated statement of profit or loss.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

viii) Foreign currencies (continued)

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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 classified as FVTPL and FVOCI investments. FVTPL 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.

FVOCI investments are initially recorded at fair value. These investments are then re-measured to fair value at each reporting date and any resulting change in value of these investments is taken to the consolidated statement of other comprehensive income and recorded as a separate component of equity until they are derecognized at which time the cumulative gain or loss previously reported in equity is transferred to retained earnings.

Certain debt investments made in connection with the Group's co-investments in 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 and one investment is classified as FVTPL investment. 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. The fair value changes in FVTPL investments are recorded in the consolidated statement of profit or loss.

Any revision of estimated future cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount and a corresponding increase or decrease in consolidated statement of 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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xix) Co- investments in strategic capital investment

The Group's co-investments in strategic capital investments are classified as FVOCI investments and are stated at fair value at the reporting date. The fair value changes in FVOCI investments are recorded in 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.

xx) Investment in associates and joint ventures

The Group's investment in associates and joint ventures is initially recorded at fair value and is re-measured at each reporting date, with resulting unrealized gains or losses being recorded in consolidated statement of profit or loss.

xxi) 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.

xxii) 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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxii) De-recognition of financial instruments (continued)

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.

xxiii) Derivative financial instruments

Derivatives are stated at fair value determined by using prevailing market rates or internal pricing models.

Derivatives that qualify for hedge accounting are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 25.

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

xxiv) Premises and equipment

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises.

The Company 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.

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxv) 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 cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

xxvi) 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 29).

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.

xxvii) 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.

xxviii) Borrowings

Borrowings, represented by short term financing on call, 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. Securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financings. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it as a liability within financing, reflecting the transaction's economic substance as a loan to the Group.

The securities delivered repurchase agreements are not derecognized from the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership

31. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxviii) Borrowings (continued)

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.

xxix) 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.

xxx) 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.

xxxi) 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.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.) SUPPLEMENTARY DISCLOSURES (UNAUDITED)

IMPACT OF CURRENT ECONOMIC SITUATION

The macro-economic and fiscal environment changed dramatically as a result of the COVID-19 pandemic. This changed environment has also impacted Investcorp's results resulting in a loss of $165 million for FY20, only the second loss in Investcorp's history. The reported loss is primarily driven by write-downs in co-investment exposures, provisions for impairments and reduced activity fee levels, which in turn were largely driven by the COVID-19 impact during the last four months of the financial year. This has resulted in lower gross operating income during the year, which decreased to $178 million, reflecting a 62% decrease over FY19. Investcorp's FY20 results represent fully diluted loss per share ('EPS') of $2.57 per ordinary share.

The COVID-19 crisis impacted the Group's profitability as fee income contracted to US$288 million for FY20, a decline of 23% compared to US$ 376 million for FY19. Despite reduced fee income, the increased reliance on recurring fee income, built over the recent years, along with recurring cash yield on Real Estate investments and treasury and other liquidity income, provided a broad cushion to absorb the Group's total operating expenses (including taxes) and interest expense of US$ 317 million. The sharp recession originating from the crisis also affected the Group's asset-based income, causing US$ 110 million loss reported for FY20, compared to a gain of US$ 89 million in FY19 and higher provisions for impairment of US$26 million. The loss was largely attributable to fair value declines and provisions against associated working capital assets related to a limited number of assets operating in secularly challenged industries, mainly retail.

The Group's management has made an assessment of going concern, taking into account both the Group's current performance and the Group's outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

The Group has good visibility on future management fees due to the long-term nature of the investments, underpinned by a strong and well capitalized balance sheet. The Group continues to monitor and follow closely the information released from governments, regulatory bodies and health organizations in the countries in which the Group and its portfolio companies operate, as well as receiving regular reports on the operational and financial performance of our portfolio companies.

As of June 30, 2020, total equity was US$ 868 million and total accessible liquidity was in excess of US$ 1.2 billion. Prudent capital and liquidity management have served the Group well during this unprecedented crisis allowing a focus on employees' safety and business continuity. The size of the balance sheet contracted by 10%, partly due to lower valuations, as a result of lower underwriting and improved working capital management. The impact from IFRS 16 (new standard defining how companies must account for operating leases) adoption, inflated the consolidated statement of financial position by approximately US$ 100 million. Net debt increased to US$ 672 million in FY20 from US$ 499 million in FY19 due to IFRS 16 adoption and settlement of purchase of strategic investments. The Group continues to stay well within covenant defined ratios of the medium and long term debt. Furthermore, none of medium-term and long-term financing facilities of the Group are maturing before second half of 2023.

INVESTCORP HOLDINGS B.S.C. (FORMERLY INVESTCORP BANK B.S.C.) SUPPLEMENTARY DISCLOSURES (UNAUDITED)

IMPACT OF CURRENT ECONOMIC SITUATION (CONTINUED)

Continuous diversification across geographies, clients and products translated into a broad-based increase in Assets Under Management (AUM) to US$ 32.2 billion, an increase of 15.0% from US$ 28.1 billion in June 2019. Various strategic transactions and initiatives were completed during the period to further broaden the distribution platform, scale businesses and source investments from new growth areas.

Even during the Q4 lockdown period the Group managed to raise US$ 0.9 billion through virtual roadshows and meetings with the closing of two fully subscribed funds in the Credit Management and Absolute Return Investment businesses. Investment activity was also solid with two acquisitions in Private Equity and the pricing of one new CLO. Several exits in Real Estate and Private Equity were realized in Q4FY20 at no discount to fair values.

This financial position and liquidity profile provide confidence that the Group has sufficient financial resources for the foreseeable future. Consequently, the Group’s management believe that the Group is well positioned to manage its businesses and its liabilities as they fall due.