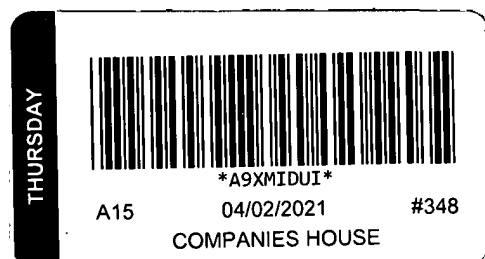


Investcorp Credit Management EU Limited

**Annual report and accounts for the year ended 30 June
2020**

Registered number: 05655607



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**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

The Directors submit their year end report with the audited financial statements for the year ended 30 June 2020.

Principal activity

The principal activity of Investcorp Credit Management EU Limited (the "Company") is to provide discretionary investment management advice. It also makes capital investments into certain funds under management for regulatory purposes. The Company is domiciled and incorporated in the United Kingdom. The Company acts as a Fund Manager and Investment Advisor for leveraged finance funds (including mezzanine loans) and has 19 funds under management at 30 June 2020 (30 June 2019: 17 funds) with an AUM of £6.5 billion (30 June 2019: £5.5 billion). The principle activity of the Company will continue for the foreseeable future.

Directors

The Directors of the Company during the year and up to the date of this report were:

P Goody
J R Ghose
D J Lopez-Cruz
C L Sinfield-Hain

Disclosure of information to the Auditors

Pursuant to s418(2) of the Companies Act 2006, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of such information.

Auditors

In accordance with section 487 of the Companies Act 2006, a resolution proposing the reappointment of Ernst & Young LLP as auditors of the Company will be put to the shareholders at the forthcoming Annual General Meeting.

Going concern

The Directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements, refer to economic outlook and future development for details.

Pillar 3 disclosures

The Directors have prepared the Pillar 3 and Remuneration Code disclosures required under the Capital Requirements Directive. These disclosures are available from the Investcorp Group's website, which can be found at www.investcorp.com and the Regulatory Disclosures Hosting Service website at www.pillar3.eu/ICMEUL1800404.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020****Economic outlook and future developments**

The macro-economic and fiscal environment changed dramatically as a result of the COVID-19 pandemic.

Following a review of the Company's holdings of Subordinated Notes in certain of the Collateralised Loans Obligations ("CLO") under management, an impairment charge of £21.4 million has been made during the year. Details of the impairment review and analysis can be found at Note 10 of the financial statements. Fee income from existing funds under management has not been impacted during the financial year under review. However, it should be noted that the majority of the Company's income is generated from subordinated fee income and may be deferred in the future if the performance of the underlying CLO funds deteriorates and prescribed tests are not met. A key test in this respect is the over-collateralisation coverage which will be impacted if the underlying vehicles experience significant credit losses and/or the level of CCC rated obligations exceed threshold levels. This risk is mitigated to a degree by the diversified nature of the collateral and relatively low exposure to individual entities. However, the impact of the crisis is such that its effects are being felt across most of the portfolio. The duration of the pandemic and its longer-term economic effects are very difficult to forecast accurately and may have a material impact on the Company's holdings of Subordinated Notes as well as fee income if the expected recovery next year is protracted and the impact on the underlying collateral positions is more severe than currently envisaged.

From an operational perspective, the Company's employees have been able to work efficiently and effectively from home and this could continue for as long as necessary without any material adverse effect on the financial performance of the Company.

The Directors have made an assessment of going concern, taking into account both the current performance and 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 Directors continue to monitor and follow closely the information released from governments, regulatory bodies and health organizations in the countries in which the underlying portfolio companies in the funds under management operate, as well as receiving regular reports on the operational and financial performance of the underlying portfolio companies.

As of 30 June 2020, total equity was £175.4 million and total accessible liquidity was in excess of £87.7 million. The inter-company loan facility matures in April 2022 and is not subject to any financial covenants.

The Directors, in conjunction with the Investcorp Legal & Compliance team, have discussed internally the potential impacts of a hard Brexit at the end of October 2019 on the business of the Company. In terms of its management of the CLOs, which comprise 90%+ of the Company's managed AUM, outside counsel has opined that the supply of portfolio management services to an Irish CLO vehicle is expected to be permitted under the Irish 3rd country recognition system (not EU dependent). Furthermore, portfolio management itself is a London based activity which is reliant on existing FCA permissions. Marketing of the CLO notes is undertaken by the arranging banks so the potential loss of passporting rights into the EU following a hard Brexit are considered not to be relevant to this business line.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

Economic outlook and future developments

Hard Brexit implications for activities falling outside of the Company's CLO related business (i.e. promotion of existing open-ended funds and new initiatives) have also been assessed and are expected to be addressed by the Investcorp Group's contingency plan to utilize its existing Maltese subsidiary, IVC Malta Limited, as a tied agent of Mirabella Malta Advisers Limited.

Assets Under Management (AUM) as at 30 June 2020 were £6.5 billion, an increase of 18% from £5.5 billion in June 2019.

Even during the fourth quarter lockdown period the Company managed to raise £0.5 billion through pricing Harvest XXIV CLO and also the successful launch of Mount Row I, a new fund initiative.

This financial position and liquidity profile provide comfort that the Company has sufficient financial resources for the foreseeable future. Consequently, the Directors believe that the Company is well positioned to manage its business and its liabilities as they fall due.

By order of the Board



Peter Goody

Date: 19 October 2020

Registered office:
Investcorp House, 48 Grosvenor St., Mayfair
London W1K 3HW

**STRATEGIC REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

Results and business review

The Directors present their strategic report for the year ended 30 June 2020. Total loss for the year shown in the statement of profit or loss amounted to £1,507k (profit 30 June 2019: £18,647k). During the year, no interim dividend was paid (30 June 2019: nil). The Directors do not recommend a final dividend for the year (30 June 2019: nil).

Development

The Directors do not anticipate any change in the Company's core activities for the foreseeable future.

Principal risks and uncertainties

The Company is a subsidiary in the Investcorp Group with the immediate parent being Investcorp S.A. domiciled in Cayman Islands. The Group sets objectives, policies and processes for managing and monitoring risk as set out in Investcorp Holdings B.S.C.'s (formerly Investcorp Bank B.S.C.) annual report. The financial risks are discussed in further detail in Note 17.

By order of the Board


Peter Goody

Date: 19 October 2020

Registered office:
Investcorp House, 48 Grosvenor St., Mayfair
London W1K 3HW

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2020**

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRSs") that have been adopted by the European Union.

Under Company Law the Directors must not approve financial statements unless they are satisfied that they give a true and fair value of the financial position, financial performance and cash flows of the Company for that year. In preparing financial statements the Directors are required to:

- (a) select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- (d) state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- (e) make judgements and estimates that are reasonable; and
- (f) prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will continue in business.

The Directors have a responsibility for ensuring that proper accounting records are kept which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that financial statements comply with the Companies Act 2006. They have a responsibility for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF INVESTCORP
CREDIT MANAGEMENT EU LIMITED****Opinion**

We have audited the financial statements of Investcorp Credit Management EU Limited (the "Company") for the year ended 30 June 2020 which comprise statement of profit or loss, the statement of comprehensive income, statement of financial position, statement of cash flows, the statement of changes in equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 June 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF INVESTCORP
CREDIT MANAGEMENT EU LIMITED (continued)****Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF INVESTCORP
CREDIT MANAGEMENT EU LIMITED (continued)****Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

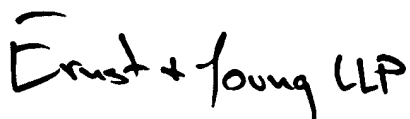
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ahmer Huda (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date 20 October 2020

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2020**

		30 June 2020	30 June 2019
	Notes	£'000	£'000
Revenue	3	37,466	43,681
Operating expense	4	(18,436)	(15,606)
Operating profit		19,030	28,075
Credit loss expense on financial assets	10	(21,441)	(958)
Interest income		2,388	1,500
Interest expense		(1,800)	(5,470)
Exchange movements		3,127	2,207
Foreign exchange intercompany offset	13	(3,127)	(2,207)
(Loss) / profit before taxes		(1,823)	23,147
Income taxes	7	316	(4,500)
(Loss) / profit for the year		(1,507)	18,647

All items in the above statement are derived from continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

		30 June 2020	30 June 2019
	Note	£'000	£'000
(Loss) / profit for the year		(1,507)	18,647
Other comprehensive income that will be recycled to statement of profit or loss			
Unrealised fair value movement net of tax	10	(2,818)	(912)
Other comprehensive loss		(2,818)	(912)
Total comprehensive (loss) / income		(4,325)	17,735

The notes and accounting policies on pages 13 to 37 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Issued share capital	Fair value reserve of financial assets at FVOCI	Other distributable reserve	Total
	£'000	£'000	£'000	£'000
As at 1 July 2018	92,238	-	38,755	130,993
Profit for the year	-	-	18,647	18,647
Other comprehensive loss	-	(912)	-	(912)
Total comprehensive income for the year	-	(912)	18,647	17,735
As at 30 June 2019	92,238	(912)	57,402	148,728
Share capital	31,000	-	-	31,000
Loss for the year	-	-	(1,507)	(1,507)
Other comprehensive loss	-	(2,818)	-	(2,818)
Total comprehensive loss for the year	-	(2,818)	(1,507)	(4,325)
As at 30 June 2020	123,238	(3,730)	55,895	175,403

The notes and accounting policies on pages 13 to 37 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 June 2020	30 June 2019
	Notes	£'000	£'000
Assets			
Non-current assets			
Investments held at amortised cost	10	112,069	143,994
Investments at fair value through other comprehensive income	10	67,573	71,691
Tangible assets	9	593	690
Deferred tax assets	11	1,151	868
Total non-current assets		181,386	217,243
Current assets			
Trade and other receivables	12	60,590	16,172
Cash and cash equivalents		45,390	48,234
Total current assets		105,980	64,406
Total assets		287,366	281,649
Liabilities			
Non-current liabilities			
Trade and other payables	13	(66,521)	(69,005)
Total non-current liabilities		(66,521)	(69,005)
Current liabilities			
Trade and other payables	13	(45,442)	(63,916)
Total current liabilities		(45,442)	(63,916)
Total liabilities		(111,963)	(132,921)
Net assets		175,403	148,728
Equity			
Issued capital	8	123,238	92,238
Fair value reserve		(3,730)	(912)
Other distributable reserve		55,895	57,402
Total equity		175,403	148,728

The financial statements have been approved and authorised for issued by the Board of Directors.

Peter Goody



Director

Date: 19 October 2020

The notes and accounting policies on pages 13 to 37 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	30 June 2020	30 June 2019
	£'000	£'000
Cash flow from operating activities		
(Loss) / profit before tax	(1,823)	23,147
Adjustments for:		
Depreciation	97	94
Amortisation of transaction costs of borrowing	180	167
Credit loss in investments	21,441	958
Foreign exchange differences in investments and borrowings	(1,616)	(2,149)
Increase in receivables	(45,685)	(1,218)
Decrease in payables	(768)	(853)
Exchange movements	3,127	2,207
Intercompany offset	(3,127)	(2,207)
Income tax paid	(3,961)	(3,118)
Net cash flow (used in) / generated from operating activities	(32,135)	17,028
Cash flows from investing activities		
Purchase of investments	(1,934)	(77,520)
Return of capital in investments	15,917	48,902
Proceeds from sale of investments	-	16,689
Net cash flow generated from / (used in) investing activities	13,983	(11,929)
Cash flow from financing activities		
Issuance of the borrowing	-	32,433
Increase / (decrease) in loan from group undertakings	15,308	(45,469)
Net cash flow generated from / (used in) financing activities	15,308	(13,036)
Change in cash and cash equivalents	(2,844)	(7,937)
Cash and cash equivalents at the start of the year	48,234	56,171
Cash and cash equivalents at the end of the year	45,390	48,234

The notes and accounting policies on pages 13 to 37 form an integral part of these financial statements.

Investcorp Credit Management EU Limited

NOTES TO THE FINANCIAL STATEMENTS

No. 05655607

1. ACCOUNTING POLICIES

A. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB) as adopted by use in the European Union ("IFRS").

These financial statements have been prepared in accordance with and in compliance with the Companies Act 2006.

B. Basis of preparation

The financial statements have been prepared on a going concern basis, under historical cost conversion as updated for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss in accordance with IFRS.

The financial statements are presented in sterling, the functional currency of the Company.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Going concern

The Directors have made an assessment of going concern, taking into account both the current performance and 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 Directors continue to monitor and follow closely the information released from governments, regulatory bodies and health organizations in the countries in which the underlying portfolio companies in the funds under management operate, as well as receiving regular reports on the operational and financial performance of the underlying portfolio companies.

From an operational perspective, the Company's employees have been able to work efficiently and effectively from home and this could continue for as long as necessary without any material adverse effect on the financial performance of the Company.

This financial position and liquidity profile provide comfort that the Company has sufficient financial resources for the foreseeable future. Consequently, the Directors believe that the Company is well positioned to manage its business and its liabilities as they fall due.

Therefore, the preparation of the financial statements on a going concern basis remains appropriate as the Company expects to be able to meet its obligations as and when they fall due for the next 12 months from the date of the approval of the financial statements.

C. Changes in accounting policies and disclosures

The accounting and reporting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year.

1. ACCOUNTING POLICIES (CONTINUED)

C. Changes in accounting policies and disclosures (continued)***Standards issued but not yet effective***

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

- Definition of Material (Amendments to IAS 1 and IAS 8) - effective for annual periods beginning on or after 1 January 2020 with early application permitted;
- Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020 with early application permitted; and
- Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 – effective for annual periods beginning on or after 1 January 2022.

The Company's management is currently evaluating the impact but does not anticipate that adopting the above new standard and amendments will have a material impact on the Company's financial statements.

D. Revenue recognition

Revenue arises from Investment Management fees, Investment Advisory fees and incentive fees as well as distributions from CLO investments and income from the warehouse vehicles used to ramp up CLO funds prior to close. Investment Management, Investment Advisory and Incentive fee income are recognised on an accrual basis. Distribution return from CLO investments and interest payable on credit facility are recognised on net basis. All revenue is derived from operations in Europe.

Revenue from contracts with customers

Management fees are charged quarterly in arrears on the effective payment dates to the issuers of the Collateral Debt Obligations.

Following the early adoption of IFRS 15, the Company has identified the performance obligations arising from its contracts with issuers of the Collateral Debt Obligations. The portion of the fee relating to such performance obligations is recognised over the investment period.

Investcorp has reviewed and analysed the terms of the contracts that it has entered into with its issuers arising from the issuance of the Collateral Debt Obligations. Based on this review, the Company has determined the performance obligations that it is expected to satisfy, including to monitor investment decisions, perform all investment related duties and functions, make and implement investment decisions in relation to the Portfolio.

The Company has allocated the management fee to each of the above performance obligations. The Company completes all its performance obligations described above during the investment period of the Collateral Debt Obligation. Accordingly, the fee relating to this performance obligation is recognised over time which is the period of managing the investment.

1. ACCOUNTING POLICIES (CONTINUED)

E. Foreign currency transactions

Transactions in currencies different from the functional currency of the Company are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to sterling at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the date the fair value was determined.

F. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and short-term deposits as defined above.

G. Income taxes

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited to the statement of comprehensive income, except where it relates to items charged or created directly to equity, in which case the tax is also dealt with in equity. The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is highly probable that sufficient taxable profits will be available against which temporary differences can be set off. All deferred tax liabilities are offset against deferred tax assets in accordance with the provisions of IAS 12 "income taxes".

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer highly probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

H. Other receivables

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less allowance for impairment. They are reviewed at each statement of financial position date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the statement of comprehensive income. An impairment is reversed at subsequent statement of financial position dates to the extent that the asset's carrying amount does not exceed its original cost.

Investcorp Credit Management EU Limited

NOTES TO THE FINANCIAL STATEMENTS

No. 05655607

1. ACCOUNTING POLICIES (CONTINUED)

I. Other payables

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which we consider to be payable in respect of goods or services received up to the statement of financial position date.

J. Investments

Investments are classified, at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (FVTPL).

The classification of investments at initial recognition depends on the investment's contractual cash flow characteristics and the Company's business model for managing them. In order for an investment to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company's business model for managing investments refers to how it manages its investments in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the investments, or both.

Purchases or sales of investments that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

Investments at amortised cost

The Company measures investments at amortised cost if both of the following conditions are met:

- ❖ The investment is held within a business model with the objective to hold investments in order to collect contractual cash flows; and
- ❖ The contractual terms of the investment give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Investcorp Credit Management EU Limited

NOTES TO THE FINANCIAL STATEMENTS

No. 05655607

1. ACCOUNTING POLICIES (CONTINUED)

J. Investments (continued)

Investments at fair value through OCI

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- ❖ The investment is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- ❖ The contractual terms of the investment give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for investments measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ❖ Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ❖ Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ❖ Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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1. ACCOUNTING POLICIES (CONTINUED)

J. Investments (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's policies and procedures for fair value measurement such as unquoted investments comprise of the use of a range of data including the original arranging bank models, credit management internal forecasts and models, trading data, where available and data from third party valuation providers.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in Note 10.

K. Incentive fees receivable

The Company earns an incentive fee from funds which it manages on behalf of third parties. These fees are earned when the fund meets certain performance conditions. The incentive fee is calculated based on the Company's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund. At the start of each scheme an estimate of the incentive fee receivable is made and recognised once performance of conditions have been met. At each balance sheet date, the estimate is reassessed. This estimate is based on the most likely amount method.

L. Incentive fees payable

Incentive fee payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that scheme were realised at carrying value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual. The distribution amounts from the Vintage Funds are accrued based on the management incentive deed with the Company to allocate to the managers and the benefit of 3i Group plc.

M. Tangible assets

Lease improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the eight and half years.

1. ACCOUNTING POLICIES (CONTINUED)

N. Impairment and un-collectability of financial assets

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Company groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

- ❖ Stage 1 - When loans are first recognised, the Company recognises an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- ❖ Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- ❖ Stage 3 - Loans considered credit-impaired. The Company records an allowance for the ECLs.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Further detail is provided in Note 17.

O. Expenses

Expenses are recognised on an accrual basis. Intragroup services relate to investment and back-office services provided to the Company by Investcorp Holdings B.S.C.

Any deferred compensation awarded to employees, with vesting conditions, are accounted as an expense over the vesting period as the company recognises such expense when the entity establishes the present legal or constructive obligation to make such payments and has a reliable estimate of the obligation.

2. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES & ASSUMPTIONS

The preparation of the Company's 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimate

The use of estimates is principally limited to the determination of cash flows which is the basis of assessment of sole payments of principal and interest test on CLO investments which are being carried as debt instruments at amortised cost and FVOCI (see Note 10).

Judgment

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

The CLO investments are held within a business model whose objective is to hold assets in order to collect variable contractual cash flows on specified dates. The contractual terms give rise to variable distributions (solely payments of principal and interest) based on the CLO's respective waterfall and priorities of payment.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for investments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour (e.g. probability of defaults and credit default rates). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 17.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- ❖ Determining criteria for significant increase in credit risk
- ❖ Choosing appropriate models and assumptions for the measurement of ECL
- ❖ Establishing the number and relating weightings for forward looking scenarios for each investment and the associated ECL; and
- ❖ Establishing groups of similar investments for the purposes of measuring ECL

Fair value measured of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be reliably measured based on quoted prices in active market, the fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not possible, a degree of judgement is required in establishing the fair value.

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3. REVENUE

	30 June 2020	30 June 2019
	£'000	£'000
Investment management fees	26,957	24,118
Investment advisory fees	70	1,031
CLO interests	10,439	16,423
Other income	-	2,109
Total	37,466	43,681

4. OPERATING EXPENSES

	30 June 2020	30 June 2019
	£'000	£'000
Staff costs	10,645	9,260
Auditor's remuneration - audit fees	309	270
Depreciation of tangible fixed assets	97	94
Administrative expenses	7,385	5,982
Total	18,436	15,606

5. STAFF COSTS

	30 June 2020	30 June 2019
	£'000	£'000
Wages and salaries	4,105	3,763
Social security costs	474	550
Pension and other costs	366	347
Staff distribution and carry	5,700	4,600
Total	10,645	9,260

The average number of employees during the period was 27 (30 June 2019: 26).

6. DIRECTORS' EMOLUMENTS

	30 June 2020	30 June 2019
	£'000	£'000
Salaries and benefits	732	731
Bonuses, incentive fees and performance fees	1,632	1,632
Amounts receivable under long-term incentive plans	1,228	605
Total	3,592	2,968

Investcorp Credit Management EU Limited

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6. DIRECTORS' EMOLUMENTS (CONTINUED)

Amounts receivable under long term incentive arrangements include balances accrued on a fair value basis, and which have not yet been realised.

The emoluments of the highest paid director during the year were £2,797k (30 June 2019: £2,187k), of which £1,204k (30 June 2019: £594k) was payable under the long-term incentive arrangements.

7. INCOME TAXES

	30 June 2020 £'000	30 June 2019 £'000
Charge / (credit)		
Current tax	(332)	4,481
UK Corporation Tax		
Adjustments for prior years	(387)	(381)
Deferred tax		
Origination and reversal of temporary differences	(2)	44
Adjustments for prior years	405	356
Total tax	(316)	4,500

Reconciliation of income taxes in the statement of comprehensive income

	30 June 2020 £'000	30 June 2019 £'000
Profit before tax	(1,823)	23,147
Profit before tax multiplied by rate of corporation tax in the UK of 19%	(346)	4,398
Expenses not deductible for tax purposes	14	83
Effect of change in deferred tax rate	-	15
Prior year adjustment	16	4
Total	(316)	4,500

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7. INCOME TAXES (CONTINUED)

	Statement of financial position	Statement of comprehensive income	Statement of other comprehensive income
	30 June 2020 £'000	30 June 2020 £'000	30 June 2020 £'000
Deferred income tax asset			
Accelerated capital allowances	(30)	(2)	-
Long term incentive plan	309	405	-
Unrealised fair value loss	872	-	(685)
Deferred income tax asset	1,151	-	-
Deferred income tax charge in the statement of comprehensive income	-	403	-
Deferred income tax credit in the statement of other comprehensive income	-	-	(685)

	Statement of financial position	Statement of comprehensive income	Statement of other comprehensive income
	30 June 2019 £'000	30 June 2019 £'000	30 June 2019 £'000
Deferred income tax asset			
(Accelerated) / decelerated capital allowances	(33)	44	-
Long term incentive plan	714	356	-
Unrealised fair value loss	187	-	(187)
Deferred income tax asset	868	-	-
Deferred income tax charge in the statement of comprehensive income	-	400	-
Deferred income tax credit in the statement of other comprehensive income	-	-	(187)

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the substantively enacted rate of 19%, as required under International Financial Reporting Standards.

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8. SHARE CAPITAL

	Number of shares	Amount £'000
(i) Ordinary shares		
At 30 June 2020		
Called up, allotted and fully paid ordinary shares of £1 each	123,238	123,238
Issued ordinary shares of £1 each	123,238	123,238
Authorised ordinary shares of £1 each	123,238	123,238
At 30 June 2019		
Called up, allotted and fully paid ordinary shares of £1 each	92,238	92,238
Issued ordinary shares of £1 each	92,238	92,238
Authorised ordinary shares of £1 each	92,238	92,238

These shares were ordinary shares with no additional rights attached to them.

During the year, additional capital of £31m was raised (30 June 2019: nil).

During the year, no dividend was paid (30 June 2019: nil).

9. TANGIBLE ASSETS

In May 2018, the Company refurbished the office as leasehold improvement of £792k which depreciation is charged on a straight-line basis over eight and half years.

	Leasehold improvements £'000
Cost:	
At 1 July 2018	792
Additions	-
At 1 July 2019	792
Additions	-
At 30 June 2020	792
Depreciation:	
At 1 July 2018	(8)
Charge	(94)
At 1 July 2019	(102)
Charge	(97)
At 30 June 2020	(199)
New book value:	
At 30 June 2020	593
At 30 June 2019	690

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10. INVESTMENTS

	CLO investments at FVOCI £'000	CLO investments at amortised cost £'000	CLO warehouse investments at FVTPL £'000	Total £'000
At 30 June 2018	36,167	157,482	8,862	202,511
Additions	35,557	-	41,963	77,520
Return of capital	(197)	(14,126)	(34,579)	(48,902)
Disposal	-	-	(16,689)	(16,689)
Foreign exchange movement	1,263	1,596	443	3,302
Unrealised fair value movement	(1,099)	-	-	(1,099)
Credit loss expense	-	(958)	-	(958)
At 30 June 2019	71,691	143,994	-	215,685
Additions	-	1,934	-	1,934
Return of capital	(597)	(15,320)	-	(15,917)
Disposal	-	-	-	-
Foreign exchange movement	1,249	1,621	-	2,870
Unrealised fair value movement	(3,489)	-	-	(3,489)
Credit loss expense	(1,281)	(20,160)	-	(21,441)
At 30 June 2020	67,573	112,069	-	179,642

The unrealized fair value adjustments under CLO investments at FVOCI is subject to deferred tax of £685k (30 June 2019: £187k) which is disclosed in Note 7. The movement of fair value through other comprehensive income is £2,818k net of tax (30 June 2019: £912k).

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10. INVESTMENTS (CONTINUED)

An analysis of changes in the gross carrying amount of the CLO investments measured at amortised cost and the corresponding ECL is, as follows:

	Stage 1 Individual £'000	Stage 2 Individual £'000	Stage 3 £'000	Total £'000
Gross carrying value at 1 July 2018	123,948	33,831	-	157,779
Additions	-	-	-	-
Return of capital	(8,715)	(5,411)	-	(14,126)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(28,250)	28,250	-	-
Transfers to stage 3	-	-	-	-
Foreign exchange movement	972	624	-	1,596
Gross carrying value at 30 June 2019	87,955	57,294	-	145,249
Additions	-	1,934	-	1,934
Return of capital	-	(15,320)	-	(15,320)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(87,955)	87,955	-	-
Transfers to stage 3	-	-	-	-
Foreign exchange movement	-	1,621	-	1,621
Gross carrying value at 30 June 2020	-	133,484	-	133,484

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10. INVESTMENTS (CONTINUED)

An analysis of the ECL amount for CLO investments measured at amortised cost, as follows:

	Stage 1 Individual £'000	Stage 2 Individual £'000	Stage 3 £'000	Total £'000
ECL allowance as at 1 July 2018	-	297	-	297
Additions	-	-	-	-
Return of capital	-	-	-	-
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Impact of year end ECL of exposures transferred between stages during the year	-	958	-	958
Foreign exchange movement	-	-	-	-
ECL allowance as at 30 June 2019	-	1,255	-	1,255
Additions	-	-	-	-
Return of capital	-	-	-	-
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Impact of year end ECL of exposures transferred between stages during the year	-	20,160	-	20,160
Foreign exchange movement	-	-	-	-
ECL allowance as at 30 June 2020	-	21,415	-	21,415

Reconciliation of investments measured at amortised cost

	30 June 2020 £'000	30 June 2019 £'000
Investments at amortised cost	133,484	145,249
ECL allowance	(21,415)	(1,255)
Total	112,069	143,994

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10. INVESTMENTS (CONTINUED)

An analysis of changes in the fair value of the CLO investments measured at FVOCI and the corresponding ECL is, as follows:

	Stage 1 Individual £'000	Stage 2 Individual £'000	Stage 3 £'000	Total £'000
Gross carrying value at 1 July 2018	36,167	-	-	36,167
Additions	35,557	-	-	35,557
Return of capital	(197)	-	-	(197)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Impact of year end ECL of exposures transferred between stages during the year	-	-	-	-
Unrealised fair value movement	(1,099)	-	-	(1,099)
Foreign exchange movement	1,263	-	-	1,263
Gross carrying value at 30 June 2019	71,691	-	-	71,691
Additions	-	-	-	-
Return of capital	(597)	-	-	(597)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Impact of year end ECL of exposures transferred between stages during the year	(1,281)	-	-	(1,281)
Unrealised fair value movement	(3,489)	-	-	(3,489)
Foreign exchange movement	1,249	-	-	1,249
Gross carrying value at 30 June 2020	67,573	-	-	67,573

The ECL allowance for CLO investments at FVOCI amounts to £1,281k (30 June 2019: nil).

The implied average interest rate of these debt instruments is 8% per annum and £10,439k (30 June 2019: £16,423k) of interest income has been recognised during the year.

The comparison of the carrying amounts and fair values of the financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	At 30 June 2020		At 30 June 2019	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
CLO investments	112	111	144	149
Total CLO investments	112	111	144	149

Investcorp Credit Management EU Limited

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10. INVESTMENTS (CONTINUED)

For all other financial assets and liabilities, the carrying value is an approximation of fair value, including trade and other receivables; cash and cash equivalents and trade and other payables.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 30 June 2020 are shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the inputs to fair value
CLO investments as FVOCI	Discounted cash flow	Credit spread (bps)	200 to 500	50 bp increase (decrease) in credit spread would result in increase (decrease) in fair value by £1,717k (2019: £1,694k).
		Recovery rate	70% to 80%	10% increase (decrease) in recovery rate would result in increase (decrease) in fair value by £1,722k (2019: £1,320k).
		Constant default rate	0% to 6%	1% increase (decrease) in default rate would result in increase (decrease) in fair value by £1,826k (2019: £1,350k).
		Constant prepayment rate	15% to 30%	10% increase (decrease) in prepayment rate would result in increase (decrease) in fair value by £1,840k (2019: £1,127k).

11. DEFERRED TAX ASSETS

Deferred tax assets are recognised only to the extent that it is highly probable that sufficient taxable profits will be available against which temporary differences can be set off. Deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise.

	30 June 2020 £'000	30 June 2019 £'000
Deferred tax	1,151	868
Total	1,151	868

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12. TRADE AND OTHER RECEIVABLES

Current assets

	30 June 2020	30 June 2019
	£'000	£'000
Prepayments and accrued income	11,772	11,586
Incentive fee receivable	-	4,192
Other receivables	438	394
Loans with group undertakings	45,962	-
Corporate tax receivable	2,418	-
Total	60,590	16,172

During the year the Company has provided an inter-company loan to Group affiliates which pays interest at the rate of 6% per annum.

13. TRADE AND OTHER PAYABLES

Non current liabilities

	30 June 2020	30 June 2019
	£'000	£'000
Long term credit facility	66,319	65,060
Incentive bonus	202	3,945
Total	66,521	69,005

Current liabilities

	30 June 2020	30 June 2019
	£'000	£'000
Accrued interest from credit facility	29	52
Amounts owed to group undertakings	21,917	8,409
Loan with group undertakings	14,145	43,345
Incentive bonus	6,984	5,351
Incentive fee payable	-	3,952
Other payables	2,367	562
Corporate tax creditor	-	2,245
Total	45,442	63,916

Long term credit facility as secured financing related to financing obtained under repurchase transaction arrangements entered into by the Company with underlying assets being CLO investments. The financing carries variable rates of interest. Each financing arrangement has a specified repurchase date at which, the Company will repurchase the underlying CLO asset at a pre-determined repurchase price.

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13. TRADE AND OTHER PAYABLES (CONTINUED)

The Company entered into an inter-company loan agreement with Investcorp S.A, who makes available a revolving credit facility of £100 million until the termination date of 1 April 2022. The loan may be drawn down by the Company on such dates and in such amounts as may be elected by the company on not less than one business day's prior written notice. Interest shall be payable on such portions of the Loan as are drawn down by the Company at the rate of 6% per annum.

The Company has entered an agreement for foreign exchange contract with Investcorp Trading Limited (ITL), which is the foreign trading arm of Investcorp Holdings B.S.C. (formerly Investcorp Bank B.S.C.) and its consolidated subsidiaries. ITL enters into foreign exchange hedges on behalf of the subsidiaries of the Investcorp Group and agrees to reimburse the Company for any foreign exchange gains and losses that the Company may incur on the foreign currency exposures that it carries on its balance sheet from 1 April 2017. The foreign exchange gain intercompany offset with ITL for the year ended 30 June 2020 is £3.1 million (30 June 2019: £2.2 million) and is included in amounts owed to group undertakings.

14. RELATED PARTIES

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Those transactions with Directors of the Company are disclosed in Note 6. The Company has no other key management personnel. Each of these categories of related parties and their impact on the financial statements is detailed below.

The Company has a service level agreement with the Investcorp Group for the provision of support services to the Company.

The Company has entered an agreement for foreign exchange contract with Investcorp Trading Limited (ITL) to reimburse the Company for any foreign exchange gains and losses on the foreign currency exposures.

Borrowing and other lending arrangements

The Company has an outstanding receivable balance with affiliates of the Group.

	30 June 2020	30 June 2019
	£'000	£'000
Affiliates of the group	45,962	-
Total	45,962	-

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14. RELATED PARTIES (CONTINUED)

The Company has an outstanding payable balance with its parent company and ultimate parent company.

	30 June 2020	30 June 2019
	£'000	£'000
Parent company	14,145	43,345
Ultimate parent company	21,917	8,409
Total	36,062	51,754

Transactions with key management personnel

	30 June 2020	30 June 2019
	£'000	£'000
Short-term employee benefits	2,364	2,363
Other long term benefits	1,228	605
Total	3,592	2,968

Loan from related parties

	30 June 2020	30 June 2019
	£'000	£'000
Interest paid	-	5,470
Amount owed to related party	14,145	43,345

Loan to related parties

Amount due from related party	45,962	-
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15. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is Investcorp S.A.

The Company's ultimate parent undertaking and controlling party is Investcorp Holdings B.S.C. (formerly Investcorp Bank B.S.C.) which is incorporated in Kingdom of Bahrain and is listed on the Bahrain Bourse. Copies of its group financial statements, which include the Company, are available online at www.investcorp.com.

16. CAPITAL MANAGEMENT

The Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of equity comprising issued capital, other distributable reserves and retained earnings. The adequacy of the Company's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision.

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17. FINANCIAL RISK MANAGEMENT

Financial risk

The Company's ultimate parent company is Investcorp Holdings B.S.C. (formerly Investcorp Bank B.S.C.), who sets objectives, policies and processes for managing and monitoring capital and risk as set out in the Investcorp Group annual report which is available at www.investcorp.com. This note provides further information on the specific risks faced by the Company.

The capital structure of the Company consists of equity and cash and cash equivalents. As an investment firm regulated by the FCA (Financial Conduct Authority), the Company's regulated capital requirement is reviewed regularly by the Board. The last submission to the FCA demonstrated a capital surplus in excess of the FCA's prudential rules. The following risk management policies have been consistently applied throughout the year.

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 Company limits its concentration risk by investing in actively managed CLOs with diversified portfolio of senior secured floating rate loans made to a wide range of corporate borrowers primarily in Europe.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. The Company's credit exposure is to its investments in CLO funds, debtors and bank balances which amounted to £283,204k (30 June 2019: £280,091k). The CLO investment is monitored monthly for value loss and debtors and cash balances are frequently monitored for size and age. Subordinate fees that are not expected to be received for the foreseeable future are fully provided for. This situation is monitored closely, and the Board is updated regularly. The Company also manages the credit risk of each fund, and this is controlled by the terms of reference relating to the Investment Committee, the policies and procedures relating to each fund, and the legal documentation to each fund.

The Company's cash is held on demand in AAA rated money market funds and on short-term deposit with banks with a credit rating of BBB+ or higher. The Company's investments in CLO structure of tranches with credit rating between AAA and B- for classed notes and subordinated notes with no credit rating.

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable supportable information that is relevant which includes both quantitative and qualitative information and analysis, based on the Company's historical experience, expert credit assessment and forward-looking forecast. The assessment on significant increase in credit risk is based on the future cash flow projection of its investments by using an external structured fixed income cash flow models and analytical software called Intex. The key parameters used in the models, such as constant default rate, recovery rate, recovery lag, spread, maturity, price and other historical data are assessed by the third party provider, which are adjusted to reflect the forward looking forecast to assess the estimates of probability of default.

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, the Company is allowed to assume at the reporting that no significant increase in credit risk. The Company considers the investments to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' and measures loss allowances as 12 month expected credit loss (ECL) with no significant increase in credit risk.

The investments of the Company are collateralised by the underlying investments, the Company therefore considers fair-value movements of such investments and management judgement to assess whether there has been an increase in credit risk. Based on the impairment assessments undertaken, CLO investments of £87,955k was transferred from stage 1 to stage 2 due to credit risk and ECL allowance of £20,160k was incurred as a result. Detailed table is stated in Note 10 - Investments.

Measurement of ECL

The Company 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, which are calculated based on internal compiled data and market data as benchmark when it is available. Historical constant default rates and market conditions have direct impact to the forward looking constant default rate used in the estimate of projection cash flow. The constant default rate represents the percentage of outstanding principal balances in the pool that are in default.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount which are based on historical observations and forward looking forecasts.

LGD represents the Company's expectation of the extent of loss on the exposure. The Company estimates LGD based on historical recovery rate of claims against defaulted counterparties. The LGD models consider the structure, projected collateral values, seniority of payment, counterparty industry and recovery costs observed that is integral to the financial asset.

The Company defines a financial asset as in default when the borrower is more than 90 days past due on its contractual payments, which is in line with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the measurement of ECL.

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company recognises loss allowances in profit or loss for ECL on the investments. The Company writes-off exposures if there is no reasonable expectation of recovery, subject to the appropriate regulatory approvals. The measurement of ECL is reviewed on quarterly basis and presented to the group financial controller.

Assumptions incorporated in the ECL models

The most significant assumptions used for the ECL estimate as at 30 June 2020 and 30 June 2019 are set out below:

	30 June 2020	30 June 2019
Ramp-up Period	6 months	6 months
Recovery lag	6 months	6 months
Default lockout for newly purchased assets	12 months	12 months
Asset Call Price	100%	100%
Clean-up call	20% of CPA (Collateralised Portfolio Amount)	20% of CPA (Collateralised Portfolio Amount)

Parameters used to develop various credit loss scenarios for the underlying pool of financial instruments

Description of investment	Range of Credit Default Rates	Range of Probability of Default	Range of Loss Given Default	Range of Prepayment Rate
CLO investments	0.0% - 5.0%	0% - 25%	20% - 30%	15% - 25%

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

The procedure throughout the year has been to maintain sufficient liquidity in line with FCA regulations. Liquidity risk is managed at the Group level as discussed in the Management Discussion and Analysis in the Investcorp Holdings annual report. The Company's current liabilities are principally amounts owed to Group undertakings and staff remuneration.

The table below shows the maturity of the Company's financial liabilities

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
As at 30 June 2020					
Long term credit facility	29	17	28,522	37,780	66,348
Incentive bonus	6,984	202	-	-	7,186
Incentive fee payable	-	-	-	-	-
Loan with group undertakings	14,145	-	-	-	14,145
Amounts owed to group undertakings	21,917	-	-	-	21,917
Other payables	2,367	-	-	-	2,367
Total	45,442	219	28,522	37,780	111,963
As at 30 June 2019					
Long term credit facility	52	29	8,924	56,107	65,112
Incentive bonus	5,351	686	3,259	-	9,296
Incentive fee payable	3,952	-	-	-	3,952
Loan with group undertakings	43,345	-	-	-	43,345
Amounts owed to group undertakings	8,409	-	-	-	8,409
Other payables	562	-	-	-	562
Total	61,671	715	12,183	56,107	130,676

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Company is exposed to interest rates on the distribution return from the CLO investments as well as the banking deposits held in the ordinary course of business and money market placements.

A 200 basis points movement, based on the closing balance sheet position for the year ended 30 June 2020, would lead to a change in total comprehensive income of £2,618 (30 June 2019: £1,157k)

Foreign exchange risk

The Company's revenue is denominated in USD and Euros, and is subject to exchange rate risk. The exchange rate and non-sterling cash balances are monitored regularly to mitigate this risk. The Company's market risk is predominantly due to the Euro currency exposure relating to its Euro CLO investment, management fee receivables and deposits. A +/- 10% movement on the Euro against sterling would lead to a net movement of +/- £18,932k (30 June 2019: +/-£22,361k). However, there will be no impact in the statement of comprehensive income given that from 1 April 2017, the Company has managed its foreign exchange exposures through an agreement with an intercompany, ITL, see Note 13.

Operational risk

Operational risk is mitigated by the Company through the application of written procedures, and the adoption of operational risk monitoring and measurement standards. Furthermore, the Company is also subject to independent internal audit monitoring refer to Note 2 for details on COVID-19 impact assessment.

18. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting year that require adjustments or disclosures to the financial statements.