

BREVAN HOWARD

Brevan Howard Master Fund Limited  
Interim Unaudited Consolidated Financial Statements 2012

INTERIM UNAUDITED CONSOLIDATED  
FINANCIAL STATEMENTS  
30 June 2012

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# Unaudited Consolidated Statement of Assets and Liabilities

30 June 2012

	2012 US\$'000
<b>Assets</b>	
Investments at market value (cost: US\$41,294,129) (Note 3, 5)	50,252,183
Cash (Note 2)	36,111
Investments purchased under agreements to resell (cost: US\$6,468,140) (Note 7)	6,418,794
Dividends and interest receivable	75,244
Due from broker (Note 2)	3,599,224
Long - term interest-bearing subscriptions receivable (Note 12)	140,481
Other assets	7,058
<b>Total assets</b>	<b>60,529,095</b>
<b>Liabilities</b>	
Investments sold short at market value (proceeds: US\$10,433,015) (Note 3)	19,303,263
Investments sold under agreements to repurchase (proceeds: US\$8,905,517) (Note 7)	8,909,550
Accounts payable and accrued expenses (Notes 4, 5, 6)	2,888
Dividends and interest payable	49,398
Redemptions payable	195,920
Due to broker (Note 2)	5,881,707
Other liabilities	46
<b>Total liabilities</b>	<b>34,342,772</b>
<b>Net assets</b> (Note 8, 11)	<b>26,186,323</b>
<b>Net Asset Value per share</b>	
US Dollar Class A	US\$4,186.53
US Dollar L.P. Class A	US\$3,761.78
Euro Class A	€4,124.65
Sterling Class A	£4,579.26
Yen Class A	¥13,513.31
Australian Dollar Class A	AUD 1,327.40
Brazilian Real Class A	BRL 1,442.19
Canadian Dollar Class A	CAD 1,203.73
Norwegian Krone Class A	NOK 1,242.69
Singapore Dollar Class A	SGD 1,148.70
Swedish Krona Class A	SEK 960.81
Gold Class A	XAU 108.07
US Dollar Class B	US\$2,359.55
Euro Class B	€2,386.46
Sterling Class B	£2,463.66
US Dollar Class Y	US\$134.76
Euro Class Y	€130.50
Sterling Class Y	£130.90
US Dollar Class Z	US\$119.26
Euro Class Z	€120.08
Sterling Class Z	\$119.97
Yen Class Z	¥11,754.12

Cost and proceeds are presented in US\$'000.

See accompanying notes to the Interim Unaudited Consolidated Financial Statements.

Signed on behalf of the Board by:

**Dennis Hunter**

Director

17 August 2012

# Unaudited Consolidated Statement of Operations

30 June 2012

	2012 US\$'000
<b>Investment income</b>	
Interest income	274,462
Dividend income (net of withholding tax of US\$467)	4,837
<b>Total income</b>	<b>279,299</b>
<b>Expenses</b>	
Interest expense	137,339
Professional fees and other	2,549
Operational services fee (Note 4)	62,291
Management fee (Note 5)	13,570
Administration fee (Note 6)	14,613
Commission for futures and options	41,666
Dividend expense on investments sold short	1,639
Performance fee (Note 5)	24
<b>Total expenses</b>	<b>273,691</b>
<b>Net investment income</b>	<b>5,608</b>
<b>Net realised and unrealised gain/(loss) on investments</b>	
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	1,976
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	(751,158)
<b>Net realised and unrealised loss on investments</b>	<b>(749,182)</b>
<b>Net decrease in net assets resulting from operations</b>	<b>(743,574)</b>

*Withholding tax is presented in US\$'000.*

*See accompanying notes to the Interim Unaudited Consolidated Financial Statements.*

# Unaudited Consolidated Statement of Changes in Net Assets

30 June 2012

	2012 US\$'000
<b>Net decrease in net assets resulting from operations</b>	
Net investment income	5,608
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	1,976
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	(751,158)
	<b>(743,574)</b>
<b>Share Capital Transactions</b>	
<b>Issue of shares</b>	
US Dollar Class A	1,540,451
US Dollar L.P. Class A	607,735
Euro Class A	11,752
Sterling Class A	78,023
Yen Class A	25
Australian Dollar Class A	218,843
Brazilian Real Class A	6,611
Canadian Dollar Class A	93,276
Norwegian Krone Class A	2,463
Singapore Dollar Class A	2,513
Swedish Krona Class A	2,397
Gold Class A	5,663
US Dollar Class B	1,479
Sterling Class B	39,868
US Dollar Class Y	2,968
Euro Class Y	48
Sterling Class Y	3,296
US Dollar Class Z	586,799
Euro Class Z	23,948
Sterling Class Z	245,309
Yen Class Z	63,291

# Unaudited Consolidated Statement of Changes in Net Assets continued

30 June 2012

	2012 US\$'000
Redemption of shares	
US Dollar Class A	(612,167)
US Dollar L.P. Class A	(112,130)
Euro Class A	(92,147)
Sterling Class A	(40,766)
Yen Class A	(14,287)
Australian Dollar Class A	(624,323)
Canadian Dollar Class A	(29,144)
Norwegian Krone Class A	(28,232)
Singapore Dollar Class A	(294,933)
Gold Class A	(3,104)
US Dollar Class B	(19,491)
Euro Class B	(33,249)
Sterling Class B	(10,686)
US Dollar Class Y	(11,797)
Euro Class Y	(3,542)
Sterling Class Y	(29,200)
US Dollar Class Z	(46,000)
Euro Class Z	(7,870)
Sterling Class Z	(13,349)
Yen Class Z	(10,345)
Equalisation write back (Note 14)	14
<b>Net increase in net assets</b>	<b>756,436</b>
<b>Net assets – beginning of period</b>	<b>25,429,887</b>
<b>Net assets – end of period</b>	<b>26,186,323</b>

See accompanying notes to the Interim Unaudited Consolidated Financial Statements.

# Unaudited Consolidated Statement of Cash Flows

30 June 2012

2012  
US\$'000
**Cash flows from operating activities:**
**Net decrease in net assets resulting from operations** **(743,574)**

 Adjustments to reconcile net decrease in net assets resulting from  
operations to net cash provided by operating activities:

Decrease in investments at market value	6,049,531
Increase in investments purchased under agreement to resell	(375,000)
Decrease in dividends and interest receivable	30,888
Decrease in due from broker	8,229,354
Increase in other assets	(6,580)
Increase in securities sold short at market value	1,661,498
Decrease in due to broker	(7,054,990)
Decrease in accounts payable and accrued expenses	(488)
Increase in dividends and interest payable	36,591
Decrease in performance fee payable	(14,625)
Increase in other liabilities	46
<b>Net cash provided by operating activities</b>	<b>7,812,651</b>

**Cash flows from financing activities**

Proceeds on issue of shares	3,538,173
Payment on redemption of shares	(3,556,278)
Equalisation factor	(956)
Increase in investments purchased under agreement to resell	(2,900,664)
Decrease in investments sold under agreement to repurchase	(4,856,849)

**Net cash used in financing activities** **(7,776,574)**
**Net increase in cash** **36,077**
**Cash – beginning of period** **34**
**Cash – end of period** **36,111**
*Non-cash financing activities not included herein consist of:*
*Movement in long-term interest-bearing subscriptions receivable of (US\$1,418,677).*
*Movement in redemptions payable of (US\$1,519,515,368).*
*See accompanying notes to the Interim Unaudited Consolidated Financial Statements.*

# Notes to the Interim Unaudited Consolidated Financial Statements

30 June 2012

## 1. Organisation

Brevan Howard Master Fund Limited (the "Master Fund") is an exempted limited liability company which was incorporated under the Companies Law of the Cayman Islands on 22 January 2003 and commenced trading on 1 April 2003. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 4 March 2003.

The Master Fund seeks to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund's investment strategy is comprised of global investment strategies, and a number of long and short strategies that may have directional risk.

Brevan Howard Capital Management L.P. (the "Manager"), acting through its sole general partner, Brevan Howard Capital Management Limited, is the Manager of the Master Fund.

The Manager has appointed each of: (i) Brevan Howard Asset Management LLP ("BHAM"); (ii) Brevan Howard Investment Products Limited ("BHIPL"); (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; (v) DW Investment Management, L.P and (vi) BH-DG Systematic Trading LLP, as Investment Managers of the Master Fund's assets, in each case subject to risk oversight and treasury management by BHIPL and/or BHAM. The Manager may in future appoint additional Investment Managers provided that they are affiliates of the Manager or the Investment Managers.

The Manager and the Investment Managers (and/or their members, Directors, employees, related entities and connected persons and their respective members, Directors and employees) may subscribe, directly or indirectly, for shares and/or interests in the Master Fund's feeder funds. The feeder funds comprise of Brevan Howard Fund Limited, Brevan Howard L.P. and BH Macro Limited (together the "Feeder Funds").

The registered office of the Master Fund is at M&C Corporate Services Limited, P.O. Box 309, George Town, Grand Cayman, KY1-1104, Cayman Islands.

## 2. Significant accounting policies

### Basis of preparation

The accompanying Interim Unaudited Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Interim Unaudited Consolidated Financial Statements are presented in US Dollars.

### Security transactions and valuation

Security transactions are accounted for on a trade date basis.

Most positions of the Master Fund and its Subsidiaries are priced at the same time each day. This provides reliable comparative pricing of positions which are traded in different markets. A snapshot

of all markets (excluding Pacific Rim and Australasia) is made at 4:00 p.m. GMT. Pacific Rim and Australasia positions are priced as at local end-of-day mid market levels. The investment valuation under the method employed by the Master Fund and its Subsidiaries as at 30 June 2012 is not materially different to the investment valuation using the last quoted price.

Instruments with directly observable prices are priced to independent external data sources (e.g. exchange traded futures, options, equities, government and corporate debt securities). Illiquid credit markets have resulted in inactive markets for certain of the Master Fund and its Subsidiaries' financial instruments. As a result, there is no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realisable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks and estimates of future cash flows, could significantly affect these fair value estimates.

Estimates of the fair value Level 3 assets and liabilities as defined by the Accounting Standards Codification ("ASC") 820 of the Master Fund and its Subsidiaries' financial instruments are disclosed in Note 3.

Investments in other funds are valued at the latest available reported NAV of the respective fund received from that fund's administrator. In some cases these may be unaudited NAVs.

Some instruments may be priced using models in which some or all parameters are not directly driven by market-observable levels (e.g. unlisted securities, multifactored options or private placements).

OTC swap, forward and option values are determined based on relevant market information on the underlying reference assets which may include credit spreads, credit event probabilities, index values, individual security values, forward interest rates, variable interest rates, volatility measures and forward currency rates.

Realised gains and losses on investments are calculated using the highest in first out method. Realised and unrealised gains and losses are recorded at the reporting date in the Unaudited Consolidated Statement of Operations.

### Income and expense recognition

Interest income and expense including prime broker and ISDA/ISMA interest is recognised in the Unaudited Consolidated Statement of Operations on an accruals basis.



## 2. Significant accounting policies (continued)

### Income and expense recognition (continued)

Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income on long positions is recognised on the ex-dividend date and dividend declared on short positions existing on the record date is recognised on the ex-dividend date as an expense in the Unaudited Consolidated Statement of Operations.

### Investments purchased under agreements to resell and investments sold under agreements to repurchase

The Master Fund and its Subsidiaries enter into investments purchased under agreements to resell and investments sold under agreements to repurchase. These agreements are accounted for as collateralised investments and are recorded at cost plus accrued interest.

The Investment Managers monitor the market value of the Master Fund and its Subsidiaries' underlying contract amounts, including accrued interest, and requests or provides additional collateral where deemed appropriate. Interest on investments purchased under agreements to resell and investments sold under agreements to repurchase is accrued on a daily basis.

### Asset-Backed Securities

The Master Fund and its Subsidiaries may invest in asset-backed securities. These securities include mortgage backed securities, collateralised debt obligations and other asset-backed securities representing interests in pools of loans or other receivables.

Mortgage backed securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. The rate of pre-payments on underlying assets will affect the price and volatility of an asset backed security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase.

Collateralised Debt Obligations ("CDOs") include Collateralised Bond Obligations, Collateralised Loan Obligations and other similarly structured securities. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Master Fund and its Subsidiaries invest. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Master Fund and its Subsidiaries may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may produce disputes with the issuer or unexpected investment results.

### Derivative financial instruments

The Master Fund and its Subsidiaries use derivative financial instruments such as forward exchange contracts, options, futures contracts, forward rate agreements and swaps, which are recorded at fair value at the reporting date. Realised and unrealised changes in fair values are included in realised and unrealised gains and losses on investments in the Unaudited Consolidated Statement of Operations in the period in which the changes occur. The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Master Fund and its Subsidiaries would receive or pay to terminate the contract at the reporting date. Many derivative financial instruments are exchange traded or are traded in the over-the-counter market where market values are normally readily obtainable. Where such market prices are not readily available, fair values will be determined using commercial products which utilise valuation models that are consistent with market pricing methods.

When the Master Fund and its Subsidiaries purchase a put or call option, an amount, equal to the premium paid by the Master Fund and its Subsidiaries, is recorded as an investment and is subsequently adjusted to the current fair value of the option purchased on the reporting date.

Premiums paid for purchasing options that expire unexercised are treated by the Master Fund and its Subsidiaries on the expiration date as realised losses from investments. The difference between the premium and the amount received on writing an option to effect a closing transaction, including brokerage commissions, is also treated as a realised loss, or, if the premium is less than the amount received from the closing transaction, as a realised gain. If a call option is exercised, the premium is added to the cost of purchase of the underlying security or currency in determining whether the Master Fund and its Subsidiaries has realised a gain or loss. If a put option is exercised, the premium reduces the proceeds of the securities sold by the Master Fund and its Subsidiaries.

Unrealised gains or losses on open forward foreign exchange contracts and forward rate agreements represent the Master Fund and its Subsidiaries' net equity therein and is calculated as the present value of the difference between the contract date rate and the applicable forward rate at the reporting date, applied to the face amount of the forward contract. The unrealised gain or loss at the reporting date is included in the Unaudited Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on open futures contracts are calculated as the difference between the contract price at trade date and the contract's revaluation price. Any payments made to satisfy initial and variation margin are reflected as due to and due from broker balances on the Unaudited Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on swap agreements represent the cumulative fair value change since the last reporting date and are calculated as the present value of the future net cash flows to be received and paid under the agreement.

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 2. Significant accounting policies (continued)

### Derivative financial instruments (continued)

The following table sets forth the fair value of the Master Fund and its Subsidiaries' derivative contracts by certain risk types as of 30 June 2012 in accordance with ASC 815. The values in the table below exclude the effects of cash received or posted pursuant to derivative contracts, and therefore are not representative of the Master Fund and its Subsidiaries' net exposure. The derivative assets and derivative liabilities are included in "Investments at market value" and "Investments sold short at market value", respectively, in the Unaudited Consolidated Statement of Assets and Liabilities.

Derivative contracts for trading activities	Derivative Assets US\$'000	Derivative Liabilities US\$'000
Commodity Contracts (1,276 open positions)	997,935	825,603
Credit Contracts (1,476 open positions)	1,296,897	2,078,413
Equity Contracts (454 open positions)	369,041	463,833
Foreign Exchange Contracts (6,670 open positions)	2,327,790	2,154,701
Interest Rate Contracts (4,920 open positions)	11,758,362	10,049,633
<b>Gross Fair Value of Derivative Contracts</b>	<b>16,750,025</b>	<b>15,572,183</b>

The following table sets forth by certain risk types the Master Fund and its Subsidiaries' gains/(losses) related to derivative activities for the period ended 30 June 2012 in accordance with ASC 815. These gains/(losses) should be considered in the context that derivative contracts may have been executed to economically hedge certain securities and accordingly, certain gains or losses on derivative contracts may offset certain gains or losses attributable to securities. These gains/(losses) are included in "Net realised and unrealised gain/(loss) on investments" in the Unaudited Consolidated Statement of Operations.

Derivative contracts for trading activities	Realised Gains/(Losses) Period Ended 30 June 2012 US\$'000	Change in Unrealised Gains/(Losses) Period Ended 30 June 2012 US\$'000
Commodity Contracts	(165,346)	49,397
Credit Contracts	170,027	(136,255)
Equity Contracts	(234,964)	42,535
Foreign Exchange Contracts	(136,495)	175,976
Interest Rate Contracts	(126,593)	(402,638)
<b>Total</b>	<b>(493,371)</b>	<b>(270,985)</b>

The Master Fund and its Subsidiaries enter into derivative contracts that meet the definition of a credit derivative as defined by ASC 815. These contracts are primarily written and purchased credit default swaps on single issuers, asset-backed securities, credit indices and index or CDO tranches.

## 2. Significant accounting policies (continued)

### Derivative financial instruments (continued)

The following table relates to the Master Fund and its Subsidiaries' written credit derivatives as at 30 June 2012:

#### Maximum Payout/Notional Amount by Period of Expiration

Contract Type	0-2 Years '000	2-5 Years '000	5 Years or Greater '000	Total '000
Bespoke CDO tranches	58,982	211,915	–	270,897
Corporates	80,498	71,103	44,915	196,516
Credit index – corporate	–	49,618	–	49,618
Credit index – mortgage backed	–	–	1,402,177	1,402,177
Credit index tranche – corporate	69,795	34,898	(54,568)	50,125
Mortgage backed	–	–	4,513	4,513
Sovereign	–	(308,466)	498,505	190,039
<b>Total</b>	<b>209,275</b>	<b>59,068</b>	<b>1,895,542</b>	<b>2,163,885</b>

#### Maximum Payout/Notional Amount

Contract Type	Written Credit Derivative '000	Offsetting Purchased Credit Derivative '000	Net of Offsetting Purchased Credit Derivative '000	Written Credit Derivative at Fair Value US\$'000
Bespoke CDO tranches	270,897	–	270,897	(69,012)
Corporates	794,809	(598,293)	196,516	(1,904)
Credit index – corporate	326,108	(276,490)	49,618	(291)
Credit index – mortgage backed	1,680,177	(278,000)	1,402,177	(1,036,698)
Credit index tranche – corporate	663,687	(613,562)	50,125	(2,672)
Mortgage backed	8,013	(3,500)	4,513	(3,719)
Sovereign	1,703,500	(1,513,461)	190,039	(28,679)
<b>Total</b>	<b>5,447,191</b>	<b>(3,283,306)</b>	<b>2,163,885</b>	<b>(1,142,975)</b>

The Master Fund and its Subsidiaries may execute these types of credit derivatives as it seeks to increase its total return or as a means of hedging credit exposure.

Period of expiration, contract type, maximum payout and fair value are indicators of payment / performance risk. As a provider of credit protection, the Master Fund and its Subsidiaries receive a stream of payments from the counterparty representing the premium on the contract in exchange for guaranteeing the principal payment on a reference security or obligation upon the issuer's default. Upon the occurrence of a specified credit event, as a seller of credit protection, the Master Fund and its Subsidiaries are entitled to take possession of the defaulted underlying security and pay the buyer an amount equal to the notional amount of the swap. It may alternatively pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap reduced by the recovery value of the reference obligation.

#### Investments sold short

The Master Fund and its Subsidiaries may sell a security it does not own in anticipation of a decline in the market value of that security. When the Master Fund and its Subsidiaries sell a security short, it must borrow the security and deliver it to the broker-dealer through which it made the short sale. The Master Fund and its Subsidiaries are required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the value at which the Master Fund and its Subsidiaries sold the security short, or a loss, unlimited in size, will be recognised upon the termination of a short sale and recorded as a net realised gain or loss on investments in the Unaudited Consolidated Statement of Operations. Investments sold short are recorded as liabilities on the Unaudited Consolidated Statement of Assets and Liabilities.

#### Foreign currency translation

Investment securities and other assets and liabilities denominated in foreign currencies are translated into US Dollar amounts at prevailing exchange rates at the reporting date. Purchases and sales of investment securities in foreign currencies and income and expense items denominated in foreign currencies are translated into US Dollar amounts at the exchange rate on the respective dates of such transactions.

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 2. Significant accounting policies (continued)

### Foreign currency translation (continued)

The Master Fund and its Subsidiaries do not isolate that portion of the results of operations resulting from changes in currency exchange rates on investments from the fluctuations arising from changes in market prices of securities held. All currency gains and losses are included in net realised and unrealised gain or loss from investments in the Unaudited Consolidated Statement of Operations.

### Use of estimates

The preparation of Interim Unaudited Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Interim Unaudited Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. In particular, valuation models used to determine the fair value of unlisted derivative instruments require the use of a number of assumptions.

### Netting

Financial assets and liabilities are offset and the net amount presented in the Unaudited Consolidated Statement of Assets and Liabilities when, and only when, the Master Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under U.S. GAAP.

### Basis of consolidation

The Master Fund has consolidated the following entities (together the "Subsidiaries") as at 30 June 2012:

- BHMF Investments II Limited, a company incorporated with limited liability on 7 May 2010 under the laws of the Cayman Islands;
- BHMF Investments III Limited, a company incorporated with limited liability on 23 May 2011 under the laws of the Republic of Cyprus;
- WCG Strategies Fund Limited, a company incorporated with limited liability on 27 October 2008 under the laws of the Cayman Islands;

The Master Fund owns 100% of BHMF Investments II Limited, 100% of BHMF Investments III Limited and 100% of WCG Strategies Fund Limited as at 30 June 2012.

The Interim Unaudited Consolidated Financial Statements include full consolidation of wholly owned subsidiaries and of majority owned subsidiaries, except where the effect on the Master Fund's financial position and results of operations are immaterial. Transactions between the Master Fund and the Subsidiaries have been eliminated on consolidation.

### Cash

Cash consists of cash on hand and bank balances.

### Due from and to brokers

Amounts receivable from and payable to brokers includes settlement of trades along with deposits held as collateral. As at 30 June 2012, deposits held as collateral amounted to US\$1,955,971,078 and amounts pledged as collateral amounted to US\$800,932,137.

### Allocation of income and expenses between share classes

Income and expenses that are identifiable with a particular class are allocated to that class in computing its Net Asset Value (NAV).

Income and expenses that are common to all classes are allocated between classes based on their monthly NAVs.

## 3. Fair value measurements

The fair value of a financial instrument is the amount 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 (i.e. the exit price).

The fair value hierarchy under ASC 820 prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model derived valuations for which all significant inputs are observable, either directly or indirectly in active markets;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

**3. Fair value measurements (continued)**

The hierarchy requires the use of observable market data when available. As required by ASC 820, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following is a summary of the levels within the fair value hierarchy for the Master Fund and its Subsidiaries' investments as at 30 June 2012:

**Assets**

Fair value measurement at reporting date:	Level 1: US\$'000	Level 2: US\$'000	Level 3: US\$'000	Total US\$'000
Equity Securities	176,913	2,576	–	179,489
Private Placements	–	–	58,060	58,060
Funds	–	1,430,116	–	1,430,116
Fixed Income Securities				
Asset Backed Securities	3,990	425,717	32,533	462,240
Corporate Debt Securities	198,404	15,919	284	214,607
Mortgage Backed Securities	–	1,392,156	32,011	1,424,167
Non US Government Debt	7,724,668	–	–	7,724,668
Other Debt Obligations	–	54,257	–	54,257
US Government Debt	21,954,554	–	–	21,954,554
Derivatives				
Commodity contracts	948,669	49,266	–	997,935
Credit contracts	–	1,295,934	963	1,296,897
Equity contracts	296,680	72,361	–	369,041
Foreign Exchange contracts	6,358	2,321,432	–	2,327,790
Interest Rate Contracts	507,139	11,251,223	–	11,758,362
<b>Total assets</b>	<b>31,817,375</b>	<b>18,310,957</b>	<b>123,851</b>	<b>50,252,183</b>

**Liabilities**

Fair value measurement at reporting date:	Level 1: US\$'000	Level 2: US\$'000	Level 3: US\$'000	Total US\$'000
Equity Securities	144,569	–	–	144,569
Fixed Income Securities				
Corporate Debt Securities	53,440	–	–	53,440
Mortgage Backed Securities	–	8,993	–	8,993
Non US Government Debt	3,082,173	–	–	3,082,173
US Government Debt	441,905	–	–	441,905
Derivatives				
Commodity contracts	770,417	55,186	–	825,603
Credit contracts	–	2,078,413	–	2,078,413
Equity contracts	329,234	134,599	–	463,833
Foreign Exchange contracts	8,457	2,146,244	–	2,154,701
Interest Rate Contracts	540,230	9,509,403	–	10,049,633
<b>Total liabilities</b>	<b>5,370,425</b>	<b>13,932,838</b>	<b>–</b>	<b>19,303,263</b>

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 3. Fair value measurements (continued)

Foreign exchange contracts include foreign exchange futures, forwards, swaps, options and any other derivative contract in which the reference asset is a foreign exchange rate. Commodity contracts include commodity futures and options and any other derivative contract in which the reference asset is a commodity price or index. Credit contracts include credit default swaps, credit index options and any other derivative contract in which the reference asset is a credit event or other credit risk on an underlying entity, financial asset or a credit index. Equity contracts include equity futures, forwards, options, swaps, contracts for difference and any other derivative contract in which the reference asset is an equity price or index. Interest rate contracts include interest rate futures, forwards, swaps, options, caps and floors, swaptions, forward rate agreements and any other derivative contract in which the reference asset is an interest rate or debt security.

The Master Fund and its Subsidiaries policy is to recognise transfers in and transfers out of each level as at the end of each month.

Transfers in and transfers out of Level 3 have occurred due to the change in availability of observable market data.

There were no significant transfers between Level 1 and Level 2 during the period ended 30 June 2012. The Master Fund had no investments measured at fair value on a non-recurring basis during the period ended 30 June 2012.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Master Fund and its Subsidiaries have classified within the Level 3 category. As a result, the unrealised gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

### Level 3

#### Assets

	Asset Backed Securities US\$'000	Corporate Debt US\$'000	Credit Default Swaps US\$'000	Mortgage Backed Securities US\$'000	Private Placement US\$'000	Total US\$'000
Beginning balance as of 1 January 2012	31,863	537	–	48,249	54,695	135,344
Purchases	8,953	–	–	19,447	6,955	35,355
Sales	(33,699)	–	(4,755)	(13,738)	(4,146)	(56,338)
Transfers in to Level 3	40,935	–	5,852	22,393	–	69,180
Transfers out of Level 3	(20,253)	–	–	(41,129)	–	(61,382)
Realised gain/(loss)	1,639	(1,237)	4,755	(5,411)	(1,574)	(1,828)
Change in unrealised gain/(loss)	3,095	984	(4,889)	2,200	2,130	3,520
<b>Ending balance as of 30 June 2012</b>	<b>32,533</b>	<b>284</b>	<b>963</b>	<b>32,011</b>	<b>58,060</b>	<b>123,851</b>

#### Liabilities

At 30 June 2012, there were no Level 3 investments held short.

The change in unrealised movement for the period ended 30 June 2012 for Level 3 investments still held at 30 June 2012 amounted to an unrealised gain of US\$3,519,968 and is included in net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase on the Unaudited Consolidated Statement of Operations.

#### 4. Operational services fee

The Manager has received from the Master Fund a fee of 1/12 of 0.50% per month of the NAV, prior to the deduction of management and performance fees, of the Master Fund for the period to 30 June 2012 (the "operational services fee") as at the last valuation day in each month (excluding for these purposes such part of the NAV of the Master Fund which is attributable to (i) any investments made in other investment funds managed by the Manager which also charge an operational services fee, or (ii) the Class Z ordinary shares in the Master Fund). The Manager has appointed BHAM to provide certain services in respect of the Master Fund (including middle-office and back-office services and information technology services), for which the Manager pays BHAM a fee equal to the operational services fee the Manager receives from the Master Fund.

The operational services fee for the period ended 30 June 2012 amounted to US\$62,290,998. The operational services fee payable at 30 June 2012 is US\$6,772.

#### 5. Management and performance fees

The Manager receives a management fee of 1/12 of 2% (or a pro rata proportion thereof) per month of the NAV (before deduction of that month's management fee and before making any deduction for any accrued performance fee) as at the last valuation day in each month, payable monthly in arrears on Class X shares and Class Y shares. No management fees are payable in respect of Class A shares, Class B shares and Class Z shares. The management fee payable at 30 June 2012 is US\$1,641.

The Manager also receives a performance fee. The performance fee is equal to the relevant percentage of the appreciation in the NAV per share of that class during that calculation period which is above the base NAV of that class. The base NAV per share is the greater of the NAV per share of the relevant class at the time of issue of such share and the highest NAV per share achieved as at the end of any previous calculation period.

For the Master Fund, the applicable performance fees are 20% for Class X and 25% for Class Y. No performance fees are payable in respect of Class A shares, Class B shares and Class Z shares. Performance fees may be settled in cash or in the cash equivalent of US Treasury Bills at fair value on the date of transfer. In respect of the Subsidiaries, the applicable performance fees for 2012 are 20% for Class A of WCG Strategies Fund Limited. Performance fees for the period were US\$24,386 and the performance fee payable at 30 June 2012 was US\$Nil.

At 30 June 2012 the Master Fund held investments in the following funds (each an "underlying fund investment") managed by one or more of the Brevan Howard group of affiliated entities:

	US\$
BHMF Investments II Limited	15,878,993
BHMF Investments III Limited	15,000
Brevan Howard Commodities Strategies Fund L.P.	217,944,166
Brevan Howard Credit Value Master Fund Limited	102,493,927
Brevan Howard Emerging Markets Strategies Fund L.P.	769,668,812
Brevan Howard Equity Strategies Master Fund Limited	2,084,069
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund	10,314,305
Brevan Howard Strategic Opportunities Fund Limited	8,377,089
Brevan Howard Systematic Trading Master Fund Limited	319,233,529
WCG Strategies Fund Limited	985,015,014

The return on the Master Fund's investment in these funds is net of applicable performance and management fees. To ensure that the effective rate of management fees and/or performance fees that is ultimately borne by shareholders in the Master Fund or Feeder Funds (in relation to each underlying fund investment) is not greater than the rate of performance and/or management fees applicable to the class of share held by that investor, the Master Fund or Feeder Fund reduces management and performance fees charged in relation to these investment holdings accordingly.

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 6. Administration fee

Under the terms of the Administrative Services Agreement, as amended, dated 18 February 2011 between International Fund Services (Ireland) Limited ("IFS") and the Master Fund, the Administrator receives a fee based on the month-end NAV of the Master Fund and its Subsidiaries calculated and payable monthly in arrears.

The administration fee on a monthly basis is 1/12 of 14 basis points (on the first \$15 billion month end NAV), 1/12 of 11 basis points (on the next \$15 billion month end NAV) and 1/12 of 9 basis points (on net assets over \$30 billion month end NAV), of the excess of the Master Fund's month end NAV over the sum of NAV that represents the amount of investment made by the Master Fund in other Brevan Howard managed funds administered by IFS held in the same month. The administration fee payable at 30 June 2012 is US\$2,339,646.

Administration fees are also incurred on investments made in affiliated and non-affiliated funds by the Master Fund that are not administered by IFS.

## 7. Investments purchased under agreements to resell and investments sold under agreements to repurchase

At 30 June 2012, investments with a market value of US\$6,418,794,174 were pledged to the Master Fund and its Subsidiaries as collateral (investments purchased under agreements to resell) and investments with a value of US\$8,909,549,613 were pledged by the Master Fund and its Subsidiaries as collateral (investments sold under agreements to repurchase).

All agreements to repurchase mature by 7 December 2012 and all agreements to resell mature by 28 September 2012.

## 8. Share capital

The Master Fund has an authorised share capital of:

- €100,000 divided into 10,000,000 ordinary shares of €0.01 par value;
- US\$400,000 divided into 40,000,000 ordinary shares of US\$0.01 par value;
- £100,000 divided into 10,000,000 ordinary shares of £0.01 par value;
- ¥10,000,000 divided into 10,000,000 ordinary shares of ¥1.00 par value;
- AUD400,000 divided into 40,000,000 ordinary shares of AUD0.01 par value;
- BRL400,000 divided into 40,000,000 ordinary shares of BRL0.01 par value;

- CAD400,000 divided into 40,000,000 ordinary shares of CAD0.01 par value;
- CHF400,000 divided into 40,000,000 ordinary shares of CHF0.01 par value;
- NOK400,000 divided into 40,000,000 ordinary shares of NOK0.01 par value;
- SGD400,000 divided into 40,000,000 ordinary shares of SGD0.01 par value;
- SEK 400,000 divided into 40,000,000 ordinary shares of SEK0.01 par value.

All of which may be issued as Class A, Class B, Class X, Class Y and Class Z shares in any number of series.

The Class A US Dollar share class is divided into two series of shares, relating to Brevan Howard Fund Limited and Brevan Howard L.P. and may be issued as US\$ shares or Gold shares. These series commenced on 1 April 2003 and 1 February 2004 respectively. All Class A US Dollar, Euro, Sterling, Australian Dollar, Canadian Dollar, Brazilian Real, Norwegian Krone, Singapore Dollar, Gold, Swedish Krona and Yen shares are held by Brevan Howard Fund Limited, whilst all Class A US Dollar L.P. shares are held by Brevan Howard L.P. All Class B US Dollar, Euro and Sterling shares are held by BH Macro Limited. Class Y US Dollar, Euro and Sterling shares are held by Brevan Howard Global Opportunities Master Fund Limited. Class Z US Dollar, Euro, Sterling and Yen shares are held by Brevan Howard Multi-Strategy Master Fund Limited.

The rights of the Class X US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus save that no redemption fees are payable in respect of such shares.

The rights of the Class Y US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class B US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.

The rights of the Class Z US Dollar, Euro, Sterling and Yen Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.



**8. Share capital (continued)**

	2012 Shares
<b>Shares in issue at start of period</b>	
US Dollar Class A	3,148,099
US Dollar L.P. Class A	709,042
Euro Class A	294,404
Sterling Class A	263,564
Yen Class A	4,566,680
Australian Dollar Class A	618,182
Brazilian Real Class A	89,183
Canadian Dollar Class A	105,415
Norwegian Krone Class A	479,712
Singapore Dollar Class A	403,562
Gold Class A	37
US Dollar Class B	242,459
Euro Class B	76,421
Sterling Class B	310,587
US Dollar Class Y	666,143
Euro Class Y	132,290
Sterling Class Y	1,854,540
US Dollar Class Z	2,756,422
Euro Class Z	340,419
Sterling Class Z	1,691,196
Yen Class Z	231,623
<b>Shares issued during the period</b>	
US Dollar Class A	356,228
US Dollar L.P. Class A	156,489
Euro Class A	2,069
Sterling Class A	10,361
Yen Class A	142
Australian Dollar Class A	147,767
Brazilian Real Class A	8,462
Canadian Dollar Class A	73,112
Norwegian Krone Class A	10,597
Singapore Dollar Class A	2,610
Swedish Krona Class A	15,765
Gold Class A	31
US Dollar Class B	608
Sterling Class B	9,854
US Dollar Class Y	21,106
Euro Class Y	275
Sterling Class Y	15,338
US Dollar Class Z	4,769,971
Euro Class Z	143,933
Sterling Class Z	1,266,458
Yen Class Z	420,533

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 8. Share capital (continued)

	2012 Shares
<b>Share redeemed during the period</b>	
US Dollar Class A	(141,413)
US Dollar L.P. Class A	(28,942)
Euro Class A	(16,472)
Sterling Class A	(5,422)
Yen Class A	(82,201)
Australian Dollar Class A	(475,965)
Canadian Dollar Class A	(24,144)
Norwegian Krone Class A	(133,646)
Singapore Dollar Class A	(309,530)
Gold Class A	(17)
US Dollar Class B	(8,000)
Euro Class B	(10,341)
Sterling Class B	(2,665)
US Dollar Class Y	(86,426)
Euro Class Y	(20,764)
Sterling Class Y	(138,675)
US Dollar Class Z	(377,693)
Euro Class Z	(48,602)
Sterling Class Z	(70,679)
Yen Class Z	(70,188)
<b>Shares in issue at end of period</b>	
US Dollar Class A	3,362,914
US Dollar L.P. Class A	836,589
Euro Class A	280,001
Sterling Class A	268,503
Yen Class A	4,484,621
Australian Dollar Class A	289,984
Brazilian Real Class A	97,645
Canadian Dollar Class A	154,383
Norwegian Krone Class A	356,663
Singapore Dollar Class A	96,642
Swedish Krona Class A	15,765
Gold Class A	51
US Dollar Class B	235,067
Euro Class B	66,080
Sterling Class B	317,776
US Dollar Class Y	600,823
Euro Class Y	111,801
Sterling Class Y	1,731,203
US Dollar Class Z	7,148,700
Euro Class Z	435,750
Sterling Class Z	2,886,975
Yen Class Z	581,968

*It is envisaged that no income or gains are to be distributed by way of dividend.*

## 9. Taxes

Under current Cayman Islands laws, the Master Fund is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Master Fund has received an undertaking from the Governor in Cabinet in the Cayman Islands exempting it from any such taxes for a period of 20 years until 11 February 2023. The only taxes payable by the Master Fund on its income are withholding taxes applicable to certain income. Accordingly, no provision for taxes is recorded in these Interim Unaudited Consolidated Financial Statements.

ASC 740, Income Taxes, established financial accounting and disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a tax return. The Manager has reviewed the Master Fund's tax positions for all open tax years and has concluded that no provision for income tax is required in the Master Fund's Interim Unaudited Consolidated Financial Statements.

The Master Fund is subject to potential examination by certain taxing authorities in various jurisdictions. The tax liability is also subject to ongoing interpretation of laws by taxing authorities. The tax years under potential examination vary by jurisdiction.

## 10. Financial instruments with off-balance sheet risk or concentration of credit risk

Derivative financial instruments may result in off-balance sheet market and credit risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable or more onerous. If the markets should move against one or more positions that the Master Fund and its Subsidiaries holds, the Master Fund and its Subsidiaries could incur losses greater than the unrealised amounts recorded in the Unaudited Consolidated Statement of Assets and Liabilities. The principal credit risk is that the counterparty to the Master Fund and its Subsidiaries will default and fail to fulfill the terms of the agreement.

Investments sold short have market risk to the extent that the Master Fund and its Subsidiaries, in satisfying its obligation, may have to purchase securities to cover a short position at a higher value than that recorded on the Unaudited Consolidated Statement of Assets and Liabilities.

Futures contracts expose the Master Fund and its Subsidiaries to credit, market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk such that changes in the market values of the securities or indices underlying a contract may exceed the amount recognised in the Unaudited Consolidated Statement of Assets and Liabilities. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its futures position in times of high volatility and financial stress at a reasonable price.

Forward contracts expose the Master Fund and its Subsidiaries to market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk to the extent that adverse changes occur in the value of the underlying asset. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its forwards positions in times of high volatility and financial stress at a reasonable price.

As a purchaser of an option contract, the Master Fund and its Subsidiaries are subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Master Fund and its Subsidiaries exercise the option. As a purchaser of an option contract, the Master Fund and its Subsidiaries are only subject to market risk to the extent of the premium paid.

The Master Fund and its Subsidiaries purchase both exchange-traded and over-the-counter options. For exchange-traded option contracts, the stock exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. Over-the-counter option contracts are not guaranteed by any regulated stock exchange.

The Master Fund and its Subsidiaries invest in fixed income securities and bank loans. Until such investments are sold or mature, the Master Fund and its Subsidiaries are exposed to credit risk relating to whether the issuer will meet its obligation as it comes due.

Entering into credit default swap agreements and contracts for difference exposes the Master Fund and its Subsidiaries to market risks equivalent to actually holding securities of the notional value but typically involve little capital commitment relative to the exposure achieved. The gains or losses of the Master Fund and its Subsidiaries may therefore be significantly greater than this initial commitment.

In connection with investments sold under agreements to repurchase, it is the Master Fund and its Subsidiaries' policy that their prime brokers take possession of the underlying collateral securities. If the seller defaults and the fair value of the collateral declines, realisation of the collateral by the Master Fund and its Subsidiaries may be delayed or insufficient.

In accordance with ASC 815 the Master Fund records its trading-related derivative activities on a fair value basis (as described in Note 2).

Assets and liabilities included in the table in Note 2 represent the fair value of the Master Fund's and its Subsidiaries' holdings at the period end. These assets and liabilities are not representative of the outstanding credit risk to the Master Fund and its Subsidiaries due to the existence of master netting agreements.

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 10. Financial instruments with off-balance sheet risk or concentration of credit risk (continued)

The gross fair value of the Master Fund's derivative instruments are shown in Note 2.

Fair values represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Master Fund and its Subsidiaries maintain trading relationships with counterparties that include domestic and foreign brokers, dealers and financial institutions; these relationships could result in the concentration of the credit risk if counterparties fail to fulfill their obligations or the value of any collateral becomes inadequate.

BHIPL has formulated credit review policies that attempt to control credit risk by following an established credit approval process, daily monitoring of net exposure to individual counterparties, requiring the segregation of collateral where possible, and using master netting agreements whenever possible.

### Liquidity risk

The Master Fund's and its Subsidiaries investment portfolios are leveraged and are actively managed to ensure there is sufficient liquidity to meet collateral calls, shareholder redemption requests and trading and other liabilities as they become due.

The Master Fund and its Subsidiaries seek to trade mainly in investments that are sufficiently liquid and readily realisable at close to fair value in order to meet any potential liquidity requirement. To this end, the Master Fund and its Subsidiaries monitor the speed at which the portfolio can be liquidated under ordinary market conditions and further monitors liquidity by a number of additional measures. Deteriorating market conditions, however, may hamper the ability of the fund to liquidate its investments in an orderly manner.

From time to time, market participants with which the Master Fund and its Subsidiaries effect transactions might cease making markets or quoting prices in certain instruments, may only continue to do so in limited size, or may widen the spreads at which they are prepared to transact. In such instances, the Master Fund and its Subsidiaries might be unable to enter into desired transactions, or close out existing transactions, at normal market levels, which might adversely affect its performance.

The Master Fund's and its Subsidiaries liquidity risk is monitored on a daily basis by staff of the Investment Managers, independent of the portfolio management team, using measures of risk and unencumbered cash and cash equivalents, and includes an escalation process in circumstances where liquidity approaches tolerance levels.

The Master Fund and its Subsidiaries may restrict redemptions in accordance with their Articles of Association if they receive requests for the redemption of Shares on any Redemption Day representing in aggregate more than ten per cent of the total number of Ordinary Shares then in issue on a class by class basis.

## 11. Related party transactions

Brevan Howard Capital Management L.P. acting through its sole general partner, Brevan Howard Capital Management Limited, is Manager of the Master Fund. The Manager has appointed each of: (i) BHAM; (ii) BHIPL; (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; (v) DW Investment Management, L.P and (vi) BH-DG Systematic Trading LLP as Investment Managers of the Master Fund's assets. The transactions with the Investment Managers and fees payable at the period-end are disclosed in Note 5 to the Interim Unaudited Consolidated Financial Statements.

Brevan Howard Multi-Strategy Master Fund Limited ("BHMS") is a Cayman incorporated limited liability company that is permitted to invest its assets in any investment funds of which one or more of the Brevan Howard group of affiliated companies is the manager or investment manager. The Manager of the Master Fund is also the manager of BHMS. BHMS held 5.91% (US\$1,548,052,017) of the net assets of the Master Fund through a holding of US Dollar, Euro, Sterling and Yen Class Z shares as at 30 June 2012.

BH Global Limited ("BHG") is a Guernsey incorporated closed-ended investment company listed on the London Stock Exchange that invests all of its assets in the Brevan Howard Global Opportunities Master Fund Limited ("BHGOMF"). The Manager of the Master Fund, is also the manager of BHG and BHGOMF. BHGOMF is permitted to invest in any investment funds of which one or more of the Brevan Howard group of affiliated entities is the manager or investment manager. At 30 June 2012 BHGOMF held 1.74% (US\$454,967,101) of the net assets of the Master Fund.

As at 30 June 2012 the Master Fund held investments in funds managed by one or more of the Brevan Howard group of affiliated entities as set out in Note 5.

## 12. Long-term interest-bearing subscriptions receivable

The subscriptions receivable amount of US\$ 140,481,439 is due from Brevan Howard Fund Limited and relates to Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares issued by the Feeder Fund. Upon issuance of these Nil Paid shares by the Feeder Fund, additional shares were issued by the Master Fund (US Dollar Class A and Sterling Class A shares), resulting in the recognition of a corresponding receivable balance.

## 12. Long-term interest-bearing subscriptions receivable (continued)

The following table details the share transactions during the period:

	In Issue At Start of Period	Issued during the Period	Redeemed during the Period	In Issue At End of Period
Nil Paid US Dollar Class C	82,873	45,207	(431)	127,649
Nil Paid Sterling Class C	113,538	25,940	(1,319)	138,159

The Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares are issued to Brevan Howard Employee Benefit Trust Number 3, Brevan Howard Employee Benefit Trust Number 7, BH Partners L.P. and BH Partners 2009 LP.

A guarantee to pay any unmet capital calls covering the issue of the Class C shares has been given to the Feeder Fund by the Manager.

Accrued interest receivable in the form of a funding fee has been recognised by the Feeder Fund as follows:

Share Class	Issue Date	Redemption Date	Number of Issued Shares	Funding Fee Rate
Nil Paid US Dollar Class C	Jan-2010	Jan-2013	36,406	1.32%
Nil Paid US Dollar Class C	Jan-2011	Jan-2014	46,036	0.98%
Nil Paid US Dollar Class C	Jan-2012	Jan-2015	45,207	0.39%
Nil Paid Sterling Class C	Jan-2010	Jan-2013	69,647	1.85%
Nil Paid Sterling Class C	Jan-2011	Jan-2014	42,572	1.49%
Nil Paid Sterling Class C	Jan-2012	Jan-2015	25,940	0.52%

This funding fee, together with the long-term interest-bearing subscriptions receivable, is withheld from the redemption proceeds at the end of the term by the Feeder Fund. The Directors of the Feeder Fund have resolved to call any Nil Paid Class C shares if the prevailing NAV of such share falls below 90% of the NAV at issuance.

## 13. Investment in affiliated funds

The Master Fund has invested in a number of affiliated funds as set out in Note 5.

## 14. Equalisation Factor

Where Shares are subscribed for at a time when the NAV per Share is greater than the Peak NAV per Share of the relevant Class, the investor will be required to pay an amount in excess of the then current NAV per Share of that Class equal to the Relevant Percentage of the difference between the then current NAV per Share of that Class (before accrual for the Performance Fee) and the Peak NAV per Share of that Class (an "Equalisation Credit").

At the date of subscription the Equalisation Credit will equal the Performance Fee per Share accrued with respect to the other Shares of the same Class in the Master Fund (the "Maximum Equalisation Credit"). The Equalisation Credit is payable to account for the fact that the NAV per Share of that Class has been reduced to reflect an accrued Performance Fee to be borne by existing Shareholders of the same Class and serves as a credit against Performance Fees that might otherwise be payable by the Master Fund but that should not, in equity, be charged against the Shareholder making the subscription because, as to such Shares, no favourable performance has yet occurred. The Equalisation Credit ensures that all holders of Shares of the same Class have the same amount of capital at risk per Share.

The additional amount invested as the Equalisation Credit will be at risk in the Master Fund and will therefore appreciate or depreciate based on the performance of the relevant Class subsequent to the issue of the relevant Shares but will never exceed the Maximum Equalisation Credit. In the event of a decline as at any Valuation Day in the NAV per Share of those Shares, the Equalisation Credit will also be reduced by an amount equal to the Relevant Percentage of the difference between the NAV per Share (before accrual for the Performance Fee) at the date of issue and as at that Valuation Day. Any subsequent appreciation in the NAV per Share of the relevant Class will result in the recapture of any reduction in the Equalisation Credit but only to the extent of the previously reduced Equalisation Credit up to the Maximum Equalisation Credit.

At the period end the accrued equalisation factor was US\$Nil.

# Notes to the Interim Unaudited Consolidated Financial Statements continued

30 June 2012

## 15. Subsequent Events

For the period ended 30 June 2012, the Master Fund and its Subsidiaries evaluated subsequent events through 17 August 2012. No material events which would require to be disclosed in the Interim Unaudited Consolidated Financial Statements occurred during this period.

# Management and Administration

## Directors

Karla Bodden  
Dennis Hunter  
Nagi Kawkabani (resigned April 2012)  
Philippe Lespinard  
Bruce Levitt (resigned June 2012)  
Jonas Rinné  
Phil Schmitt  
Risto Silander (appointed June 2012)  
James Vernon

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