

INVESTCORP BANK B.S.C.

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008**

INVESTCORP BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

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INVESTCORP BANK B.S.C.

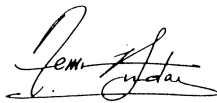
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

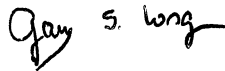
The Bank's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Group's control processes over financial reporting are designed and implemented under the supervision of the Group's Board of Directors, Executive Chairman & Chief Executive Officer, President & Chief Operating Officer, Chief Financial Officer and Group Head of Legal & Compliance to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards.

The Group's internal controls over financial reporting include policies and procedures that (a) relate to the maintenance of records in a reasonable level of detail that fairly and accurately reflects transactions pertaining to the Group's assets; (b) provide reasonable assurance that these transactions have been properly authorized; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, utilization or disposal of the Group's assets that could have a material impact on the consolidated financial statements.

The Group's Internal Audit Department has completed an assessment of the effectiveness of the Bank's internal controls during the year ended June 30, 2008 based on internal guidelines set by the Board Audit Committee. Based on this assessment, management believes that, as of June 30, 2008 and during the year then ended, the Bank's internal control systems over financial reporting are effective and that there were no material weaknesses therein. However, despite effective design, implementation and maintenance, any system of internal controls carries certain inherent limitations that may result in an inability to prevent or detect misstatements. Also, projections of the effectiveness of internal controls in the future are subject to the risk that controls may either become inadequate due to changing conditions or that compliance with policies and procedures may deteriorate.



Nemir A. Kirdar
Executive Chairman
& Chief Executive
Officer



Gary S. Long
President & Chief
Operating Officer



Rishi Kapoor
Chief Financial
Officer



Lawrence B. Kessler
Group Head of Legal
& Compliance

July 23, 2008

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

We have audited the accompanying consolidated financial statements of Investcorp Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at June 30, 2008 and the consolidated statements of income, comprehensive income, changes in equity and cash flows (together the "consolidated financial statements") for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
INVESTCORP BANK B.S.C. (Continued)**

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended June 30, 2008 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

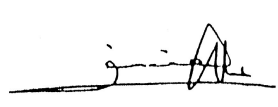
A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

July 23, 2008
Manama, Kingdom of Bahrain

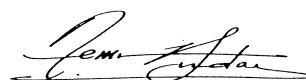
INVESTCORP BANK B.S.C.

CONSOLIDATED BALANCE SHEET JUNE 30, 2008

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>	<i>Note</i>	<i>Page</i>
ASSETS				
Cash and short-term funds	194,163	329,742	5	31
Placements with banks and other financial institutions	257,407	488,040	5	31
Positive fair value of derivatives	62,191	31,072	21	66
Receivables and prepayments	459,580	269,160	6	32
Loans and advances	341,106	146,580	7	33
<u>Co-investments</u>				
Hedge funds	2,020,808	1,856,451	8	34
Private equity	1,029,142	751,191	9	35
Real estate	337,038	368,880	10	39
Total co-investments	3,386,988	2,976,522		
Premises, equipment and other assets	64,892	65,977		
Total assets	4,766,327	4,307,093		
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from financial institutions	385,469	169,454		
Deposits from clients	558,019	642,893	12	41
Negative fair value of derivatives	45,925	71,192	21	66
Unfunded deal acquisitions	234,321	48,915		
Payables and accrued expenses	217,125	268,838	13	42
Medium-term debt	1,116,395	740,933	14	42
Long-term debt	971,903	983,002	15	44
Total liabilities	3,529,157	2,925,227		
EQUITY				
Preference share capital	-	185,968	16	45
Ordinary shares' par value	200,000	200,000	16	45
Reserves	653,971	648,786	16	45
Retained earnings	500,047	419,571		
Treasury shares	(177,602)	(141,532)	16	45
<i>Ordinary shareholders' equity</i>	1,176,416	1,126,825		
Proposed preference share dividend	-	21,802	18	48
Proposed ordinary share dividend	63,278	53,922	18	48
Fair value adjustments through equity	(2,524)	(6,651)	17	47
Total equity	1,237,170	1,381,866		
Total liabilities and equity	4,766,327	4,307,093		



Abdul-Rahman Salim Al-Ateeqi
Chairman



Nemir A. Kirdar
Executive Chairman
& Chief Executive Officer

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2008

CONSOLIDATED STATEMENT OF INCOME

<i>\$000s</i>	<i>2008</i>	<i>2007</i>	<i>Note</i>	<i>Page</i>
FEE INCOME				
Management fees	136,464	71,552		
Activity fees	221,483	268,330		
Performance fees	24,952	44,045		
<i>Gross fee income (a)</i>	<u>382,899</u>	<u>383,927</u>	2	20
Expenses attributable to fee income	<u>(223,411)</u>	<u>(227,548)</u>	2	20
NET FEE INCOME	<u>159,488</u>	<u>156,379</u>		
ASSET BASED INCOME				
Investment income				
Private equity	5,023	77,546		
Hedge funds	100,508	322,462		
Real estate	19,129	26,088		
Treasury and other asset based income	74,869	45,731		
<i>Gross asset based income (b)</i>	<u>199,529</u>	<u>471,827</u>	2	20
Provisions	<u>(5,410)</u>	<u>(34,240)</u>	11	40
Interest expense	<u>(159,896)</u>	<u>(213,768)</u>		
Expenses attributable to asset based income	<u>(42,654)</u>	<u>(77,898)</u>	2	20
NET ASSET BASED INCOME	<u>(8,431)</u>	<u>145,921</u>		
NET INCOME	<u>151,057</u>	<u>302,300</u>		
Basic and fully diluted earnings per ordinary share (\$)	<u>212</u>	<u>385</u>	18	48
TOTAL REVENUE (a) + (b)	<u>582,428</u>	<u>855,754</u>		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>\$000s</i>	<i>2008</i>	<i>2007</i>	<i>Note</i>	<i>Page</i>
NET INCOME (AS ABOVE)	<u>151,057</u>	<u>302,300</u>		
Other comprehensive income				
Directors' remuneration	(2,120)	(2,000)		
Charitable contributions	(1,511)	(3,023)		
Fair value movements	4,127	(18,965)	17	47
Other comprehensive income	<u>496</u>	<u>(23,988)</u>		
TOTAL COMPREHENSIVE INCOME	<u>151,553</u>	<u>278,312</u>		

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2008

<i>\$000s</i>	2008	2007	<i>Note</i>	<i>Page</i>
Preference shares' par value at beginning and end	200,000	200,000	16	45
Redeemed during the year	<u>(200,000)</u>	<u>-</u>		
Preference shares' par value at end	<u>-</u>	<u>200,000</u>		
Treasury shares (preference) at beginning	(14,032)	(820)		
Purchased	-	(13,212)		
Par value of shares cancelled on redemption	13,274	-		
Transfer to retained earnings on redemption	<u>758</u>	<u>-</u>		
Treasury shares (preference) at end	<u>-</u>	<u>(14,032)</u>		
Preference share capital at end	<u>-</u>	<u>185,968</u>		
Ordinary shares' par value at beginning and end	200,000	200,000	16	45
Share premium at beginning	501,670	352,666		
Gain on sale of treasury shares (ordinary)	<u>2,301</u>	<u>149,004</u>		
Share premium at end	<u>503,971</u>	<u>501,670</u>	16	45
Statutory reserve at beginning	97,116	66,886		
Transfer from retained earnings	<u>2,884</u>	<u>30,230</u>		
Statutory reserve at end	<u>100,000</u>	<u>97,116</u>	16	45
General reserve at beginning and end	<u>50,000</u>	<u>50,000</u>	16	45
Reserves	<u>653,971</u>	<u>648,786</u>		
Retained earnings at beginning	419,571	225,996		
Comprehensive income excluding fair value movements	147,426	297,277		
Transfer from treasury shares (preference) on redemption	(758)	-		
Loss on sale of treasury shares (ordinary)	(30)	-		
Transfer to statutory reserve	(2,884)	(30,230)		
Dividends proposed	(63,278)	(75,724)	18	48
Unpaid prior year dividend on treasury shares	-	2,252		
Retained earnings at end	<u>500,047</u>	<u>419,571</u>		
Treasury shares (ordinary) at beginning	(141,532)	(103,324)		
Purchased	(47,882)	(323,759)		
Sold	14,083	434,555	16	45
Gain on sale (net)	<u>(2,271)</u>	<u>(149,004)</u>		
Treasury shares (ordinary) at end	<u>(177,602)</u>	<u>(141,532)</u>	16	45
Ordinary shareholders' equity at end	<u>1,176,416</u>	<u>1,126,825</u>		
Proposed preference share dividend	-	21,802		
Proposed ordinary share dividend	<u>63,278</u>	<u>53,922</u>		
Proposed dividends	<u>63,278</u>	<u>75,724</u>	18	48
Fair value adjustments at beginning	(6,651)	12,314		
Movements	<u>4,127</u>	<u>(18,965)</u>		
Fair value adjustments at end	<u>(2,524)</u>	<u>(6,651)</u>	17	47
EQUITY AT END	<u>1,237,170</u>	<u>1,381,866</u>		

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008

<i>\$000s</i>	2008	2007	Note	Page
OPERATING ACTIVITIES				
Net income	151,057	302,300		
Adjustments to reconcile net income to net cash:				
Depreciation	6,699	6,582	4	31
Provisions for receivables and advances	5,410	34,240	11	40
Amortization of transaction costs of borrowings	4,200	19,111		
Net income adjusted for non-cash items	167,366	362,233		
Changes in:				
Operating capital				
Receivables and prepayments	(195,830)	105,709	6	32
Loans and advances	(194,526)	(17,528)	7	33
Deposits from clients - short-term	(56,087)	273,419	12	41
Unfunded deal acquisitions	185,406	48,915		
Payables and accrued expenses	(55,344)	21,502	13	42
Co-investments				
Hedge funds	(164,357)	(158,225)	8	34
Private equity	(277,951)	316,569	9	35
Real estate	31,842	(191,798)	10	39
Fair value of derivatives	(38,603)	(36,013)		
Other assets	213	73		
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(597,871)	724,856		
FINANCING ACTIVITIES				
Deposits from financial institutions	216,015	(171,829)		
Deposits from clients - medium-term	(28,787)	(44,562)	12	41
Medium-term revolvers drawn	240,000	-	14	42
Medium-term debt issued (net of transaction costs)	132,127	59,656	14	42
Medium-term debt repaid	-	(343,000)	14	42
Long-term debt repaid	(25,620)	-	15	44
Treasury shares sold (ordinary) - net	-	110,796	16	45
Treasury shares purchased (ordinary) - net	(33,799)	-	16	45
Preference shares redeemed / purchased	(186,726)	(13,212)	16	45
Dividends paid	(75,724)	(57,748)		
NET CASH FROM (USED IN) FINANCING ACTIVITIES	237,486	(459,899)		
INVESTMENT IN PREMISES AND EQUIPMENT				
	(5,827)	(9,684)		
Net (decrease) increase in cash and cash equivalents	(366,212)	255,273		
Cash and cash equivalents at beginning	817,782	562,509		
Cash and cash equivalents at end	451,570	817,782		
Cash and cash equivalents comprise:				
			5	31
Cash and short-term funds	63,192	61,395		
Transitory funds	130,971	268,347		
Placements with banks and other financial institutions	257,407	488,040		
	451,570	817,782		

Cash and cash equivalents comprise cash and short-term funds, transitory funds, together with placements with banks and other financial institutions that have contracted maturities of less than 90 days.

The attached notes 1 to 26 are an integral part of these consolidated financial statements.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

(i) Incorporation

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

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

The Bank is incorporated in the Kingdom of Bahrain as a Bahraini Shareholding Company with limited liability. The Bank has a primary listing on the Bahrain Stock Exchange ("BSE") and a secondary listing through Global Depositary Receipts (the "GDR") on the London Stock Exchange ("LSE"). Every 100 GDRs represent a beneficial interest in one underlying ordinary share of the Bank. The ultimate parent of the Group is SIPCO Holdings Limited [see Note 1.A (iii)].

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

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

The consolidated financial statements for the year ended June 30, 2008 were authorized for issue in accordance with a resolution of the Board of Directors dated July 23, 2008.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

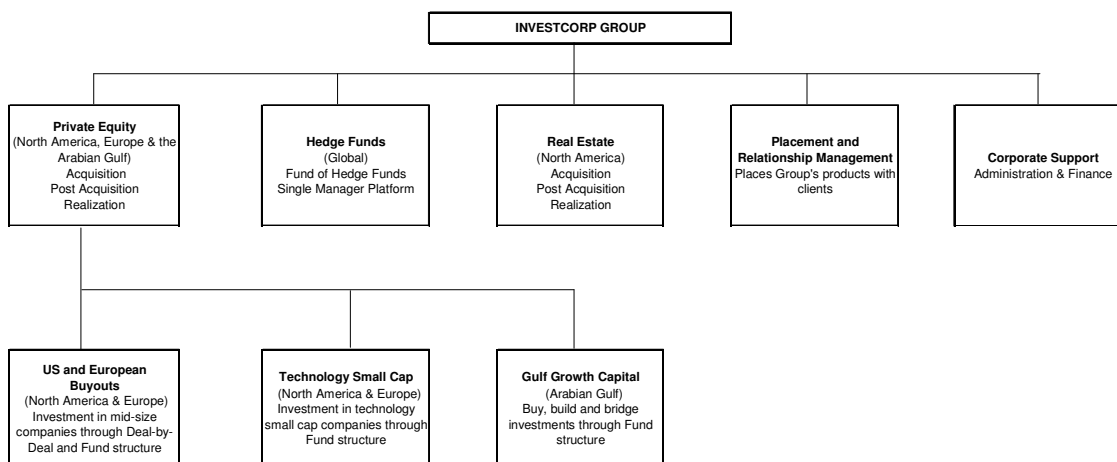
1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(ii) Activities

The Group's principal activity is providing products in three broad alternative investment asset classes to its client base and co-investing in these alongside its clients. The alternative investment asset classes in which the Group specializes are private equity, hedge funds and real estate. Within the private equity asset class the Group offers three products namely, (a) US and European Buyouts, (b) Technology Small Cap investments and (c) Gulf Growth Capital.

In carrying out its activities, the Group performs two principal roles (a) to act as an intermediary by bringing global alternative investment opportunities to its clients, and (b) to act as a principal investor by co-investing its balance sheet in each of its investment products alongside its clients.



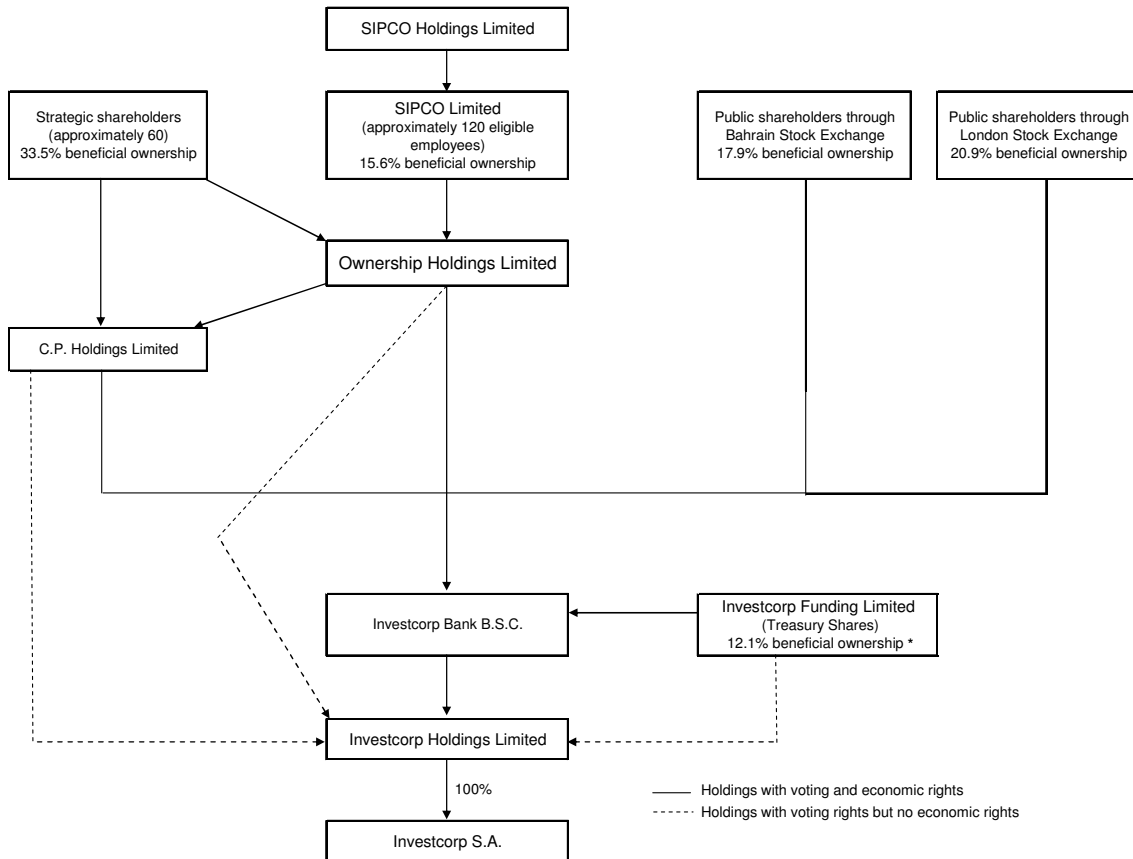
INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iii) Ownership



* Treasury shares include a portion that is held for future sale to management under the SIP Plan. The Group has approval from CBB to hold upto 40% shares for the SIP Plan..

The Bank is controlled by Ownership Holdings Limited (“OHL”), through its shareholding directly, and through C.P. Holdings Limited (“CPHL”), of the issued ordinary shares of the Bank. OHL is, in turn, ultimately controlled by SIPCO Holdings Limited (“SHL”). SIPCO Limited (“SIPCO”), an SHL subsidiary, is the entity through which employees participate in ownership of the Bank’s ordinary shares. The Bank is, therefore, controlled by its employees through their beneficial ownership as a group via SHL, SIPCO, OHL and CPHL.

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

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity.

The Bank has a 100% economic interest in Investcorp Holdings Limited ("IHL", incorporated in the Cayman Islands) through Series A preference shares issued by IHL. These preference shares have the right to 100% of all dividends declared by IHL and 100% of IHL's net assets in the event of liquidation. CPHL, OHL and Investcorp Funding Limited ("IFL") own ordinary shares of IHL in the same proportion to their shareholding of Investcorp ordinary shares. The ordinary shares and Series A preference shares of IHL carry voting rights.

IHL in turn has a 100% economic and voting interest in Investcorp S.A. ("ISA"), a financial holding company incorporated in Luxembourg. ISA is the principal asset-holding operating entity within the Group and, consistent with covenants contained in the Group's medium and long-term debt, the Group holds at least 95% of its assets through ISA or subsidiaries that are owned directly or indirectly by ISA.

INVESTCORP BANK B.S.C.

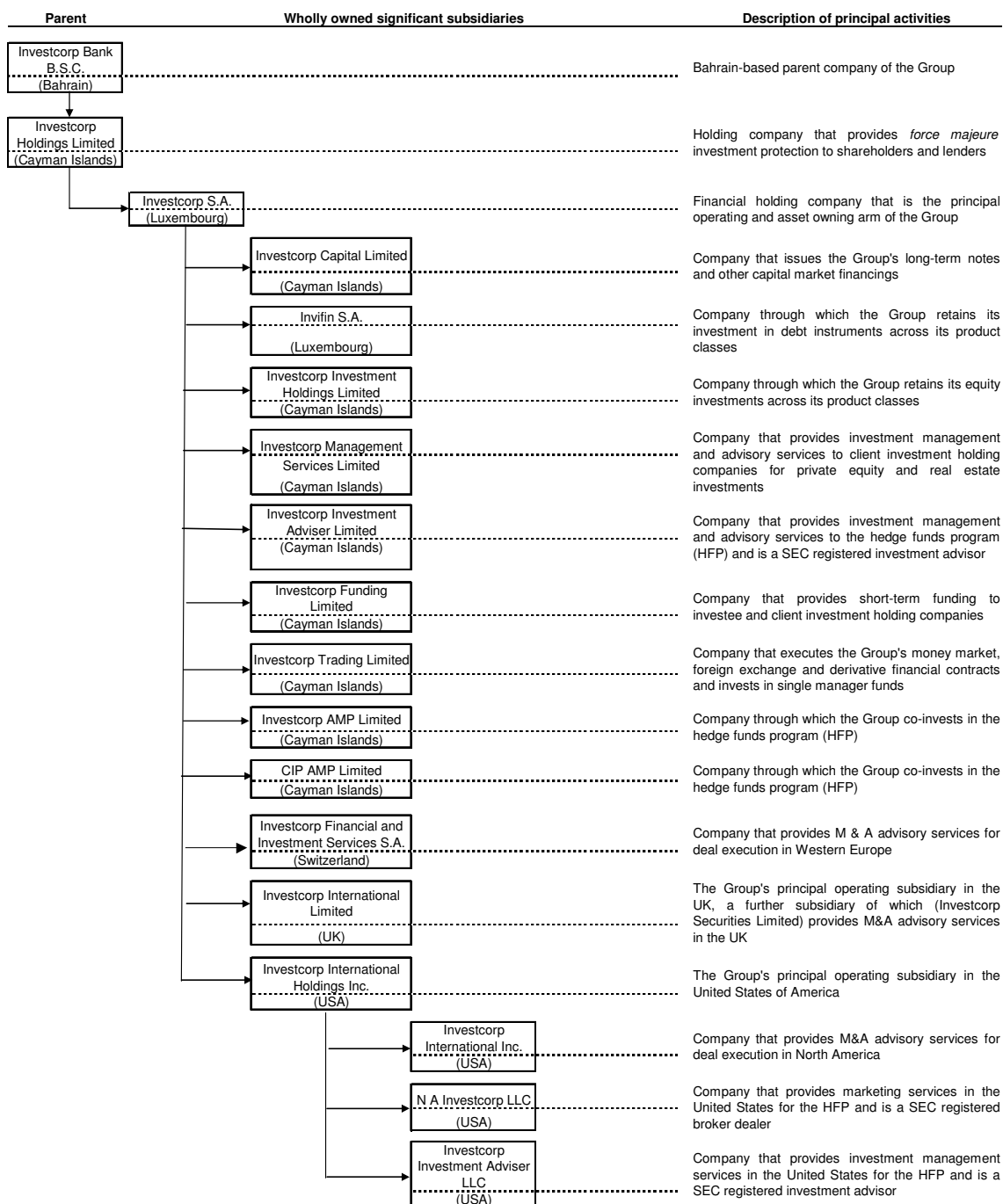
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ORGANIZATION (continued)

(iv) Subsidiary companies (continued)

The Group structure is illustrated below:



INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The consolidated financial statements are prepared in United States dollars, this being the functional currency of the Group, and rounded to the nearest thousands (\$000s) unless otherwise stated.

Presented below is a summary of the significant accounting policies which are consistent with those used in prior years except for the adoption of IFRS 7, IFRS 8 and revised IAS 1 as noted below.

Adoption of IFRS 7

IFRS 7 (Financial Instruments - Disclosures) was issued by International Accounting Standards Board ("IASB") and needed to be applied for fiscal years beginning on or after January 1, 2007. The Group has adopted this Standard during the fiscal year beginning July 1, 2007.

Early adoption of International Financial Reporting Standards

IFRS 8 (Operating Segments) and revised IAS 1 (Presentation of Financial Statements) were both issued by International Accounting Standards Board and needed to be applied for fiscal years beginning on or after January 1, 2009. The Group has early adopted both these Standards during the fiscal year beginning July 1, 2007, as permitted by the Standards.

IFRS 8 relates to disclosure of segmental information and revised IAS 1 requires certain changes in the presentation of financial statements. As such, early adoption of these standards has no impact on the Group's results for the year ended, or financial position as at, June 30, 2008.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revised Standards pending application in the future

As of June 30, 2008 the IASB has revised the following Standards to be applied to financial statements for periods commencing on or after the following dates:

<u>Standard / Interpretation</u>	<u>Standard / Interpretation Title</u>	<u>Effective for fiscal periods commencing on or after</u>	<u>Brief description</u>
IAS 32	Financial Instruments: Presentation	January 1, 2009	Provides guidance on accounting for and disclosure of puttable financial instruments.
IAS 27	Consolidated and Separate Financial Statements and amendments	July 1, 2009	Requires compulsory adoption of the economic entity approach.
IFRS 3	Business Combinations	July 1, 2009	Provides guidance on accounting for changes in interests in subsidiaries.

The directors do not anticipate that the adoption of these Standards will have a material impact on the consolidated financial statements in the period of their initial application.

New Standards and Interpretations not applicable to the Group

The IASB and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations applicable for accounting periods commencing on or after the following dates. These standards and interpretations are not relevant to the Group's operations.

<u>Standard / Interpretation</u>	<u>Standard / Interpretation Title</u>	<u>Effective for fiscal periods commencing on or after</u>
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 14	IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRIC 13	Customer Loyalty Payments	July 1, 2008
IAS 23	Borrowing Costs (Revised)	January 1, 2009
IFRS 2	Vesting Conditions and Cancellations	January 1, 2009

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Accounting convention in the consolidated financial statements preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the re-measurement at fair value of financial instruments under IAS 39.

ii) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of fair value of unquoted Fair Value Through Profit or Loss ("FVTPL") investments and impairment provisions for unquoted Available-For-Sale ("AFS") investments (see Notes 9 and 10).

In the process of applying the Group's accounting policies, management has made the following judgments with respect to classification of investments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of investments

On initial investment, management decides whether it should be classified as held to maturity, held for trading, carried as FVTPL, or AFS.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, the Group has the intention and ability to hold these to maturity.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short-term profit.

Investments acquired with the intention of a long-term holding period, such as in private equity, real estate or hedge funds, are classified as FVTPL investments when the following criteria are met:

1. they have readily available reliable measure of fair values and
2. such investments' performance is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's senior management.

All other investments are classified as available-for-sale.

iii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of all subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition. All intercompany balances, income and expenses have been eliminated on consolidation.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) *Foreign currencies*

Foreign currency transaction is recorded in the functional currency at the rate of exchange prevailing at the value date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognized in the consolidated statement of income. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Non-monetary assets in foreign currencies that are stated at fair value are retranslated at exchange rates prevailing on the dates the fair values were determined.

v) *Income and expenses*

Interest income is recognized using the effective yield of the asset and is recorded as asset based income. Investment income from all FVTPL investments is recognized on the basis of changes in fair value for the year. Capital gains realized on FVTPL investments are recognized by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realization.

Fee income is recognized when services are rendered. Performance fees for private equity and real estate business are recognized at the time of exit. Performance fees for hedge funds business is accrued on a cumulative basis using the High Watermark methodology.

Realized capital gains on investments other than FVTPL investments are taken to income at the time of derecognition.

Interest on borrowings represents funding cost and is calculated using the effective interest rate method, adjusted for gains or losses on related cash flow hedges.

vi) *Investments in hedge funds*

The Group's co-investments in hedge funds are classified as FVTPL investments and are stated at fair value at the balance sheet date with all changes being recorded in the consolidated statement of income.

The fair value of co-investments in hedge funds is based on underlying net asset values as explained in Note 8.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

vii) Investments

The Group's co-investments in private equity and real estate are classified as FVTPL investments. These investments are initially recorded at acquisition cost (being the initial fair value) and are re-measured to fair value at each balance sheet date, with resulting unrealized gains or losses being recorded as asset based income in the consolidated statement of income for the year. Consequently, there are no impairment provisions for such investments.

Quoted FVTPL investments are equity investments in publicly quoted companies that are listed on a recognized stock exchange and are traded on a regular basis in organized markets. The fair value of such investments is determined by reference to the bid price of the listed instruments as of the balance sheet date.

FVTPL holdings in unquoted private equity and real estate investments are fair valued using the methodologies explained in Notes 9 and 10.

Certain of the Group's strategic and other investments are classified as AFS and are initially recorded at cost including acquisition charges. The fair value for these investments is determined using valuations implied by material financing events involving third party capital providers, such as a partial disposal, additional funding, indicative bids, etc. In the event that such third party evidenced reliable measure of fair value is not available, the investment is stated at its previous carrying value, net of any impairment provisions. The resulting change in value of these investments is recorded as a separate component of equity until they are impaired or derecognized at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

viii) Receivables

Subscription receivables are recognized when the obligation is established, i.e., when a binding subscription agreement is signed. Provisions are made against receivables as soon as they are considered doubtful.

ix) Loans and advances

Loans and advances are stated at amortized cost, net of provisions.

x) Derecognition of financial instruments

A financial asset (in whole or in part) is derecognized either when the Group has transferred substantially all the risks and rewards of ownership, or in cases when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

xi) Trade date accounting

Purchases and sales of financial assets that require delivery of the assets within a timeframe generally established by regulation or convention in the market place are recognized using the "trade date" accounting basis (i.e. the date that the entity commits to purchase or sell the asset).

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xii) *Impairment and un-collectibility of financial assets*

An assessment is made at each balance sheet date for all financial assets other than those classified as FVTPL assets to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognized in the consolidated statement of income and credited to an allowance account. In the case of available for sale equity investments, such impairment is reflected directly as a write down of the financial asset.

Impaired financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an amount written off earlier is later recovered, the recovery is credited to the relevant provision account in the consolidated statement of income.

Impairment is determined as follows:

- a) For assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
- b) For AFS assets carried at fair value, impairment is the cumulative loss that has been recognized directly in equity.
- c) For assets carried at cost, impairment is based on present value of future cash flows discounted at the current market rate of return for a similar financial asset.

xiii) *Premises and equipment*

Premises and equipment substantially comprise land, buildings and related leasehold improvements used by the Group as office premises, and therefore, are not considered as real estate investment assets. Premises and equipment are initially recorded at cost and are then depreciated over their estimated useful lives which are as follows:

Buildings on freehold land	25 years
Leasehold and building improvements	10 - 15 years
Operating assets	3 - 10 years

xiv) *Unfunded deal acquisitions*

Unfunded deal acquisitions represent amounts contractually payable by the Group in respect of investment acquisitions signed at the balance sheet date that have not been funded.

xv) *Payables and accrued expenses*

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors (see Note 23).

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvi) *Borrowings*

Borrowings, represented by medium-term revolvers, medium-term debt and long-term debt, are initially recognized at the fair value of consideration received and subsequently adjusted for the impact of effective fair value hedges.

Transaction costs relating to borrowings are initially capitalized and deducted from the borrowings. These are amortized over the expected life of these borrowings.

xvii) *Treasury shares*

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Gains on sale of treasury shares are included in share premium and losses are included in retained earnings.

xviii) *Dividends*

Proposed dividends are disclosed as appropriations from equity until the time they are approved by the shareholders. On approval by shareholders these are transferred to liabilities.

xix) *Offsetting*

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to settle on a net basis.

xx) *Derivative financial instruments*

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

Derivatives that qualify for hedge accounting under IAS 39 are classified into fair value hedges or cash flow hedges. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Accounting treatments for both types of hedges and in the case of discontinuance of hedges are disclosed in Note 21.

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

C. RECLASSIFICATION

Strategic and other investments that were shown separately in the previous year have been reclassified and added into their respective asset classes on the balance sheet i.e. co-investments in private equity and real estate in order to conform with current year presentation (see Notes 9 and 10). Unfunded deal acquisitions that were included in payables and accrued expenses have been shown separately. These reclassifications do not have any impact on the previous reported net income or equity.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING

A) ACTIVITIES

i) As an intermediary

The Group acts as an intermediary by arranging and managing alternative investment assets for institutional and high net worth clients through operating centers in the Kingdom of Bahrain, London, New York and Los Angeles. Fee income is earned throughout the life cycle of investments by providing these intermediary services to clients. The Group's clients are primarily based in the Arabian Gulf, however the Group has been expanding its franchise globally, targeting institutional investors in the United States and Europe.

ii) As a principal

The Group co-invests along with clients in all the alternative investment asset products it offers to its clients. Income from these proprietary co-investments in private equity, hedge funds and real estate investments is classified as asset based income.

B) ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS

As stated earlier, the Group has early adopted IFRS 8 (Operating Segments) with effect from July 1, 2007. IFRS 8 requires operating segments to be identified and measured on the basis of internal management reporting. These should be the reportable operating segments that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (primary and secondary), using a risks and rewards approach, with the entity's internal management reporting serving only as the starting point for the identification of such segments. Adoption of IFRS 8 has not had any significant impact on Group's segment reporting since the Group had always reported its segmental information on the same basis as it was reported to the Group's senior management.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

B) ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS (continued)

The Group classifies its reporting segments on the basis of its three product asset classes and the individual lines of business within these that are responsible for each distinct product category. The following table shows the relationship between the Group's asset classes, lines of business and reporting segments.

Asset Classes	Lines of Business (Product Categories)	Products	Reporting Segments
1) Private Equity	1) US and European Buyouts 2) Technology Small Cap Investments 3) Gulf Growth Capital	- Deal by deal offerings - Closed end fund(s) - Closed-end fund(s) - Closed-end fund(s)	1) Private Equity
2) Hedge Funds	4) Hedge Funds	- Fund of Hedge Funds - Single Managers	2) Hedge Funds
3) Real Estate	5) Real Estate	- Equity investments - Mezzanine debt investments	3) Real Estate
		- Liquidity / Working Capital / Funding	4) Corporate Support

Each of the five lines of business comprises its team of investment professionals and is supported by a common placement and relationship management team. The lines of business, together with their related product offerings and the reporting segments are described in further detail below:

i) US and European Buyouts ("Buyouts")

The Buyouts team, based in London and New York, arranges private equity buyout investments in mid-size companies in North America and Western Europe with a strong track record and potential for growth. These investments are placed primarily on a deal-by-deal basis with the Group's investor base in the Gulf, and also offered through conventional fund structures to international institutional investors. The Group retains a small portion as a co-investment on its own consolidated balance sheet. These investments are managed by the team on behalf of investors for value optimization up until realization.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

B) ASSET CLASSES, LINES OF BUSINESS AND REPORTING SEGMENTS (continued)

ii) *Technology Small Cap Investments ("TSI")*

The TSI team, based in London and New York, arranges and manages investments in technology small cap companies in North America and Western Europe, with a high potential for growth. Given their relatively higher risk-return profile, these investments are offered to clients through fund structures that ensure diversification across several investments. The Group also has co-investments alongside its clients in the Technology Funds.

iii) *Gulf Growth Capital ("GGC")*

The GGC team, based in Bahrain, targets buy, build ("Greenfield") and bridge investment opportunities primarily in the Arabian Gulf. The team also considers, on a selective basis, similar investment opportunities in the Middle East and North Africa (MENA) region. Given their risk-return profile, and the need for multiple follow-on rounds of funding, these investments are being offered to clients through a fund structure that ensures diversification across several investments. The Group also co-invests alongside its clients in the GGC Fund(s).

iv) *Hedge Funds ("HF")*

The HF team operating from New York and London manages Investcorp's Fund of Hedge Funds business (referred to as the Hedge Funds Program, "HFP") and Single Managers business (referred to as the Single Manager Platform, "SMP") including proprietary co-investment as well as client assets. The program aims to achieve attractive returns on a risk-adjusted basis over a medium-term period with low correlation to traditional and other alternative asset classes, through a diversified portfolio of investments in hedge funds.

v) *Real Estate ("RE")*

The RE team, based in New York and Los Angeles, arranges investments in US-based properties with strong cash flows and/or potential for attractive capital gains over a three to five year holding period. Several properties are assembled into diversified portfolios that are then placed individually with the Group's investor base in the Gulf, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. Further the Group also provides its investor base with mezzanine investment opportunities through fund structures, with the Group retaining a small portion as a co-investment on its own consolidated balance sheet. The property investments are managed by the RE team on behalf of investors for value optimization up until realization.

vi) *Corporate Support*

Corporate Support comprises the Group's Administration, Finance and Management functions, which are collectively responsible for supporting the five lines of business through services including risk management and treasury, accounting, legal and compliance, corporate communications, back office and internal controls, technology and general administration.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

C) REVENUE GENERATION

i) *Fee income*

There are several components of fees that are earned from providing intermediary services to clients and investee companies. Activity fees comprise acquisition fees earned by the Group from investee companies on new private equity or real estate acquisitions (usually as a percentage of the total purchase consideration), placement fees earned by the Group from Gulf clients at the time of placing new private equity or real estate transactions with them (usually as a percentage of the total subscription from a client), and ancillary fees that are earned from investee companies for providing advisory services for ancillary transactional activity, including refinancings, recapitalizations, restructuring and disposal. Management fees are earned from client holding companies and investee companies based on investments under management and from funds based on clients' commitments or investments. Performance fees are calculated as a portion of the gain earned by clients on investments that exceed a specified hurdle rate.

ii) *Asset based income*

Asset based income for the reporting segments includes realized as well as unrealized gains and losses over previously reported values of FVTPL private equity and real estate co-investments, value appreciation on the Group's co-investment in hedge funds, cash or pay-in-kind interest from various debt investments in private equity or real estate deals and rental income distribution from real estate investments.

All other income that is common to the Group (such as income arising from the deployment of Group's excess liquidity) is treated as asset based income and recorded under Corporate Support.

D) ALLOCATION OF OPERATING EXPENSES

Operating expenses for each reporting segment comprise the respective lines of businesses' employee compensation and benefits and costs of its technology and communications infrastructure and resources, including professional fees for external advisors, travel and business development costs and premises. These are allocated between intermediary and principal co-investing activities.

The operating expenses associated with principal co-investing activities are determined to be:

- a) a fee calculated at 1.2% of average proprietary co-invested assets of each reporting segment from the Group's balance sheet, placements with banks and other financial institutions plus;
- b) a 20% carry on excess asset based income, which is calculated as gross asset based income after provisions less interest expense less the 1.2% fee in (a) above.

The remaining operating expenses after allocation to principal co-investing activities represent the costs relating to intermediary activities.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

E) SEGREGATION OF ASSETS

Assets directly attributable to the private equity and real estate reporting segments are primarily in the form of proprietary co-investments by the Group in investments arranged by the respective lines of businesses, classified as FVTPL investments in the consolidated balance sheet. Assets directly attributable to the hedge funds reporting segment are primarily in the form of the Group's proprietary co-investment in hedge funds. All other assets that are common to the Group are recorded under Corporate Support.

F) ALLOCATION OF EQUITY, LIABILITIES AND INTEREST EXPENSE

The Group uses a Value-at-Risk (VaR) methodology to determine the amount of economic risk capital that is needed to support each reporting segment in its business growth objectives and also in conditions of extreme stress, and allocates equity to each reporting segment on this basis. At the beginning of each fiscal year, equity capital is allocated to each unit on an ex-ante basis taking into account the current size of the business, expected growth over the medium-term and the associated equity required to support the risks within each reporting segment through the VaR methodology. Having determined the assets directly attributable to each reporting segment, and the ex-ante equity requirements, the Group allocates liabilities (debt funding) to each segment based on the relative maturity profile of the segment's assets. Longer-dated liabilities are generally allocated to the private equity and real estate reporting segments, considering their medium-long term investment horizon.

The allocation of liabilities determined above, in turn, drives the allocation of interest expense for each reporting segment.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

G) ASSETS UNDER MANAGEMENT

The Group's clients participate in products offered under its three alternative investment asset classes. Total assets under management ("AUM") in each of the reporting segments at the balance sheet date are as follows:

<i>\$millions</i>	June 30, 2008				June 30, 2007			
	Clients	Investcorp	Affiliates and co- investors	Total	Clients	Investcorp	Affiliates and co- investors	Total
Private Equity								
<i>Closed-end Committed Funds</i>								
- US and European buyouts	451	250	20	721	366	250	20	636
- Technology small cap investments	424	64	12	500	268	19	13	300
- Gulf Growth Capital	956	109	35	1,100	475	75	-	550
Sub total	1,831	423	67	2,321	1,109	344	33	1,486
<i>Closed-end Invested Funds</i>								
- Technology small cap investments	255	28	12	295	53	6	2	61
<i>Deal-by-deal investments</i>								
- US and European buyouts	3,148	832	555	4,535	2,782	707	517	4,006
<i>Strategic and other investments</i>	-	73	-	73	-	26	-	26
Total private equity	5,234	1,356	634	7,224	3,944	1,083	552	5,579
Hedge Funds								
<i>Fund of hedge funds</i>	3,908	1,536	228	5,672	4,061	1,585	241	5,887
<i>Single managers</i>	1,641	529	77	2,247	188	302	-	490
Total hedge funds	5,549	2,065	305	7,919	4,249	1,887	241	6,377
Real Estate								
<i>Closed-end Committed Funds</i>	953	152	3	1,108	103	2	3	108
<i>Deal-by-deal investments</i>	926	318	37	1,281	578	346	25	949
<i>Strategic and other investments</i>	-	5	-	5	-	20	-	20
Total real estate	1,879	475	40	2,394	681	368	28	1,077
Corporate Support								
<i>Client call accounts held in trust</i>	143	-	-	143	138	-	-	138
Total	12,805	3,896	979	17,680	9,012	3,338	821	13,171
Summary by category:								
<i>Closed-end Committed Funds</i>	2,784	575	70	3,429	1,212	346	36	1,594
<i>Closed-end Invested Funds</i>	255	28	12	295	53	6	2	61
<i>Hedge Funds</i>	5,549	2,065	305	7,919	4,249	1,887	241	6,377
<i>Deal-by-deal investments</i>	4,217	1,228	592	6,037	3,498	1,099	542	5,139
Total	12,805	3,896	979	17,680	9,012	3,338	821	13,171
Summary by segments:								
<i>Private Equity</i>								
- US and European buyouts	3,599	1,082	575	5,256	3,148	957	537	4,642
- Technology small cap investments	679	92	24	795	321	25	15	361
- Gulf Growth Capital	956	109	35	1,100	475	75	-	550
- Strategic and other investments	-	73	-	73	-	26	-	26
<i>Hedge Funds</i>	5,549	2,065	305	7,919	4,249	1,887	241	6,377
<i>Real Estate</i>	1,879	475	40	2,394	681	368	28	1,077
<i>Corporate Support</i>	143	-	-	143	138	-	-	138
Total	12,805	3,896	979	17,680	9,012	3,338	821	13,171

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

G) ASSETS UNDER MANAGEMENT (continued)

In the above table all hedge funds and Investcorp balance sheet co-investment amounts for private equity and real estate are stated at fair values while the other categories are stated at their carrying cost.

Certain of the Group's clients entered into a Trust arrangement whereby their call account balances maintained with the Bank were transferred into individual Trust Fund accounts managed by a common Trustee. These Trust Funds are invested in highly liquid assets which have a credit rating no lower than that of Investcorp and are specifically ring-fenced to meet the amounts placed in Trust. Client monies held in Trust earn the return generated from the assets of the Trust, with a guaranteed minimum return equivalent to inter-bank based market rates.

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

The table below shows the Group's total revenues by product categories for the years ended June 30, 2008 and 2007.

<u>\$000s</u>	<u>2008</u>	<u>2007</u>
Total revenue		
US and European Buyouts	220,931	372,110
Technology Small Cap Investments	12,296	584
Gulf Growth Capital	18,840	-
Total Private Equity	252,067	372,694
Hedge Funds	186,162	386,597
Real Estate	69,330	60,563
Corporate Support	74,869	35,900
Total	<u>582,428</u>	<u>855,754</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment revenues in the year (2007: Nil). All of the Group's fee income arises from intermediary activities while the asset based income is made up of \$39.7 million (June 30, 2007: \$48.0 million) interest income from items at amortized cost, \$46.8 million (June 30, 2007: \$0.5 million) from items held for trading with the remainder from items at FVTPL.

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

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

The consolidated statements of income for the years ended June 30, 2008 and 2007 by reporting segments are as follows:

<i>July 2007 - June 2008</i> <i>\$000s</i>	<i>Private Equity</i>	<i>Hedge Funds</i>	<i>Real Estate</i>	<i>Corporate Support</i>	<i>Total</i>
Fee income					
Management fees	66,023	61,167	9,274	-	136,464
Activity fees	181,021	-	40,462	-	221,483
Performance fees	-	24,487	465	-	24,952
Gross fee income	247,044	85,654	50,201	-	382,899
Expenses attributable to fee income	(134,369)	(61,265)	(27,777)	-	(223,411)
Net fee income	112,675	24,389	22,424	-	159,488
Asset based income					
Interest income	416	-	1,013	38,264	39,693
Other asset based income	4,607	100,508	18,116	36,605	159,836
Gross asset based income	5,023	100,508	19,129	74,869	199,529
Provisions	-	-	-	(5,410)	(5,410)
Interest expense	(38,238)	(86,875)	(18,683)	(16,100)	(159,896)
Expenses attributable to asset based income	(13,293)	(21,593)	(5,146)	(2,622)	(42,654)
Net asset based income	(46,508)	(7,960)	(4,700)	50,737	(8,431)
Net income	66,167	16,429	17,724	50,737	151,057

<i>July 2006 - June 2007</i> <i>\$000s</i>	<i>Private Equity</i>	<i>Hedge Funds</i>	<i>Real Estate</i>	<i>Corporate Support</i>	<i>Total</i>
<i>Total</i>					
Fee income					
Management fees	25,140	41,212	5,200	-	71,552
Activity fees	237,134	-	31,196	-	268,330
Performance fees	21,122	22,923	-	-	44,045
Gross fee income	283,396	64,135	36,396	-	383,927
Expenses attributable to fee income	(150,588)	(54,176)	(22,784)	-	(227,548)
Net fee income	132,808	9,959	13,612	-	156,379
Asset based income					
Interest income	8,869	-	2,561	36,573	48,003
Other asset based income	68,677	322,462	23,527	9,158	423,824
Gross asset based income	77,546	322,462	26,088	45,731	471,827
Provisions	-	-	-	(34,240)	(34,240)
Interest expense	(42,416)	(94,296)	(13,796)	(63,260)	(213,768)
Expenses attributable to asset based income	(19,370)	(38,813)	(5,579)	(14,136)	(77,898)
Net asset based income	15,760	189,353	6,713	(65,905)	145,921
Net income	148,568	199,312	20,325	(65,905)	302,300

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

Reporting segmental information relating to the consolidated balance sheet as at June 30, 2008 and 2007 is as follows:

<i>June 30, 2008</i> <i>\$000s</i>	<i>Private Equity</i>	<i>Hedge Funds</i>	<i>Real Estate</i>	<i>Corporate Support</i>	<i>Total</i>
Assets					
Cash and short-term funds	-	-	-	194,163	194,163
Placements with banks and other financial institutions	-	-	-	257,407	257,407
Positive fair value of derivatives	-	-	-	62,191	62,191
Receivables and prepayments	-	-	-	459,580	459,580
Loans and advances	-	-	-	341,106	341,106
Co-investments	1,029,142	2,020,808	337,038	-	3,386,988
Premises, equipment and other assets	-	-	-	64,892	64,892
Total assets	1,029,142	2,020,808	337,038	1,379,339	4,766,327
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	381,614	-	3,855	385,469
Deposits from clients	-	301,788	-	256,231	558,019
Negative fair value of derivatives	-	-	-	45,925	45,925
Unfunded deal acquisitions	111,363	-	122,958	-	234,321
Payables and accrued expenses	18,049	4,118	2,289	192,669	217,125
Medium-term debt	75,681	969,429	34,447	36,838	1,116,395
Long-term debt	181,249	71,759	73,044	645,851	971,903
Total liabilities	386,342	1,728,708	232,738	1,181,369	3,529,157
Equity					
Ordinary shareholders' equity	642,800	292,100	104,300	137,216	1,176,416
Proposed ordinary share dividend	-	-	-	63,278	63,278
Fair value adjustments through equity	-	-	-	(2,524)	(2,524)
Total equity	642,800	292,100	104,300	197,970	1,237,170
Total liabilities and equity	1,029,142	2,020,808	337,038	1,379,339	4,766,327

<i>June 30, 2007</i> <i>\$000s</i>	<i>Private Equity</i>	<i>Hedge Funds</i>	<i>Real Estate</i>	<i>Corporate Support</i>	<i>Total</i>
Assets					
Cash and short-term funds	-	-	-	329,742	329,742
Placements with banks and other financial institutions	-	-	-	488,040	488,040
Positive fair value of derivatives	-	-	-	31,072	31,072
Receivables and prepayments	-	-	-	269,160	269,160
Loans and advances	-	-	-	146,580	146,580
Co-investments	751,191	1,856,451	368,880	-	2,976,522
Premises, equipment and other assets	-	-	-	65,977	65,977
Total assets	751,191	1,856,451	368,880	1,330,571	4,307,093
Liabilities and Equity					
Liabilities					
Deposits from financial institutions	-	168,557	-	897	169,454
Deposits from clients	-	553,432	-	89,461	642,893
Negative fair value of derivatives	-	-	-	71,192	71,192
Unfunded deal acquisitions	48,915	-	-	-	48,915
Payables and accrued expenses	16,556	9,797	4,297	238,188	268,838
Medium-term debt	-	740,933	-	-	740,933
Long-term debt	43,620	44,132	297,383	597,867	983,002
Total liabilities	109,091	1,516,851	301,680	997,605	2,925,227
Total equity	642,100	339,600	67,200	332,966	1,381,866
Total liabilities and equity	751,191	1,856,451	368,880	1,330,571	4,307,093

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

2. SEGMENT REPORTING (continued)

IFRS also requires an entity to report its segment assets and segment revenues along its geographical regions. All significant activities of the Group are performed on an integrated, worldwide basis. The Group's clients and trading partners also operate in the international market place, and neither their domicile nor the geographical location of a transaction is necessarily related to the country in which the asset or liability underlying the transaction is located. Consequently, any geographical segmentation of revenues would be potentially misleading. As such, segmentation of revenues by region has not been presented. Note 20 (iii) presents the geographical split of assets and off-balance sheet items.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

3. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows categories of the Group's financial assets and financial liabilities at the balance sheet date.

<i>June 30, 2008</i> \$000s	<i>Designated as</i> <i>FVTPL</i>	<i>Items at</i> <i>amortized cost</i>	<i>AFS</i>	<i>Derivatives</i>	<i>Total</i>
Financial assets					
Cash and short-term funds	-	194,163	-	-	194,163
Placements with banks and other financial institutions	-	257,407	-	-	257,407
Positive fair value of derivatives	-	-	-	62,191	62,191
Receivables	-	431,436	-	-	431,436
Loans and advances	-	341,106	-	-	341,106
Co-investments					
Hedge funds	2,020,808	-	-	-	2,020,808
Private equity	990,806	-	38,336	-	1,029,142
Real estate	-	-	-	-	-
Debt	-	15,593	-	-	15,593
Equity	321,445	-	-	-	321,445
Total financial assets	3,333,059	1,239,705	38,336	62,191	4,673,291
Non-financial assets					
Prepayments	-	-	-	-	28,144
Premises, equipment and other assets	-	-	-	-	64,892
Total assets					4,766,327
Financial liabilities					
Deposits from financial institutions	-	385,469	-	-	385,469
Deposits from clients*	-	558,019	-	-	558,019
Negative fair value of derivatives	-	-	-	45,925	45,925
Unfunded deal acquisitions	-	234,321	-	-	234,321
Payables and accrued expenses	-	205,383	-	-	205,383
Medium term debt	-	1,116,395	-	-	1,116,395
Long term debt*	-	971,903	-	-	971,903
Total financial liabilities	-	3,471,490	-	45,925	3,517,415
Non-financial liabilities					
Deferred income	-	-	-	-	11,742
Total liabilities					3,529,157

* Adjusted for related fair value hedges (See Note 21).

<i>June 30, 2007</i> \$000s	<i>Designated as</i> <i>FVTPL</i>	<i>Items at</i> <i>amortized cost</i>	<i>AFS</i>	<i>Derivatives</i>	<i>Total</i>
Financial assets					
Cash and short-term funds	-	329,742	-	-	329,742
Placements with banks and other financial institutions	136,878	351,162	-	-	488,040
Positive fair value of derivatives	-	-	-	31,072	31,072
Receivables	-	247,932	-	-	247,932
Loans and advances	-	146,580	-	-	146,580
Co-investments					
Hedge funds	1,856,451	-	-	-	1,856,451
Private equity	740,101	-	11,090	-	751,191
Real estate	-	-	-	-	-
Debt	-	2,907	-	-	2,907
Equity	365,973	-	-	-	365,973
Total financial assets	3,099,403	1,078,323	11,090	31,072	4,219,888
Non-financial assets					
Prepayments	-	-	-	-	21,228
Premises, equipment and other assets	-	-	-	-	65,977
Total assets					4,307,093
Financial liabilities					
Deposits from financial institutions	-	169,454	-	-	169,454
Deposits from clients*	-	642,893	-	-	642,893
Negative fair value of derivatives	-	-	-	71,192	71,192
Unfunded deal acquisitions	-	48,915	-	-	48,915
Payables and accrued expenses	-	256,020	-	-	256,020
Medium term debt	-	740,933	-	-	740,933
Long term debt*	-	983,002	-	-	983,002
Total financial liabilities	-	2,841,217	-	71,192	2,912,409
Non-financial liabilities					
Deferred income	-	-	-	-	12,818
Total liabilities					2,925,227

* Adjusted for related fair value hedges (See Note 21).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

4. OPERATING EXPENSES

Operating expenses include staff costs, benefits and other operating expenses such as premises, technology and communications infrastructure, travel and professional fees paid to third party advisors. The Group's total operating expenses for the years ended June 30, 2008 and 2007 comprise the following:

<i>\$000s</i>	<i>2008</i>	<i>2007</i>
Staff compensation	170,012	189,031
Other personnel costs	18,912	28,582
Professional fees	14,990	27,888
Travel and business development	15,302	13,079
Administration and research	21,070	17,139
Technology and communication	5,190	4,238
Premises	11,415	10,611
Depreciation	6,699	6,582
Other	2,475	8,296
Total	<u>266,065</u>	<u>305,446</u>

5. LIQUIDITY

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Cash and short-term funds	63,192	61,395
Transitory funds	130,971	268,347
Placements with banks and other financial institutions	257,407	488,040
Cash and cash equivalents	<u>451,570</u>	<u>817,782</u>
Less: medium and long-term debt maturing within three months	-	-
Net cash liquidity	<u>451,570</u>	<u>817,782</u>
Add: undrawn medium-term revolvers [see Note 14(a)]	807,500	865,000
Net accessible liquidity	<u>1,259,070</u>	<u>1,682,782</u>
Co-investments in hedge funds (see Note 8)	2,020,808	1,856,451
Net liquidity	<u>3,279,878</u>	<u>3,539,233</u>

The Group maintains access to sufficient on and off-balance sheet liquidity in order to meet the refinancing of maturing debt and to ensure sufficient cash is available to fund private equity and real estate acquisitions, prior to syndication to clients.

Accessible liquidity therefore includes both invested amounts that can be realized for cash at very short notice, and undrawn committed medium-term revolvers that can be drawn at short notice and that are not repayable for at least three months from the draw down date.

If required, managed redemptions from the Group's co-investment in hedge funds provide a large source of additional back up liquidity.

Cash and short-term funds comprise the Group's cash, balances in nostro accounts. Transitory funds mainly relate to payments made by clients for subscriptions receivable that have not been credited to the Group's nostro account yet, and redemptions from hedge funds for which notices have been issued, the proceeds of which have been received subsequent to the balance sheet date.

Out of the total cash and short-term funds held at June 30, 2007, \$268.3 million was held for the redemption of preference shares that was subsequently completed in September 2007 (see Note 16), and to pay ordinary share dividends.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

6. RECEIVABLES AND PREPAYMENTS

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Subscriptions receivable	288,234	92,577
Receivables from investee companies	104,257	81,436
Investment disposal proceeds receivable	16,271	22,862
Hedge funds related receivables	25,529	46,417
Accrued interest receivable	7,035	4,521
Prepaid expenses	28,144	21,228
Other receivables	19,509	24,108
	<u>488,979</u>	<u>293,149</u>
Provisions (see Note 11)	<u>(29,399)</u>	<u>(23,989)</u>
Total	<u>459,580</u>	<u>269,160</u>

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

Subscriptions receivable represents amounts due from clients for participation in the Group's US and European buyouts and real estate investment products. These arise in the normal course of the Group's placement activities and are recorded when a client signs a binding agreement confirming his participation in an investment offering. These are typically collected over the short-term, and, in the interim period prior to receipt of cash, are collateralized by the underlying investment assets.

Investment disposal proceeds receivable includes proceeds due from contracted disposals of private equity and real estate investments.

Hedge funds related receivables represent amounts due from HFP funds for management and administrative services and performance fees. They also include redemption proceeds receivable from underlying hedge fund managers relating to the Group's co-investment in HFP through internal parallel vehicles.

Accrued interest receivable represents interest receivable on placements with banks and other financial institutions, from investee companies on investment debt and from investment holding companies on working capital advances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

7. LOANS AND ADVANCES

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Advances to HFP Funds and Real Estate Funds	115,395	27,161
Advances to investment holding companies	152,885	77,512
Advances to Employee Investment Programs	80,776	44,318
Other advances	19,638	25,177
	368,694	174,168
Provisions (see Note 11)	(27,588)	(27,588)
Total	341,106	146,580

Loans and advances arise largely as a result of the Group extending working capital advances to investment holding companies and include advances to employees to facilitate co-investment in the Group's products.

Advances to HFP funds represent the amounts advanced to these funds to facilitate re-balancing of redemptions and subscriptions between various underlying fund managers. Advances to the Real Estate Funds represent amounts invested on behalf of the Group's clients in the acquisitions made by the Funds in the interim period prior to receipt of the associated capital call. These advances carry interest at market rates. In both cases, the advances are secured by the underlying investments in the associated fund(s), and hence represent a low risk to the Group.

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

Advances to Employee Investment Programs represent the amounts advanced by the Group on behalf of employees in connection with their co-investment in the Group's investment products. These advances carry interest at prevailing market rates, and are collateralized by the underlying investments, resulting in a low risk to the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

8. CO-INVESTMENTS IN HEDGE FUNDS

Co-investments in hedge funds comprise a portion of the Group's liquidity deployed alongside clients in the various fund of hedge funds and single manager hedge funds products offered by the Group, and similar internal vehicles. The Group currently manages several funds of hedge funds and structured fund products. The underlying hedge fund managers invest in a variety of liquid financial instruments, including equities, bonds, and derivatives. In addition, the Group seeds investments to several emerging hedge fund managers on its single manager platform. An emerging manager is typically one who is just starting his or her firm, but may also include an established manager at low levels of AUM.

The Group's investments in hedge funds comprise the following:

<i>\$000s</i>		<i>June 30, 2008</i>	<i>June 30, 2007</i>
Diversified Strategies Fund ("DSF") and parallel vehicles	A cash management substitute targeting 300-500bp spread over LIBOR	658,980	823,974
Balanced Fund ("IBF")	Flagship offering targeting a balanced exposure to the hedge funds asset class and returns of 500-700bp over LIBOR	741,515	712,265
Single Manager Platform	Investments with single managers that have been seeded on Investcorp's platform	496,709	271,892
Other Hedge Funds investments	Mix of small investments across several theme funds	123,604	48,320
Total balance sheet co-investments		<u>2,020,808</u>	<u>1,856,451</u>
Leverage through structured products	Non-recourse leverage provided by third parties as part of structured products around the HFP	45,155	30,226
Total gross investments		<u><u>2,065,963</u></u>	<u><u>1,886,677</u></u>

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

9. CO-INVESTMENTS IN PRIVATE EQUITY

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
US and European buyouts [See Note 9 (a)]	921,821	706,954
Technology small cap investments [See Note 9 (b)]	34,208	18,547
Strategic and other investments [See Note 9 (c)]	73,113	25,690
Total co-investment in private equity	<u>1,029,142</u>	<u>751,191</u>

9 (a) US AND EUROPEAN BUYOUTS

The Group's US and European buyout investments are classified as FVTPL investments. These are initially recognized at acquisition cost (being the initial fair value) and are re-measured to fair value at each reporting date. Unrealized gains and losses arising from the re-measurement to fair value of FVTPL investments are reported in the consolidated statement of income for the year.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

9 (a) US AND EUROPEAN BUY-OUTS (continued)

The carrying values of the Group's co-investments in US and European buyout deals are:

<i>\$000s</i>					
VINTAGE * / INVESTMENT	Year Acquired	Sector	Location	June 30, 2008	June 30, 2007
Vintage 1997 (1997 - 2000)				184,531	209,914
Vintage 2001 (2001 - 2004)				214,539	204,710
Vintage 2005 (2005 - 2008)				522,751	292,330
Vintage 2005 deals acquired before Fiscal 2008				261,353	292,330
Icopal	2007	Industrial Products	Europe	99,172	-
Berlin Packaging	2007	Distribution	North America	37,655	-
Randall-Reilly	2008	Industrial Services	North America	25,967	-
Asiakastieto	2008	Industrial Services	Europe	32,387	-
CEME	2008	Industrial Products	Europe	66,217	-
Total				921,821	706,954

* Each vintage covers a period of four calendar years starting that year, for example, vintage 1997 covers deals acquired between 1997 and 2000.

Summary by sector and location:

<i>\$000s</i>	June 30, 2008			June 30, 2007		
	North America	Europe	Total	North America	Europe	Total
	Consumer Products	87,224	-	87,224	83,425	-
Consumer Services	-	-	-	-	38,640	38,640
Industrial Products	45,650	278,006	323,656	47,727	101,333	149,060
Technology and Telecom	164,205	-	164,205	150,800	-	150,800
Industrial Services	146,884	70,765	217,649	144,000	42,175	186,175
Distribution	80,867	48,220	129,087	46,631	52,223	98,854
Total	524,830	396,991	921,821	472,583	234,371	706,954

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

9 (a) US AND EUROPEAN BUY-OUTS (continued)

The table below highlights the different components of changes in carrying value of co-investments in US and European buyout deals during the year:

<i>\$000s</i>	<i>At beginning</i>	<i>Net new acquisitions</i>	<i>Fair value movements</i>	<i>Movements relating to realizations/placements*</i>	<i>Other movements **</i>	<i>At end</i>
June 30, 2008						
Realized investments	38,640	-	840	(31,947)	(7,533)	-
Unrealized investments	668,314	254,644	(29,864)	(34,808)	63,535	921,821
Total	706,954	254,644	(29,024)	(66,755)	56,002	921,821
June 30, 2007						
Realized investments	393,722	-	58,522	(452,244)	-	-
Unrealized investments	598,808	142,883	29,147	(54,319)	(9,565)	706,954
Total	992,530	142,883	87,669	(506,563)	(9,565)	706,954

* Movements relating to placements refer to deals acquired in prior years.

** Other movements include add-on fundings and foreign currency translation adjustments.

As indicated earlier, the Group's management uses its best judgment in determining fair values for unquoted buyout investments from within a range of fair values implied by market comparables based on management's knowledge and experience of the relevant industry. As of June 30, 2008 the fair value was \$921.8 million (June 30, 2007: \$707.0 million) for the Group's aggregate unquoted US and European buyout co-investment portfolio. The associated range of fair values estimated by the management for a +/- change in the EBITDA multiple of 0.5x down or up was \$828.1 million to \$1,002.3 million (June 30, 2007: \$639.8 million to \$770.9 million). The Group's sensitivity to net income for any such increase or decrease in fair value is a corresponding increase of \$80.5 million (June 30, 2007: \$63.9 million) or decrease of \$93.7 million (June 30, 2007: \$67.2 million) as applicable. Nonetheless, the actual amount that is realized in a future realization transaction may differ from the current estimate of fair value and may still be outside management's estimates of the range around it, given the inherent uncertainty surrounding valuations of unquoted investments in private companies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

9 (b) TECHNOLOGY SMALL CAP INVESTMENTS

Similar to US and European buyouts, the Group's technology small cap investments are classified as FVTPL investments. These are initially recognized at cost (being the initial fair value) and are re-measured to fair value at each reporting date. Unrealized gains and losses arising from the re-measurement to fair value of FVTPL investments are reported in the consolidated statement of income for the year.

The fair value of unquoted technology small cap investments is determined primarily through valuations implied by material financing events for the specific investment in question that involves third party capital providers. In cases where these are not applicable, the Group uses a multiples-based valuation methodology similar to that used for US and European buyout investments as described in Note 9 (a).

The carrying values of Group's co-investments in technology small cap deals are:

<i>\$000s</i>	<i>Communication Infrastructure</i>	<i>Wireless Data</i>	<i>Digital Content</i>	<i>Enterprise Software</i>	<i>Other</i>	<i>June 30, 2008 Total</i>	<i>June 30, 2007 Total</i>
Technology Fund I							
North America	1,063	2,971	244	4,043	1,134	9,455	6,365
<i>Sub-Total</i>	1,063	2,971	244	4,043	1,134	9,455	6,365
Technology Fund II							
North America	7,511	1,009	3,557	2,007	-	14,084	9,487
Europe	6	-	4,270	-	-	4,276	2,695
<i>Sub-Total</i>	7,517	1,009	7,827	2,007	-	18,360	12,182
Technology Fund III							
Europe	-	-	-	6,393	-	6,393	-
<i>Sub-Total</i>	-	-	-	6,393	-	6,393	-
Total	8,580	3,980	8,071	12,443	1,134	34,208	18,547

The table below highlights the different components of changes in carrying value of co-investments in technology small cap deals during the year:

<i>\$000s</i>	<i>At beginning</i>	<i>New acquisitions</i>	<i>Fair value movements</i>	<i>Movements relating to realizations</i>	<i>Other movements *</i>	<i>At end</i>
June 30, 2008	18,547	9,248	(1,142)	-	7,555	34,208
June 30, 2007	37,058	5,031	(7,972)	(12,612)	(2,958)	18,547

* Other movements include foreign currency translation adjustments and add-on fundings.

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

9 (c) STRATEGIC AND OTHER INVESTMENTS

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

1. Investments made for strategic reasons
2. Investments made for relationship reasons eg. an opportunity introduced by an employee or a counterparty relationship
3. Instruments obtained on disposal of exited private equity and real estate deals or portfolios.

These are primarily held as AFS investments, except for investments amounting to \$34.8 million (June 30, 2007: \$14.6 million) that are classified as FVTPL.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

10. CO-INVESTMENTS IN REAL ESTATE

The Group's real estate investments are classified as FVTPL investments. These are initially recognized at cost (being the initial fair value) and are re-measured to fair value at each reporting date. Unrealized gains and losses arising from the re-measurement to fair value of FVTPL investments are reported in the consolidated statement of income for the year. Those investments that are developed and leased out are fair valued based the estimated future cash flows from the underlying real estate assets and using prevailing capitalization rates for similar properties in the same geographical area. The capitalization rates used in determining the fair values of developed and leased out assets range from 7.3% to 8.4% (June 30, 2007: 6.0% to 10.0%).

Opportunistic investments that involve an element of development are generally valued based on third party led financing events. Investments in the debt or mezzanine tranches of real estate properties are classified as Held-to-maturity ("HTM") investments and carried at their amortized cost, less provisions for impairment, if any.

The carrying values of the Group's co-investments in real estate portfolios in the United States are:

\$000s PORTFOLIO TYPE	Number of properties	Region					June 30, 2008	June 30, 2007
		East	Midwest	Southeast	Southwest	West		
Office	16	106,526	362	-	-	21,173	128,061	41,513
Hotels	15	26,146	7,471	10,434	11,934	-	55,985	64,897
Retail	34	2,710	2,364	1,200	6,727	213	13,214	14,879
Industrial	4	5,373	-	-	-	-	5,373	11,095
Diversified	-	-	-	-	-	-	-	1,314
Residential	-	-	-	-	-	-	-	1,621
Core Plus Total	69	140,755	10,197	11,634	18,661	21,386	202,633	135,319
Mezzanine debt	n/a	13,077	182	176	394	489	14,318	2,907
Opportunistic	14	26,571	-	28,446	-	60,441	115,458	210,820
Strategic and other	n/a	4,629	-	-	-	-	4,629	19,834
Total	83	185,032	10,379	40,256	19,055	82,316	337,038	368,880

The table below highlights the different components of changes in carrying value of co-investments in real estate portfolios during the year:

\$000s	At beginning	Net new acquisitions	Amortization of HTM / Fair value movements	Movements relating to realizations / placements	Other movements *	At end
June 30, 2008	368,880	212,078	(7,963)	(261,822)	25,865	337,038
June 30, 2007	176,082	221,571	5,118	(94,687)	60,796	368,880

* Other movements include add-on fundings.

The associated range of fair values estimated by the management for a +/- change in capitalization rates of 1% was \$316.9 million (June 30, 2007: \$356.3 million) to \$363.4 million (June 30, 2007: \$380.5 million). The Group's sensitivity in net income to any such increase or decrease in fair value is a corresponding increase of \$26.4 million (June 30, 2007: \$12.1 million) or decrease of \$20.2 million (June 30, 2007: \$12.0 million) as applicable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

11. PROVISIONS

Specific provisions for receivables, and loans and advances are as follows:

<i>\$000s</i>	<i>Receivables</i>	<i>Loans and advances</i>	<i>Total</i>
	(see Note 6)	(see Note 7)	
Balance at July 1, 2006	7,500	9,837	17,337
Charge for the year	16,489	17,751	34,240
Balance at June 30, 2007	23,989	27,588	51,577
Charge for the year	5,410	-	5,410
Balance at June 30, 2008	29,399	27,588	56,987

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12. DEPOSITS FROM CLIENTS

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
<u>SHORT-TERM:</u>		
Call accounts	185,640	249,363
Short-term deposits	80,517	45,636
Transitory balances	172,255	199,500
Total deposits from clients - short-term	438,412	494,499
<u>MEDIUM-TERM:</u>		
Medium-term deposits	21,134	94,719
Investment holding companies' deposits	73,762	31,815
Discretionary and other deposits	24,711	21,860
Total deposits from clients - medium-term	119,607	148,394
Total	558,019	642,893

Contractual deposits from clients that mature within one year from the balance sheet date are classified under short-term deposits, while those with maturity greater than one year are grouped under medium-term deposits.

Call accounts comprise amounts left on deposit by clients that are not subject to the Trust arrangement described in Note 2 (G) for future participation in the Group's investment products.

Transitory balances comprise subscription amounts paid in by clients towards participation in specific investment products currently being placed by the Group. These also include investment realization proceeds held on behalf of investment holding companies by the Group in the interim period prior to distribution to or withdrawal by clients. Given their transitory nature, the Group does not take these balances into consideration for its overall liquidity and funding profile.

Investment holding companies' deposits represent excess cash deposited by the investment holding companies in the interim period prior to utilization or onward distribution.

Discretionary and other deposits represent deposits held on behalf of various affiliates, including strategic shareholders and employees.

All deposits bear interest at market rates.

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13. PAYABLES AND ACCRUED EXPENSES

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Accrued expenses - employee compensation	116,962	164,453
Vendor and other trade payables	42,346	42,520
Exit escrow proceeds	26,596	23,387
Deferred income	11,742	12,818
Accrued interest payable	19,479	25,660
Total	217,125	268,838

Accrued expenses for employee compensation include the variable component of the Group's overall employee related costs, which is performance related.

Exit escrow proceeds represent amounts received from exits completed at the balance sheet date that are pending onward distribution.

Deferred income represents amounts received by the Group from its investment activities, the recognition of which is deferred to future periods concurrent with the services to be rendered.

14. MEDIUM-TERM DEBT

The table below shows the total medium-term facilities, net of the transaction costs of borrowings, outstanding at year end.

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Medium-term revolvers [See Note 14 (a)]	240,000	-
Medium-term debt [See Note 14 (b)]	888,500	753,000
Transaction costs of borrowings	(12,105)	(12,067)
	1,116,395	740,933

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14 (a) MEDIUM-TERM REVOLVERS

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

\$000s	Maturity	June 30, 2008			June 30, 2007		
		Size	Average Utilization	Current outstanding	Size	Average Utilization	Current outstanding
5-year Structured facility	October 2008	175,000	-	-	175,000	-	-
5-year Eurodollar facility	July 2010	150,000	33,333	-	150,000	-	-
5-year Eurodollar facility	December 2011	500,000	207,500	200,000	500,000	26,027	-
5.5-year Eurodollar facility	July 2012	40,000	20,000	40,000	40,000	-	-
5-year Structured facility	February 2013	75,000	-	-	-	-	-
5-year Structured facility	April 2013	107,500	-	-	-	-	-
Total		1,047,500	260,833	240,000	865,000	26,027	-

These facilities carry LIBOR-based floating rates of interest when drawn and fixed rate of commitment fees when undrawn.

The \$175 million structured revolving facility, if drawn, is secured by an equivalent amount of the Group's co-investments in hedge funds. This facility operates under a margin arrangement where the Group's co-investments in hedge funds are posted as margin. There was no margin posted as at June 30, 2008 and 2007 since the facility remained undrawn.

14 (b) MEDIUM-TERM DEBT

\$000s	Maturity	June 30, 2008		June 30, 2007	
		Average outstanding	Current outstanding	Average outstanding	Current outstanding
5-year Eurodollar facility	March 2008	-	-	71,945	-
5-year Eurodollar facility	December 2008	-	-	41,770	-
5-year Asian banks' facility	June 2009	42,000	42,000	42,000	42,000
5-year Eurodollar facility	July 2009	142,000	142,000	142,000	142,000
5-year Eurodollar facility	December 2009	350,000	350,000	499,178	350,000
5-year Eurodollar facility	July 2010	150,000	150,000	150,000	150,000
5-year Eurodollar facility	September 2010	50,000	50,000	26,575	50,000
5-year Floating rate medium-term note	June 2012	19,000	19,000	573	19,000
5-year Eurodollar facility	April 2013	15,179	135,500	-	-
Total		768,179	888,500	974,041	753,000

These facilities carry LIBOR-based floating rates of interest.

Of the above medium-term funded facilities, \$500 million (June 30, 2007: none) have been hedged against interest rate risk through interest rate swaps (see Note 21).

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15. LONG-TERM DEBT

<i>\$000s</i>	<i>Final Maturity</i>	<i>June 30, 2008</i>		<i>June 30, 2007</i>	
		<i>Average outstanding</i>	<i>Current outstanding</i>	<i>Average outstanding</i>	<i>Current outstanding</i>
PRIVATE NOTES					
\$143 Million Private Placement	October 2008	143,000	143,000	143,000	143,000
\$55 Million Private Placement	May 2009	55,000	55,000	55,000	55,000
GBP 25 Million Private Placement	January 2010	32,800	26,240	39,360	39,360
\$40 Million Private Placement	December 2010	40,000	40,000	40,000	40,000
\$15 Million Private Placement	May 2011	15,000	15,000	15,000	15,000
\$50 Million Private Placement	July 2011	50,000	50,000	50,000	50,000
GBP 20 Million Private Placement	September 2011	29,522	29,522	29,522	29,522
\$75 Million Private Placement	October 2011	69,962	62,500	75,000	75,000
\$42 Million Private Placement	November 2011	42,000	42,000	42,000	42,000
\$20 Million Private Placement	November 2011	20,000	20,000	20,000	20,000
\$20 Million Private Placement	April 2012	20,000	20,000	20,000	20,000
\$71.5 Million Private Placement	May 2012	71,500	71,500	71,500	71,500
\$35 Million Private Placement	December 2013	35,000	35,000	35,000	35,000
JPY 37 Billion Private Placement	March 2030	332,328	332,328	332,328	332,328
\$50 Million Private Placement	July 2032	50,000	50,000	50,000	50,000
		1,006,112	992,090	1,017,710	1,017,710
Foreign exchange translation adjustments		-	(50,078)	-	(11,361)
Fair value adjustments		-	34,674	-	(17,699)
Transaction costs of borrowings		-	(4,783)	-	(5,648)
Total		1,006,112	971,903	1,017,710	983,002

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

Of the above long-term debt \$605.3 million (June 30, 2007: \$555.4 million) is hedged for interest rate risk on which the effective interest rate amounted to LIBOR + 152bp (June 30, 2007: LIBOR + 201bp). The effective interest rate on the remaining \$386.8 million (June 30, 2007: \$462.3 million) long-term debt translated into 7.11% (June 30, 2007: 7.9%).

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16. SHARE CAPITAL AND RESERVES

The Bank's share capital at the balance sheet date is as follows:

	June 30, 2008			June 30, 2007		
	No. of shares	Par value \$	\$000	No. of shares	Par value \$	\$000
Authorized share capital						
- Ordinary shares	4,000,000	250	1,000,000	4,000,000	250	1,000,000
- Preference shares	200,000	1,000	200,000	200,000	1,000	200,000
- Other			300,000			300,000
			<u>1,500,000</u>			<u>1,500,000</u>
Issued share capital						
- Ordinary shares	800,000	250	200,000	800,000	250	200,000
- Preference shares	-	-	-	200,000	1,000	200,000
			<u>200,000</u>			<u>400,000</u>

A distribution schedule of each class of shares, setting out the number of shares and beneficial shareholders and percentage of total outstanding shares in the following categories is set out below:

Ordinary shares	June 30, 2008			June 30, 2007		
	No. of shares 000s	No. of shareholders	% of total outstanding shares	No. of shares 000s	No. of shareholders	% of total outstanding shares
Less than 1%	314	393	39%	360	389	45%
1% up to less than 5%	52	4	7%	38	3	5%
5% up to less than 10%	87	2	11%	84	2	10%
10% up to less than 20%	83	1	10%	237	2	30% *
More than 20%	167	1	21% *	-	-	-
Treasury shares	97	1	12%	81	1	10%
	<u>800</u>	<u>402</u>	<u>100%</u>	<u>800</u>	<u>397</u>	<u>100%</u>

* Includes 20.9% (June 30, 2007: 19.6%) shares held by the custodian of the GDR Depository.

Preference shares	June 30, 2008			June 30, 2007		
	No. of shares 000s	No. of shareholders	% of total outstanding shares	No. of shares 000s	No. of shareholders	% of total outstanding shares
Less than 1%	-	-	-	72	261	36%
1% up to less than 5%	-	-	-	75	21	37%
10% up to less than 20%	-	-	-	40	2	20%
Treasury shares	-	-	-	13	1	7%
	<u>-</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>285</u>	<u>100%</u>

Preference shares

During the year, in accordance with the terms of issue, the Bank redeemed these shares in full at their par value plus accrued dividend after obtaining necessary Board and regulatory approvals.

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16. SHARE CAPITAL AND RESERVES (continued)

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. It also includes gains resulting from the sale of treasury shares held by the Bank. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and upon approval by the CBB.

Statutory reserve

The Bahrain Commercial Companies Law, amended in 2001, requires the maintenance of a statutory reserve equal to 50% of the Bank's issued and paid up ordinary share capital of \$200 million, which amounts to \$100 million. Accordingly, the Bank had transferred 10% of its consolidated net income for the previous years to statutory reserve which accumulated to \$97.1 million. The Bank further transferred \$2.9 million in the current year to reach the minimum requirement of \$100 million. In addition, transfers have also been made for other subsidiaries in accordance with applicable statutory regulations. The reserve is not available for distribution but can be utilized as stipulated by the Bahrain Commercial Companies Law and other applicable statutory regulations.

General reserve

The general reserve, established in accordance with the articles of association of the Bank, is only distributable following a resolution of shareholders at a general meeting and approval of the CBB.

Treasury shares

Treasury shares represent shares held by the Bank and its subsidiaries. Ordinary shares held as treasury include a portion that is held for future sale to management under the SIP Plan. Of these, ordinary shares worth approximately \$8 million (June 30, 2007: \$12 million) are earmarked for purchase by SIPCO on behalf of the Group's management as part of annual restricted stock awards for fiscal year 2008 under the employee share ownership program (see Note 23).

INVESTCORP BANK B.S.C.

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17. FAIR VALUE ADJUSTMENTS THROUGH EQUITY

Fair value adjustments for AFS investments and cash flow hedges are recognized directly in equity. Movements in fair value adjustments are set out below:

<i>\$000s</i>	<i>Cashflow hedges</i>	<i>Available for sale investments</i>	<i>Total</i>
Balance at July 1, 2006	12,314	-	12,314
Net realized gains recycled to statement of income	(8,580)	-	(8,580)
Net unrealized losses	(10,385)	-	(10,385)
Balance at June 30, 2007	(6,651)	-	(6,651)
Net realized gains recycled to statement of income	736	-	736
Net unrealized (losses) gains	(3,182)	6,573	3,391
Balance at June 30, 2008	(9,097)	6,573	(2,524)

Refer Note 21 for fair valuation of cash flow hedges.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

18. EARNINGS, BOOK VALUE AND DIVIDENDS PER SHARE

Earnings per ordinary share is computed by dividing net income for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Additionally, earnings per share calculated on the basis of number of shares outstanding at year end, to remove the impact of treasury share transactions during the year, has also been included in the table below.

The Group's earnings, book value and proposed dividends per share for the year are as follows:

<i>\$000s</i>	<i>2008</i>	<i>2007</i>
Net income	151,057	302,300
Proposed preference share dividend	-	(21,802)
Net income attributable to ordinary shareholders	151,057	280,498
Preference shares outstanding at year end	-	186,726
Proposed dividend per preference share (\$)	-	117
Weighted average ordinary shares	712,933	728,313
Basic and fully diluted earnings per ordinary share - on weighted average shares (\$)	212	385
Ordinary shares outstanding at year end	703,090	718,963
Basic and fully diluted earnings per ordinary share - on shares outstanding at year end (\$)	215	390
Proposed ordinary share dividend	63,278	53,922
Proposed dividend per ordinary share (\$)	90	75
Market price per ordinary share on BSE as at June 30 (\$)	2,794	2,377
Market price per GDR on LSE as at June 30 (\$)	25.50	25.50
Dividend yield per ordinary share (%) *	3.5%	2.9%

* Dividend yield per ordinary share shown above has been calculated using the equivalent GDR price.

The book value per ordinary share at the balance sheet date, calculated by dividing the ordinary shareholders' equity by the number of ordinary shares outstanding at year end, is \$1,673.21 per share (June 30, 2007: \$1,567.29 per share).

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19. CAPITAL ADEQUACY

The CBB issued directives to banks licensed in Bahrain to implement the Basel II framework beginning January 1, 2008. The Group applies the Basel II framework regulations on a consolidated basis to Investcorp Bank B.S.C. which is the entity licensed and regulated by CBB.

For the measurement of risk weighted exposures, the Group has chosen:

- standardized approach for credit risk of all exposures [see Note 20 (i)].
- the VaR model for market risk [see Note 20 (iv)].
- basic indicator approach for operational risk [see Note 20 (v)].

The risk asset ratio calculation in accordance with capital adequacy guidelines established for the global banking industry under the Basel II framework and CBB's rulebook for Bahrain licensed banks is provided in the table below:

<i>\$000s</i>	June 30, 2008		June 30, 2007	
Tier 1 capital	1,237,170		1,381,866	
Tier 2 capital	-		-	
Regulatory capital base under Basel II (a)	<u>1,237,170</u>		<u>1,381,866</u>	
	Principal / Notional amounts	Risk weighted equivalents	Principal / Notional amounts	Risk weighted equivalents
Risk weighted exposure \$000s	June 30, 2008	June 30, 2008	June 30, 2007	June 30, 2007
Credit risk				
Claims on sovereign	20,030	-	838	-
Claims on non-central government public sector entities	25,242	-	20,852	-
Claims on banks	453,913	90,783	686,699	137,340
Claims on investment firms	-	-	-	-
Claims on corporates	714,946	714,946	320,953	320,953
Co-investments (excluding hedge funds)	1,366,180	2,085,575	1,120,071	3,465,748
Other assets	74,875	74,771	133,274	133,230
Off-balance sheet items				
Commitments and contingent liabilities	888,416	843,529	831,699	742,382
Derivative financial instruments	5,127,978	17,996	4,897,730	11,414
Credit risk weighted exposure		<u>3,827,600</u>		<u>4,811,067</u>
Market risk				
Market risk weighted exposure (including hedge funds)		2,359,868		1,892,768
Operational risk				
Operational risk weighted exposure		546,597		554,196
Total risk weighted exposure (b)		<u>6,734,065</u>		<u>7,258,031</u>
Risk asset ratio (a)/(b)		<u>18.4%</u>		<u>19.0%</u>
Minimum required as per CBB regulatory guidelines under Basel II		12.0%	12.0%	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT

Risk management is an integral part of the Group's corporate decision-making process. The Financial and Risk Management Committee (FRMC), the Group's primary risk management decision-making body, comprising members of senior management drawn from all key areas of the Group, guides and assists with overall management of the Group's risk profile on an enterprise wide basis.

The Group's primary risk management objective is to support its business objectives with sufficient risk capital. The Group employs risk models to determine the capital needed to cover unexpected loss from investment or other risks. This capital amount is known as economic capital and differs from regulatory capital as defined by the CBB using the Basel Accord (see Note 19). The economic capital requirement for each reporting segment is determined using a dynamic VaR approach. For this purpose dynamic VaR is calculated by using a five-year planning horizon, 99% one tailed confidence level and by recognizing diversification benefits across asset classes. In addition to the dynamic VaR approach, the risk management team has developed sophisticated tools in conjunction with leading risk management consultants to perform detailed risk analyses that specifically address the investment risks in each individual line of business.

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

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for all counterparties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. Credit risk in respect of derivative financial instruments is limited to those with positive fair values (see Note 21). With respect to the credit risk exposure arising from other financial assets the Group has a maximum exposure equal to the carrying value of these instruments. The Group also actively attempts to mitigate credit risks through documented netting arrangements with counterparties where possible.

Credit ratings

The table below shows the relationship between external rating grades and the category of credit quality selected for the internal rating:

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

Internal rating categories are summarized as follows:

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

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

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20. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk exposure is considered as past due when payment is due according to the contractual terms but is not received.

Credit risk exposures

The table below analyses the Group's credit risk exposures at the balance sheet date without taking into account any collateral or credit enhancements.

June 30, 2008 \$000s	Neither past due nor impaired (a)	Credit risk rating			Past due but not impaired (b)	Impaired (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average exposure
		External		Internal					
		AAA to A	A- to B-	High					
Short-term funds	194,059	177,868	12,648	3,543	-	-	194,059	101,041	
Placements with banks and other financial institutions	257,407	257,407	-	-	-	-	257,407	418,155	
Positive fair value of derivatives	62,191	62,191	-	-	-	-	62,191	57,631	
Receivables	202,340	-	-	202,340	225,868	32,627	(29,399)	431,436	
Loans and advances	320,827	-	-	320,827	-	47,867	(27,588)	341,106	
Co-investments - debt	15,593	-	-	15,593	-	-	-	15,593	
Guarantees	206,840	-	-	206,840	-	-	-	206,840	
Total	1,259,257	497,466	12,648	749,143	225,868	80,494	(56,987)	1,508,632	

June 30, 2007 \$000s	Neither past due nor impaired (a)	Credit risk rating			Past due but not impaired (b)	Impaired (c)	Provisions (d)	Maximum credit risk (a+b+c+d)	Average exposure
		External		Internal					
		AAA to A	A- to B-	High					
Short-term funds	329,632	329,632	-	-	-	-	329,632	103,390	
Placements with banks and other financial institutions	488,040	351,162	136,878	-	-	-	488,040	499,810	
Positive fair value of derivatives	31,072	31,072	-	-	-	-	31,072	25,023	
Receivables	206,669	-	-	206,669	32,839	32,413	(23,989)	247,932	
Loans and advances	126,301	-	-	126,301	-	47,867	(27,588)	146,580	
Co-investments - debt	2,907	-	-	2,907	-	-	-	2,907	
Guarantees	45,135	-	-	45,135	-	-	-	45,135	
Total	1,229,756	711,866	136,878	381,012	32,839	80,280	(51,577)	1,291,298	

The table below shows the aging analysis of the past due but not impaired.

\$000s	June 30, 2008	June 30, 2007
Upto 1 month	53,839	14,267
> 1 upto 3 months	102,063	9,390
> 3 upto 6 months	29,369	1,022
> 6 months upto 1 year	31,211	-
Over 1 year	9,386	8,160
Total	225,868	32,839

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20. RISK MANAGEMENT (continued)

(i) Credit risk (continued)

The financial assets that are past due but not impaired mainly relate to subscriptions receivable from clients. These assets are collateralized by underlying US and European buyouts and real estate investments placed with such clients. The collaterals are revalued from time to time in the same manner as the Group's exposure to investments. The fair value of collateral that the Group holds relating to financial assets that are past due but not impaired at June 30, 2008 amounts to \$224 million (June 30, 2007: \$33 million).

Gross value of impaired exposures was \$81 million (June 30, 2007: \$80 million) against which there are provisions of \$57.0 million (June 30, 2007: \$51.6 million). Fair value of collaterals relating to impaired exposures was \$2.2 million (June 30, 2007: \$2.2 million).

(ii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources and lengthened maturities of liabilities. The Group manages assets with liquidity in mind, and monitors liquidity on a daily basis (see Note 5). The table below summarizes the maturity profile of the Group's assets and liabilities based on contractual arrangements or expected realizations, if contractual arrangements are not applicable. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to maturity at the balance sheet date.

June 30, 2008 \$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	>5 years up to 10 years	>10 years up to 20 years	Over 20 years	Total
Assets							
Cash and short-term funds	194,163	-	-	-	-	-	194,163
Placements with banks and other financial institutions	257,407	-	-	-	-	-	257,407
Positive fair value of derivatives	7,618	3,452	5,396	-	-	45,725	62,191
Receivables and prepayments	407,236	43,453	8,891	-	-	-	459,580
Loans and advances	159,757	31,927	149,422	-	-	-	341,106
Co-investments in hedge funds	500,856	1,280,508	233,620	5,221	603	-	2,020,808
Private equity co-investments	157,218	-	871,924	-	-	-	1,029,142
Real estate co-investments	70,916	46,792	219,330	-	-	-	337,038
Premises, equipment and other assets	174	-	15,610	-	28,947	20,161	64,892
Total assets	1,755,345	1,406,132	1,504,193	5,221	29,550	65,886	4,766,327
Liabilities							
Deposits from financial institutions	385,469	-	-	-	-	-	385,469
Deposits from clients	551,158	-	6,861	-	-	-	558,019
Negative fair value of derivatives	18,372	10,947	11,358	-	-	5,248	45,925
Unfunded deal acquisitions	234,321	-	-	-	-	-	234,321
Payables and accrued expenses	83,810	120,014	13,301	-	-	-	217,125
Medium-term debt	-	61,250	1,055,145	-	-	-	1,116,395
Long-term debt	-	209,796	382,908	33,853	-	345,346	971,903
Total liabilities	1,273,130	402,007	1,469,573	33,853	-	350,594	3,529,157
Net gap	482,215	1,004,125	34,620	(28,632)	29,550	(284,708)	
Cumulative liquidity gap	482,215	1,486,340	1,520,960	1,492,328	1,521,878	1,237,170	

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

<i>June 30, 2007</i> <i>\$000s</i>	<i>Up to 3</i> <i>months</i>	<i>>3 months</i> <i>up to 1 year</i>	<i>>1 year up to</i> <i>5 years</i>	<i>>5 years up to</i> <i>10 years</i>	<i>>10 years</i> <i>up to 20</i> <i>years</i>	<i>Over 20</i> <i>years</i>	<i>Total</i>
Assets							
Cash and short-term funds	329,742	-	-	-	-	-	329,742
Placements with banks and other financial institutions	488,040	-	-	-	-	-	488,040
Positive fair value of derivatives	15,001	11,979	1,960	358	-	1,774	31,072
Receivables and prepayments	196,860	58,651	13,649	-	-	-	269,160
Loans and advances	2,008	63,513	81,059	-	-	-	146,580
Co-investments in hedge funds	472,170	1,125,067	259,214	-	-	-	1,856,451
Private equity co-investments	5,187	19,988	726,016	-	-	-	751,191
Real estate co-investments	120,889	64,877	183,114	-	-	-	368,880
Premises, equipment and other assets	387	-	12,988	-	32,036	20,566	65,977
Total assets	1,630,284	1,344,075	1,278,000	358	32,036	22,340	4,307,093
Liabilities							
Deposits from financial institutions	169,454	-	-	-	-	-	169,454
Deposits from clients	468,920	25,579	148,394	-	-	-	642,893
Negative fair value of derivatives	20,481	12,556	5,041	3,427	-	29,687	71,192
Unfunded deal acquisitions	48,915	-	-	-	-	-	48,915
Payables and accrued expenses	70,512	180,457	16,019	1,850	-	-	268,838
Medium-term debt	-	-	740,933	-	-	-	740,933
Long-term debt	-	12,500	604,420	32,300	-	333,782	983,002
Total liabilities	778,282	231,092	1,514,807	37,577	-	363,469	2,925,227
Net gap	852,002	1,112,983	(236,807)	(37,219)	32,036	(341,129)	
Cumulative liquidity gap	852,002	1,964,985	1,728,178	1,690,959	1,722,995	1,381,866	

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities and derivatives upon their respective contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal values) determined by using the forward yield curve for the relevant periods. The Group however manages the inherent liquidity risk based on future cash flows discounted to present values.

<i>June 30, 2008</i> \$000s	<i>Up to</i> <i>3 months</i>	<i>>3 months</i> <i>upto 6 months</i>	<i>>6 months</i> <i>upto 1 year</i>	<i>>1 year</i> <i>upto 5 years</i>	<i>Over</i> <i>5 years</i>	<i>Total</i>
Financial liabilities						
Deposits from financial institutions	389,568	-	-	-	-	389,568
Deposits from clients	553,583	-	-	7,323	-	560,906
Unfunded deal acquisitions	234,321	-	-	-	-	234,321
Payables and accrued expenses	64,331	118,727	1,287	1,559	-	185,904
Medium-term debt	5,022	3,784	57,560	1,146,917	-	1,213,283
Long-term debt	13,926	156,928	95,457	512,694	723,027	1,502,032
	<u>1,260,751</u>	<u>279,439</u>	<u>154,304</u>	<u>1,668,493</u>	<u>723,027</u>	<u>4,086,014</u>
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	1,670,809	430,043	5,240	100,022	593,741	2,799,855
Contractual amounts receivable	(1,654,079)	(425,890)	(2,033)	(68,734)	(520,119)	(2,670,855)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	1,483	(667)	(1,413)	(6,822)	26,211	18,792
Total undiscounted financial liabilities	<u>1,278,964</u>	<u>282,925</u>	<u>156,098</u>	<u>1,692,959</u>	<u>822,860</u>	<u>4,233,806</u>

<i>June 30, 2007</i> \$000s	<i>Up to</i> <i>3 months</i>	<i>>3 months</i> <i>upto 6 months</i>	<i>>6 months</i> <i>upto 1 year</i>	<i>>1 year</i> <i>upto 5 years</i>	<i>Over</i> <i>5 years</i>	<i>Total</i>
Financial liabilities						
Deposits from financial institutions	171,496	-	-	-	-	171,496
Deposits from clients	468,920	27,705	2,097	157,638	-	656,360
Unfunded deal acquisitions	48,915	-	-	-	-	48,915
Payables and accrued expenses	51,033	139,751	40,706	4,547	1,850	237,887
Medium-term debt	15,377	14,601	16,240	793,761	-	839,979
Long-term debt	13,399	14,510	27,404	677,953	660,022	1,393,288
	<u>769,140</u>	<u>196,567</u>	<u>86,447</u>	<u>1,633,899</u>	<u>661,872</u>	<u>3,347,925</u>
Derivatives:						
Contracts settled on a gross basis:						
Contractual amounts payable	2,465,300	285,424	45,567	37,749	526,594	3,360,634
Contractual amounts receivable	(2,449,736)	(285,014)	(40,132)	(12,296)	(400,263)	(3,187,441)
Contracts settled on a net basis:						
Contractual amounts payable (receivable)	(2,653)	1,114	(1,340)	(27,014)	(90,959)	(120,852)
Total undiscounted financial liabilities	<u>782,051</u>	<u>198,091</u>	<u>90,542</u>	<u>1,632,338</u>	<u>697,244</u>	<u>3,400,266</u>

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iii) Concentration risk

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

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

<i>June 30, 2008</i> <i>\$000s</i>	<i>Assets exposed to credit risk</i>	<i>Assets not exposed to credit risk</i>	<i>Total assets</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Off-balance sheet not exposed to credit risk</i>	<i>Total off-balance sheet</i>
Geographical Region						
North America	496,836	2,967,407	3,464,243	200,964	565,976	766,940
Europe	614,346	435,890	1,050,236	-	4,155,339	4,155,339
Middle East	189,593	32,016	221,609	5,876	1,079,409	1,085,285
Other	1,017	29,222	30,239	-	9,117	9,117
Total	1,301,792	3,464,535	4,766,327	206,840	5,809,841	6,016,681

<i>June 30, 2007</i> <i>\$000s</i>	<i>Assets exposed to credit risk</i>	<i>Assets not exposed to credit risk</i>	<i>Total assets</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Off-balance sheet not exposed to credit risk</i>	<i>Total off-balance sheet</i>
Geographical Region						
North America	472,426	2,339,119	2,811,545	25,882	432,686	458,568
Europe	428,944	338,867	767,811	-	1,078,705	1,078,705
Middle East	319,591	50,950	370,541	19,253	3,437,125	3,456,378
Other	25,202	331,994	357,196	-	735,778	735,778
Total	1,246,163	3,060,930	4,307,093	45,135	5,684,294	5,729,429

<i>June 30, 2008</i> <i>\$000s</i>	<i>Assets exposed to credit risk</i>	<i>Assets not exposed to credit risk</i>	<i>Total Assets</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Off-balance sheet not exposed to credit risk</i>	<i>Total off-balance sheet</i>
Industry Sector						
Banking and Finance	540,215	2,033,933	2,574,148	200,964	5,724,705	5,925,669
Consumer products	24,428	342,541	366,969	-	-	-
Consumer services	12,627	25,562	38,189	-	-	-
Distribution	7,217	126,253	133,470	-	-	-
Industrial products	83,168	211,483	294,651	-	-	-
Real estate	246,869	390,789	637,658	-	85,116	85,116
Technology and Telecom	77,714	201,842	279,556	-	-	-
Others	309,554	132,132	441,686	5,876	20	5,896
Total	1,301,792	3,464,535	4,766,327	206,840	5,809,841	6,016,681

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iii) Concentration risk (continued)

<i>June 30, 2007 \$000s</i>	<i>Assets exposed to credit risk</i>	<i>Assets not exposed to credit risk</i>	<i>Total Assets</i>	<i>Off-balance sheet exposed to credit risk</i>	<i>Off-balance sheet not exposed to credit risk</i>	<i>Total off-balance sheet</i>
Industry Sector						
Banking and Finance	953,331	1,928,991	2,882,322	25,882	5,600,688	5,626,570
Consumer products	72,149	84,167	156,316	-	-	-
Consumer services	-	53,912	53,912	-	-	-
Distribution	-	98,854	98,854	-	-	-
Industrial products	2,853	149,060	151,913	-	-	-
Industrial services	19,761	170,160	189,921	-	-	-
Real estate	35,800	346,138	381,938	-	83,117	83,117
Technology and Telecom	32,347	170,383	202,730	-	-	-
Others	129,922	59,265	189,187	19,253	489	19,742
Total	1,246,163	3,060,930	4,307,093	45,135	5,684,294	5,729,429

(iv) Market risk

Market risk arises from exposure to fluctuations in underlying interest rates, exchange rates, equity prices or other market indices. The principal market risks to which the Group is exposed are foreign currency risk, interest rate risk and equity price risk associated with its co-investments in hedge funds, private equity and real estate, as well as on its debt financings. For purposes of managing market risk, the Group has established appropriate procedures and limits approved by the Board of Directors.

The Group uses an internal model to calculate VaR for measuring unexpected future losses that may arise from adverse market movements. The Group's risk management team conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the CBB (see Note 19). Back testing is done for foreign exchange risk by comparing VaR based on a ten day holding period with the daily profit and loss and for equity price risk related to co-investments in hedge funds by comparing VaR based on a one month holding period with the actual performance for the month. The objective is to ensure that the assumptions used for computing VaR are reasonable and result in a VaR number that does not understate economic and regulatory risk capital requirements.

Market risk has been further analyzed and presented below under (a) foreign currency risk, (b) interest rate risk and (c) equity price risk.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (a) Foreign currency risk

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

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

<i>\$000s</i>	<i>June 30, 2008</i>		<i>June 30, 2007</i>	
<i>Long (Short)</i>	<i>Net hedged exposure</i>	<i>Net unhedged exposure</i>	<i>Net hedged exposure</i>	<i>Net unhedged exposure</i>
Bahraini Dinar*	-	8,519	-	3,568
Euro	252,245	(2,401)	(122,081)	2,015
Pounds Sterling	(71,227)	1,760	69,752	(20,820)
Japanese Yen	(26,662)	(831)	82,361	12,113
	154,356	7,047	30,032	(3,124)

* Currency exchange rate currently pegged against the US Dollar.

Incidental unhedged positions are subjected to market risk calculation based on their VaR. VaR estimates the potential loss due to market movement of foreign exchange rates or volatility of these rates within a 99% confidence level over a 10-day holding period. Potential market movements of foreign exchange rates are derived from a study of their historical volatility. The risk methodology is based on the assumption that changes in foreign exchange rates follow a normal probability distribution over time. The characteristics of normal distribution are then used to assess portfolio risk.

The following table summarizes the VaR during the year for the Group's foreign currency exposures.

<i>\$000s</i>	<i>2008</i>	<i>2007</i>
Average FX VaR	203	212
Year end FX VaR	34	925
Maximum FX VaR	3,683	2,058
Minimum FX VaR	5	3

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (b) Interest rate risk

The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group utilizes interest rate related derivative financial instruments to manage its exposure to fluctuations in interest rates for specific transactions or a group of transactions.

The Group's interest rate sensitivity position at year-end, determined on the basis of the earlier of repricing and maturity dates, is as follows:

June 30, 2008 \$000s	Up to 3 months	>3 months up to 1 year	>1 year up to 5 years	Over 5 years	Not exposed to interest rate risk	Total	Effective interest rate 2008	Effective interest rate 2007
Assets								
Cash and short-term funds	194,059	-	-	-	104	194,163	3.5%	4.6%
Placements with banks and other financial institutions	257,407	-	-	-	-	257,407	4.2%	4.6%
Positive fair value of derivatives	-	-	-	-	62,191	62,191	-	-
Receivables and prepayments	-	-	-	-	459,580	459,580	-	-
Loans and advances	261,371	-	-	-	79,735	341,106	3.0%	4.3%
Co-investments in hedge funds	-	-	-	-	2,020,808	2,020,808	-	-
Private equity co-investments	-	-	-	-	1,029,142	1,029,142	-	9.3%
Real estate co-investments	14,319	-	-	-	322,719	337,038	10.0%	10.0%
Premises, equipment and other assets	174	-	-	-	64,718	64,892	1.0%	1.0%
Total assets	727,330	-	-	-	4,038,997	4,766,327		
Liabilities and Equity								
Deposits from financial institutions	385,469	-	-	-	-	385,469	4.6%	5.9%
Deposits from clients	536,274	21,745	-	-	-	558,019	5.2%	4.1%
Negative fair value of derivatives	-	-	-	-	45,925	45,925	-	-
Unfunded deal acquisitions	-	-	-	-	234,321	234,321	-	-
Payables and accrued expenses	-	-	-	-	217,125	217,125	-	-
Medium-term debt	1,116,395	-	-	-	-	1,116,395	5.7%	6.6%
Long-term debt *	-	214,579	377,369	379,955	-	971,903	6.0%	6.5%
Equity	-	-	-	-	1,237,170	1,237,170	-	9.7%
Total liabilities and equity	2,038,138	236,324	377,369	379,955	1,734,541	4,766,327		
On-balance sheet gap	(1,310,808)	(236,324)	(377,369)	(379,955)				
Off-balance sheet gap	3,049,252	-	-	-				
Total interest rate sensitivity gap	1,738,444	(236,324)	(377,369)	(379,955)				
Cumulative interest rate sensitivity gap	1,738,444	1,502,120	1,124,751	744,796				

June 30, 2007
\$000s

Assets

Total assets	1,032,208	28,012	148,286	67
Total liabilities and equity	1,060,677	755,268	535,023	366,082
On-balance sheet gap	(28,469)	(727,256)	(386,737)	(366,015)
Off-balance sheet gap	2,066,505	-	-	-
Total interest rate sensitivity gap	2,038,036	(727,256)	(386,737)	(366,015)
Cumulative interest rate sensitivity gap	2,038,036	1,310,780	924,043	558,028

* The effective interest rate for long-term debt - hedged and unhedged - is disclosed in Note 15.

The off-balance sheet gap represents net notional amounts of interest rate swaps that are used to manage interest rate risk.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (b) Interest rate risk (continued)

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

- Investments amounting to \$1.2 million (June 30, 2007: \$16.5 million), which earn interest at an effective rate approximating 10% (June 30, 2007: 10%) per annum.
- Deposits from clients amounting to \$95 million (June 30, 2007: \$98 million) on which interest is paid at an effective rate of 4.1% (June 30, 2007: 4.6%) per annum reflecting the underlying maturity structure.

The following table depicts the sensitivity of the Group's net income to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities (including items hedged back to floating rate) held at the balance sheet date.

<i>\$000s</i>	<i>Sensitivity to net income for +100 basis points</i>	
	<i>June 30, 2008</i>	<i>June 30, 2007</i>
<i>Currency</i>		
Euro	698	837
Pounds Sterling	386	1,203
Japanese Yen	4,253	3,325
US Dollar	10,919	34,227
Others	(346)	(36)
Total	15,910	39,556

a) Figures in bracket above represent loss.

b) The impact of a negative 100 basis points change would be equal and opposite.

Potentially significant variances in interest rate sensitivity may exist at dates other than the year end. The Group actively manages its interest rate gap exposure, with a bias towards floating rates.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (c) Equity price risk

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

Co-investments in hedge funds

The Group has entered into arrangements with several underlying fund managers and holds separate managed accounts. Through these arrangements the Group has access to a majority of underlying positions for its co-investments in hedge funds. These positions are valued independently by administrators predominantly using market observable inputs. The values reported by the fund managers and administrators, and the underlying positions, are independently verified by an operational risk group unit by obtaining prime brokers statements and by accessing market data for prices.

The Group manages the market risk in its hedge fund portfolio through its market risk management framework that uses the "Value at Risk" (VaR) technique. VaR technique produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels.

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

<i>\$000s</i>	2008	2007
Average VaR	64,704	54,774
Year end VaR	70,861	47,548
Maximum VaR	75,551	61,348
Minimum VaR	49,263	42,700
Maximum hedge funds exposure	2,139,578	2,219,991
Minimum hedge funds exposure	1,948,970	1,781,804

Co-investments in private equity and real estate

The Group manages the equity price risk of its co-investments in private equity and real estate on a portfolio basis as well as at the individual investment level. The starting point is the use of reliable measures of fair value that approximate current market conditions. The Group utilizes valuation methods that reflect leading industry valuation standards and guidelines. This is done by predominantly basing the fair valuation of the Group's investment portfolio on market observable inputs such as third party led financing events, recent transactions, credible bids, market comparables or capitalization rates.

The valuation of unquoted investments depends upon a combination of market factors and performance of the underlying asset. The Group does not currently hedge the price risk inherent in the portfolio but manages the performance risk on an asset-specific basis. The sensitivity of the Group's co-investments in private equity and real estate to changes in multiples has already been discussed in Notes 9 and 10.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (c) Equity price risk (continued)

Fair valuation of US and European buyouts

The Group's management determines fair values of its US and European buyout deals based on the following assumptions:

1. Both industry and market conditions will prevail in near and medium term.
2. Near and medium term operating and business plans are achievable.
3. No cyclical or stress events impact the business of the operating company.

Given below is the percentage contribution of each valuation source to the total fair values:

- a) based on independent third party valuations - 2.2% (June 30, 2007: 2.9%);
- b) based on credible bids – 4.3% (June 30, 2007: 0.4%);
- c) based on recent transactions – 17.6% (June 30, 2007: 8.5%);
- d) based on market multiples chosen from a comparable universe – 75.9% (June 30, 2007: 88.2%).

The Group considers all these fair value sources to be based on market observable inputs as each fair value metric could be traced to a set of market observable data.

Technology small cap investments

Similar to US and European buyout fair valuation, the Group considers the fair values for technology small cap investments to be based on market observable inputs as each fair value metric could be traced to a set of market observable data. The percentage contribution of each valuation source to the total fair values is as follows:

- a) based on quoted market price - 23.3% (June 30, 2007: 22.0%);
- b) based on valuations implied by material financing events involving third party capital providers and recent transactions – 33.6% (June 30, 2007: 54.7%);
- c) based on a credible bids – 15.1% (June 30, 2007: 10.0%);
- d) based on independent third party valuations - 12.7% (June 30, 2007: Nil);
- e) based on market multiples chosen from a comparable universe – 14.9% (June 30, 2007: 13.3%).

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

20. RISK MANAGEMENT (continued)

(iv) Market risk (continued)

(iv) (c) Equity price risk (continued)

Real estate investments

The Group's real estate investments can be categorized into developed and leased out assets or opportunistic investments that involve an element of development. The Group fair values the developed assets by using prevailing capitalization rates for similar properties in the same geographical area. As indicated in Note 10, the capitalization rates used to determine fair values approximate the prevailing market rates.

Opportunistic investments are generally fair valued based on third party financing events.

The Group considers these fair values to be based on market observable inputs as each of the above metrics could be traced to a set of market observable data.

(v) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

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

As part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk
- It uses best in class qualitative standards expected under the Basel II Standardized Approach.
- Financial Controls and Risk Management with involvement from Internal Audit have jointly conducted Control Risk Self Assessment (CRSA) workshops with each line of business head, identifying and highlighting various operational risk aspects.
- An operational risk framework is in place with a dedicated unit within Risk Management.
- The team works with all departments to identify key operational risks and has set up appropriate controls infrastructure.
- Identification of key risk indicators, key risk controls, observations of loss data, definitions and structures related to operational risk at each business level have been completed.
- Where necessary, a mitigation plan is in place to improve the control environment and its ownership allocated to the 'Operational Risk Specialist' of the relevant line of business.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments:

- (i) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes called the "underlying");
- (ii) that require little or no initial net investment relative to other types of contracts that have a similar response to changes in market conditions, and
- (iii) that are settled at a future date.

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

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

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

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

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

<i>Type of hedge</i>	<i>Changes in fair value of underlying hedged item relating to the hedged risk</i>	<i>Changes in fair value of hedging instrument</i>
Fair value hedges	Recorded in the consolidated statement of income, and as a corresponding adjustment to the carrying value of the hedged item on the consolidated balance sheet.	Recorded in the consolidated statement of income, with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives.
Cash flow hedges	Not applicable	Recorded in equity with a corresponding effect on the consolidated balance sheet under positive or negative fair value of derivatives. Any unrealized gains or losses previously recognized in equity, are transferred to the consolidated statement of income at the time when the forecasted transaction impacts the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting or is revoked. At that point in time, for cash flow hedges any cumulative gain or loss on the hedging instrument recognized in equity is retained there until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the consolidated statement of income. In the case of fair value hedges of interest-bearing financial instruments, the cumulative fair value adjustment recorded as an adjustment to the carrying value of the hedged item is amortized over the remaining term to maturity, starting from the point in time that the hedge is terminated.

Losses arising from fair value hedges during the year ended June 30, 2008 were \$10.3 million (June 30, 2007: gain of \$5.1 million) while the gains on the hedged items, attributable to interest rate and foreign currency risks, were \$9.8 million (June 30, 2007: loss of \$8.2 million). These gains and losses are included in interest expense or treasury and other asset based income as appropriate in the consolidated statement of income.

Gains or losses arising from the fair valuation of cash flow hedges are accounted in equity. Hedge effectiveness testing is carried out periodically and the ineffective portion, if any, is recycled to the consolidated statement of income. The ineffective portion of cash flow hedges recycled out of equity to the consolidated statement of income for the year ended June 30, 2008 was \$1.3 million (June 30, 2007: \$8.6 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group undertakes transactions in derivative financial instruments under the following categories:

Effective hedges associated with co-investments

These are derivative contracts undertaken by the Group to hedge foreign exchange risk on co-investments (designated as fair value hedges). The Group also hedges forecasted placement income (designated as cash flow hedges) that would be received when certain co-investments currently underwritten are placed with the Group's clients. The cash flows related to the hedged forecasted placement income are generally expected to occur over a period of six months from the date of taking on the hedge.

Effective hedges associated with floating rate medium-term debt

These are derivative contracts undertaken by the Group to hedge the cash flows relating to future coupons on floating rate medium-term debt (designated as cash flow hedges of forecasted transactions). The cash flows related to the hedged future coupons occur in quarterly or semi-annual installments on payment of the coupons.

Effective hedges associated with fixed-rate long-term debt and deposits from clients

These include interest rate derivatives, typically fixed to floating-rate interest rate swaps and cross currency swaps (designated as fair value hedges) and interest rate caps (designated as cash flow hedges) undertaken by the Group to hedge interest rate exposure to fixed-rate long-term debt and deposits from clients.

The Group also hedges the foreign exchange risk on long-term debt and deposits from clients denominated in foreign currency (designated as fair value hedges) and future interest coupons to be made on such debt and deposits (designated as cash flow hedges), through forward foreign exchange contracts. The cash flows related to the future hedged coupons occur in quarterly or semi-annual installments on payment of the coupons.

Other derivatives

The Group does not actively engage in proprietary trading activities in derivatives. However, on occasions, the Group may need to undertake certain derivative transactions to hedge economic risks under its asset-liability management and risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2008:

<i>\$000s</i>					
A) HEDGING DERIVATIVES					
Hedged item		Hedging instrument			
Description	Type of hedge	Description	Notional value	Positive fair value	Negative fair value
<u>Risk being hedged: Currency</u>					
Deposits from clients	Fair value	Forward foreign exchange contracts	505,054	2,830	(8,011)
Long-term debt	Fair value	Forward foreign exchange contracts	73,333	630	(373)
Co-investments	Fair value	Forward foreign exchange contracts	975,434	5,630	(13,672)
Forecasted transactions	Cash flow	Forward foreign exchange contracts	49,131	277	(723)
Coupon on long-term debt	Cash flow	Forward foreign exchange contracts	83,272	85	(3,868)
Total forward foreign exchange contracts			1,686,224	9,452	(26,647)
<u>Risk being hedged: Interest rate</u>					
Deposits from clients	Fair value	Interest rate swaps	75,084	214	(11)
Long-term debt	Fair value	Interest rate swaps	662,263	13,331	(5,818)
Medium-term debt	Cash flow	Interest rate swaps	500,000	-	(5,310)
Total interest rate hedging contracts			1,237,347	13,545	(11,139)
<u>Risk being hedged: Currency and Interest rate</u>					
Long-term debt	Fair value	Cross currency swaps	311,905	37,557	-
Total currency and interest rate hedging contracts			311,905	37,557	-
Total – Hedging Derivatives			3,235,476	60,554	(37,786)
B) DERIVATIVES ON BEHALF OF CLIENTS (FULLY MATCHED)					
Forward foreign exchange contracts			390,251	1,609	(1,609)
Total - Derivatives on behalf of clients			390,251	1,609	(1,609)
C) OTHER DERIVATIVES					
Interest rate swaps			500,000	-	(6,520)
Interest rate caps			1,000,000	18	-
Currency option			2,251	10	(10)
Total – Other Derivatives			1,502,251	28	(6,530)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS			5,127,978	62,191	(45,925)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below summarizes the Group's derivative financial instruments outstanding at June 30, 2007:

<i>\$000s</i>					
A) HEDGING DERIVATIVES					
Hedged item		Hedging instrument			
Description	Type of hedge	Description	Notional value	Positive fair value	Negative fair value
<u>Risk being hedged: Currency</u>					
Deposits from clients	Fair value	Forward foreign exchange contracts	1,648,288	10,371	(11,119)
Long-term debt	Fair value	Forward foreign exchange contracts	48,442	1,371	(223)
Co-investments	Fair value	Forward foreign exchange contracts	301,417	510	(1,288)
Forecasted transactions	Cash flow	Forward foreign exchange contracts	23,285	32	-
Coupon on long-term debt	Cash flow	Forward foreign exchange contracts	77,721	176	(4,247)
Total forward foreign exchange contracts			2,099,153	12,460	(16,877)
<u>Risk being hedged: Interest rate</u>					
Deposits from clients	Fair value	Interest rate swaps	75,108	-	(1,781)
Long-term debt	Fair value	Interest rate swaps	558,195	-	(18,078)
Total interest rate hedging contracts			633,303	-	(19,859)
<u>Risk being hedged: Currency and Interest rate</u>					
Long-term debt	Fair value	Cross currency swaps	311,202	-	(12,495)
Total currency and interest rate hedging contracts			311,202	-	(12,495)
Total – Hedging Derivatives			3,043,658	12,460	(49,231)
B) DERIVATIVES ON BEHALF OF CLIENTS (FULLY MATCHED)					
Forward foreign exchange contracts			90,915	1,476	(1,476)
Total - Derivatives on behalf of clients			90,915	1,476	(1,476)
C) OTHER DERIVATIVES					
Embedded interest rate options sold			72,000	-	(891)
Interest rate swaps			50,000	1,774	-
Interest rate caps			1,000,000	358	-
Forward foreign exchange contracts			639,379	15,001	(19,591)
Currency option			1,778	3	(3)
Total – Other Derivatives			1,763,157	17,136	(20,485)
TOTAL – DERIVATIVE FINANCIAL INSTRUMENTS			4,897,730	31,072	(71,192)

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amount is the value of the derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the balance sheet date and are not indicative of the market or credit risk underlying these derivatives.

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2008:

<i>June 30, 2008</i> <i>\$000s</i>	<i>Notional amounts by term to maturity</i>				<i>Total</i>
	<i>Up to 3 months</i>	<i>>3 months up to 1 year</i>	<i>>1 year up to 5 years</i>	<i>Over 5 years</i>	
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	1,292,615	261,206	-	-	1,553,821
Interest rate swaps	-	75,084	204,848	457,415	737,347
Cross currency swaps	-	-	-	311,905	311,905
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	132,403	-	-	-	132,403
Interest rate swaps	250,000	250,000	-	-	500,000
Derivates on behalf of clients (fully matched)					
Forward foreign exchange contracts	320,317	25,838	44,096	-	390,251
Other Derivatives:					
Interest rate swaps	-	-	500,000	-	500,000
Interest rate caps	-	399,000	601,000	-	1,000,000
Currency option	-	-	2,251	-	2,251
	<u>1,995,335</u>	<u>1,011,128</u>	<u>1,352,195</u>	<u>769,320</u>	<u>5,127,978</u>

The table below shows the notional amounts of derivative financial instruments, analyzed by the term to maturity at June 30, 2007:

<i>June 30, 2007</i> <i>\$000s</i>	<i>Notional amounts by term to maturity</i>				<i>Total</i>
	<i>Up to 3 months</i>	<i>>3 months up to 1 year</i>	<i>>1 year up to 5 years</i>	<i>Over 5 years</i>	
Derivatives held as fair value hedges:					
Forward foreign exchange contracts	1,948,091	50,056	-	-	1,998,147
Interest rate swaps	-	-	279,542	353,761	633,303
Cross currency swaps	-	-	-	311,202	311,202
Derivatives held as cash flow hedges:					
Forward foreign exchange contracts	30,447	70,559	-	-	101,006
Derivates on behalf of clients (fully matched)					
Forward foreign exchange contracts	22,531	24,289	-	44,095	90,915
Other derivatives:					
Embedded interest rate options sold	-	-	72,000	-	72,000
Interest rate swaps	-	-	-	50,000	50,000
Interest rate caps	-	-	1,000,000	-	1,000,000
Forward foreign exchange contracts	456,015	183,364	-	-	639,379
Currency option	-	-	-	1,778	1,778
	<u>2,457,084</u>	<u>328,268</u>	<u>1,351,542</u>	<u>760,836</u>	<u>4,897,730</u>

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group has hedged the following forecasted cash flows, which primarily relate to interest rate and foreign currency risks. Should these cash flows differ materially from their forecasted values in the future, they could potentially impact the consolidated statement of income in the following periods, assuming no adjustments are made to hedged amounts:

<i>June 30, 2008</i> <i>\$000s</i>	<i>Currency risk</i>		<i>Interest rate risk</i>
	<i>Forecasted transactions</i>	<i>Coupon on long-term debt</i>	<i>Interest on medium-term debt</i>
Up to 3 months	49,131	(8,784)	(1,881)
> 3 months to 1 year	-	(12,924)	(10,980)
> 1 year to 5 years	-	(61,652)	(22,187)
> 5 years	-	(208,140)	-
Total	49,131	(291,500)	(35,048)

<i>June 30, 2007</i> <i>\$000s</i>	<i>Currency risk</i>		<i>Interest rate risk</i>
	<i>Forecasted transactions</i>	<i>Coupon on long-term debt</i>	<i>Interest on medium-term debt</i>
Up to 3 months	23,285	(7,920)	-
> 3 months to 1 year	-	(7,930)	-
> 1 year to 5 years	-	(55,908)	-
> 5 years	-	(188,760)	-
Total	23,285	(260,518)	-

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

22. COMMITMENTS AND CONTINGENT LIABILITIES

<i>\$000s</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Investment commitment issued for pending acquisitions (net)	104,818	369,568
Investment commitments to closed-end committed funds	482,396	331,891
Other investment commitments	9,513	1,541
Total investment commitments	596,727	703,000
Non-cancelable operating leases	85,116	83,117
Capital expenditure commitments	20	489
Guarantees and letters of credit issued to third parties	187,964	18,382
Capital guarantees	5,876	19,253

Investment related commitments include future funding of acquisitions that were contracted but not funded at balance sheet date, and the Group's unfunded co-investment commitments to various private equity and real estate funds.

Non-cancelable operating leases relate to the Group's commitments in respect of its New York and London office premises.

Capital expenditure commitments relate to the Group's contracted but unbilled amounts in respect of various system upgrades.

Guarantees and letters of credit issued to third parties primarily relate to real estate investments. They include backstop guarantees provided in support of performance obligations of investee companies and to facilitate investee companies' on-going operations and leasing of equipment and facilities.

Included in the above amount at year end is \$60.9 million (June 30, 2007: Nil) that is underwritten on behalf of the Real Estate Mezzanine Fund and a newly created Real Estate Credit Fund that will assume these guarantees in the near-term. Guarantees amounting to \$85.5 million (June 30, 2007: Nil) relate to supporting performance obligations of operating partners and investee companies.

Capital guarantees have been issued by the Group for providing principal protection on a distinct class of shares issued in connection with the Investcorp Balanced Fund, a product of HFP. These guarantees expire without any cost to the Group at the earliest of (i) cumulative returns to investors since inception exceeding 15% at any time; (ii) the investor redeeming his shares at any time prior to seven years; and (iii) seven years from the issue date of the guarantee. The Group has instituted appropriate risk management mechanisms to actively monitor and manage the risk arising from these capital guarantees, using option-pricing models prescribed by the Basel guidelines and the local regulators for measuring market risk. Based on these value-at-risk models, the Group does not carry any significant risk exposure as a result of these capital guarantees at the balance sheet date.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

22. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

In addition to the above, the Group acts as a guarantor of last resort to facilitate third party financing for various employee investment programs (see Note 23). Eligible employees, in their individual capacities, are provided financing from third-party lenders on a selective basis and subject to some risk-based criteria, determined by the lenders, for their participation in the investment programs. At the balance sheet date, eligible employees have drawn down \$13 million (June 2007: \$7.5 million) out of a maximum \$75 million (June 30, 2007: \$75 million) available under this facility. These loans to employees are fully secured by (i) a pledge of all securities representing their investments in the program; and (ii) assignment of all other rights, claims and interests in connection therewith. As such this guarantee represents a low risk to the Group.

The tables below show commitments and contingent liabilities, analyzed by their term to maturity at June 30, 2008 and 2007:

<i>June 30, 2008</i> <i>\$000s</i>	<i>Amounts by term to maturity</i>				<i>Total</i>
	<i>Up to 3 months</i>	<i>>3 months up to 1 year</i>	<i>>1 year up to 5 years</i>	<i>Over 5 years</i>	
Investment commitment issued for pending acquisitions - net	-	-	104,818	-	104,818
Investment commitments to closed-end committed funds	-	36,590	445,806	-	482,396
Other investment commitments	39	154	9,320	-	9,513
Non-cancelable operating leases	1,543	6,221	32,091	45,261	85,116
Capital expenditure commitments	20	-	-	-	20
Guarantees and letters of credit issued to third parties	110,886	11,358	21,967	43,753	187,964
Capital guarantees	-	-	5,876	-	5,876

<i>June 30, 2007</i> <i>\$000s</i>	<i>Amounts by term to maturity</i>				<i>Total</i>
	<i>Up to 3 months</i>	<i>>3 months up to 1 year</i>	<i>>1 year up to 5 years</i>	<i>Over 5 years</i>	
Investment commitment issued for pending acquisitions - net	369,568	-	-	-	369,568
Investment commitments to closed-end committed funds	25,000	33,189	273,702	-	331,891
Other investment commitments	154	154	1,233	-	1,541
Non-cancelable operating leases	1,658	4,072	32,953	44,434	83,117
Capital expenditure commitments	75	414	-	-	489
Guarantees and letters of credit issued to third parties	-	-	7,374	11,008	18,382
Capital guarantees	-	-	2,000	17,253	19,253

23. EMPLOYEE COMPENSATION

In designing its employee compensation plans, Investcorp's primary objective is to provide a competitive total compensation package for employees versus comparable financial services firms operating in similar geographic locations. This is achieved through a combination of cash salaries, variable bonuses dependant upon Group, unit and individual performance, and participation in various long-term employee investment and ownership programs described below.

Salaries are determined and revised based on competitive market conditions, while the aggregate Group bonus is determined based on gross income before bonuses for the year such that the aggregate executive compensation, including salaries and bonuses, is maintained at a target ratio of total income consistent with industry benchmarks. Similar to most other investment institutions, approximately one third of the total aggregate compensation expense of the Group in a typical year is in the form of fixed salaries, with the remaining two-thirds coming from variable, performance-based bonuses.

INVESTCORP BANK B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

23. EMPLOYEE COMPENSATION (continued)

In addition, consistent with established practice amongst investment institutions specializing in alternative asset classes, the Group's management participates in various investment programs that align their interests with those of clients and shareholders. The benefit of these investment programs arises from participation in the returns generated by the underlying investments. There are broadly two such programs, as described below.

Programs for Investment Profit Participation

The Group's investment professionals in its private equity and real estate investment lines of business participate in "carry-based" programs, whereby a certain variable portion of exit proceeds due to investors from realization of their investments is shared with the investment professionals, provided certain pre-established minimum return hurdles are exceeded. Since this carry is awarded upfront at the time of acquisition it has no significant value at the time of the award.

Similarly, the Group's hedge funds professionals participate in an investment program that is linked to the risk-adjusted performance of the hedge funds program over a rolling period. The amount payable to the hedge funds professionals under this program is included in their annual variable compensation and is recorded in the Group's consolidated statement of income as a compensation expense.

Programs for Investment Participation

Management is also provided with the opportunity to co-invest alongside clients in the Group's investment products, including private equity investments, real estate investments and the Hedge Funds Program. Employees co-invest in the underlying investments at the Group's cost basis, thereby resulting in no gain or loss to the Group. In some instances, the Group, together with third party lenders, also provides financing at market rates to eligible employees, to invest in these programs on a levered basis. The permissible levels of leverage vary on a product to product and program to program basis. The aggregate amount of such financing provided to employees as of June 30, 2008 is \$158.9 million (June 30, 2007: \$139.9 million), of which \$78.1 million (June 30, 2007: \$95.7 million) was from third parties. Third party financing for these investment participation programs has full recourse to the employee's underlying plan investments, and, only as a last resort, is guaranteed by the Group (see Note 22).

Share Ownership Program

SIPCO sponsors a share incentive plan ("SIP Plan") under which eligible employees receive a portion of their annual performance incentive compensation in the form of a beneficial interest in the ownership of the Bank via shares of SIPCO. These shares vest immediately as they represent annual restricted share awards granted in respect of employees' performance during the fiscal year. The restricted shares are awarded at fair value, determined with reference to the market price of the GDRs of the Bank. Accordingly, the Group does not incur any additional costs or expenses in relation to the SIP Plan, since these awards occur at the fair value of the shares. It is important to note that the SIP Plan is therefore a fully paid up employee share ownership program, whereby employees effectively pay fair value for purchasing the shares. Unlike other employee share incentive programs, the SIP Plan does not issue share options to employees.

In addition the Group accounts for employee termination benefits on an accrual basis. The charge during the current year, in respect of these, amounts to \$0.5 million (2007: \$2.2 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

24. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of directors and senior managers in the ordinary and preference shares of the Bank are set out below:

	<i>Number of shares</i>	
	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Ordinary shares		
Directors	44,025	69,277
Senior Managers *	124,784	135,740
Total	<u>168,809</u>	<u>205,017</u>
Preference shares		
Directors	-	33,563
Total	<u>-</u>	<u>33,563</u>

* These shares are held through SIPCO as stated in Note 1A (iii) and are not available for trading.

Of the directors' shareholding in ordinary shares, 8,253 (June 30, 2007: 10,575) are held directly and the remaining are held through various holding companies within the Group's ownership structure [see Note 1A (iii)], and are as a result subject to substantial transfer and trading restrictions.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings, including those in their capacities as employees, for the year ended June 30, 2008 amounted to \$13.5 million (June 30, 2007: \$16.1 million). Total dividends for the directors during the year, including preference share dividends, amounted to \$7.4 million (June 30, 2007: \$11.8 million).

Further, of the staff compensation for the year set out in Note 4, \$72.8 million (2007: \$84.0 million) is attributable to senior management (excluding directors that are included above). The directors and senior management's remuneration is short-term in nature.

25. RELATED PARTY TRANSACTIONS

For the Group, related parties include its investee companies, companies that hold clients' investments (clients' investment holding companies), client fund companies associated with HFP and the ultimate parent company through which the employees invest in beneficial ownership of the Bank's ordinary shares. It also includes major shareholders, directors and senior management of the Bank, their immediate families and entities controlled, jointly controlled or significantly influenced by such parties. Income is earned or expense is incurred in the Group's transactions with such related parties in the ordinary course of business. The Group's management approves the terms and conditions of all related party transactions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008

25. RELATED PARTY TRANSACTIONS (continued)

Although these companies are being classified as related parties, the Group administers and manages these companies on a fiduciary basis on behalf of its clients who are third parties and are the beneficiaries of a majority of the economic interest from the underlying investments of these companies. As a result, the true nature of the Group's transactions with these companies is effectively at commercial terms as specified under pre-determined management agreements.

In addition to the compensation and benefits to senior management and directors' remuneration disclosed in Note 24, the income earned and expenses incurred in connection with related party transactions included in these consolidated financial statements are as follows:

<u>\$000s</u>		<i>June 30, 2008</i>	<i>June 30, 2007</i>
Management fees	Investee companies	18,858	12,472
	Client companies	47,797	21,826
	Client companies associated with the HFP	65,710	44,415
Activity fees	Investee companies	83,171	128,200
Performance fees	Client companies associated with the HFP	24,487	22,923
	Client companies	465	21,122
Asset based income	Investee companies	26,805	22,644
	Client companies	7,620	964
Interest expense	Client companies	(2,991)	(4,492)

The balances with related parties included in these consolidated financial statements are as follows:

<u>\$000s</u>	<i>June 30, 2008</i>			<i>June 30, 2007</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Off- balance sheet</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Off-balance sheet</i>
<u>Outstanding balances</u>						
Strategic shareholders	3,559	66,156	-	13	88,776	-
Investee companies	89,010	-	-	71,599	-	-
Investment holding companies	193,562	40,901	482,396	46,323	35,374	331,891
Client fund companies associated with the HFP	51,719	-	-	49,204	-	-
Directors and senior management	3,988	3,215	-	835	11,353	-
	<u>341,838</u>	<u>110,272</u>	<u>482,396</u>	<u>167,974</u>	<u>135,503</u>	<u>331,891</u>

The Group carries out its investment activity along with certain strategic partners who are clients as well as shareholders of the Group and whose business interests are aligned to that of the Group. In doing so, the strategic partners have, in addition to their own equity, obtained asset backed financing amounting to \$317.3 million as at June 30, 2008 (June 30, 2007: \$310.6 million) from the Group at market rates of interest which is reflected in the consolidated balance sheet under the relevant asset categories funded by the financing. The Group has also entered into management agreements with the strategic partners to manage these investments as part of which it shares a portion of the risks and rewards from the underlying investments. Income and expenses arising from these arrangements are included under client companies in the above table to the extent they result from transactions with related parties.

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Fair value adjustments arise from re-measurement to fair value of investments and derivatives.

Fair value of the Group's financial assets and liabilities on the consolidated balance sheet are not materially different to their carrying value.