Persia International Bank PLC

Annual Report & Accounts 2007/08

بسم الله الرحمن الرحيم

In the Name of God

The Babylonian Tablet *is a ground plan dating from second to third millennium B.C.*

Management Team

Board of Directors

Dr A Divandari, Chairman
Dr R Davari, Vice-Chairman
Dr R Raei, Non-executive Director
G. Penny, Non-executive Director
D. R. Curtis, Non-executive Director
M. R. Meskarian, Chief Executive Officer
A. Akhondi, Executive Director

Company Secretary

J. L. Bridger

Auditors

Mazars LLP
London

Executive Management

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General Manager Mr. S. Tarassoli

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Fax: +9714 362 0812
SWIFT: PIBPAEAD

Tehran Representative Office

Representative: Mrs. F. Mazda

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Iran

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Fax: +9821 88889827

Contents

The Cover image is:

Bahr-e-Fars (Persian Sea)
By: Abu-Es'haq Ebrahim al-Faresi **AL-ISTAKHRI** (Berore 930-957 A.D.)

From a Persian translation of Kitab *al-masalik va'l-mamalik* of Istakhri. Manuscript date 1325 A.D. by Ibn Savoji.

Facsimile edition 2006 by Sahab Geographic & Drafting Institute, Tehran, Iran

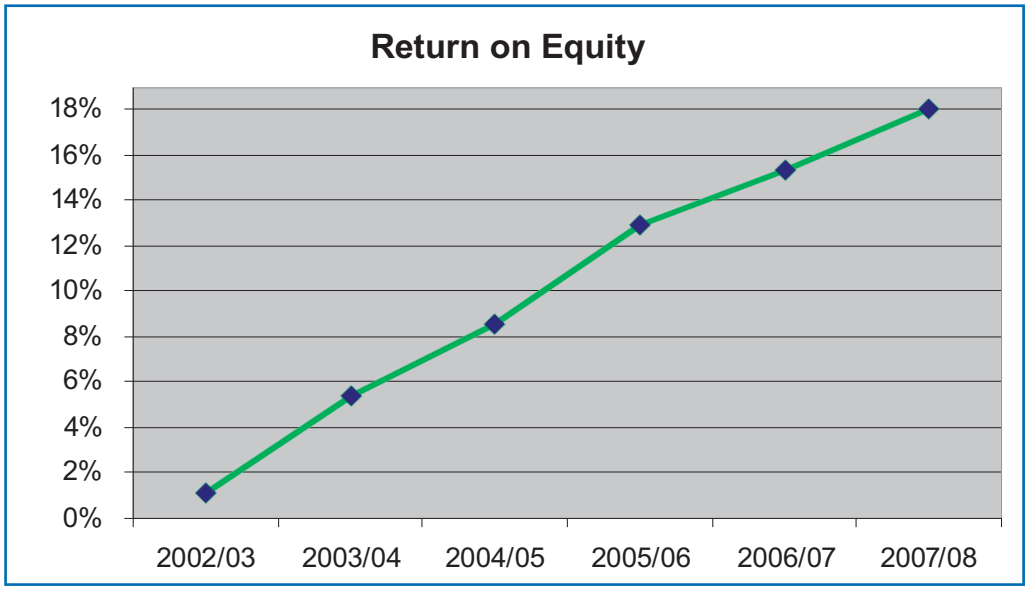
Financial Review of the year

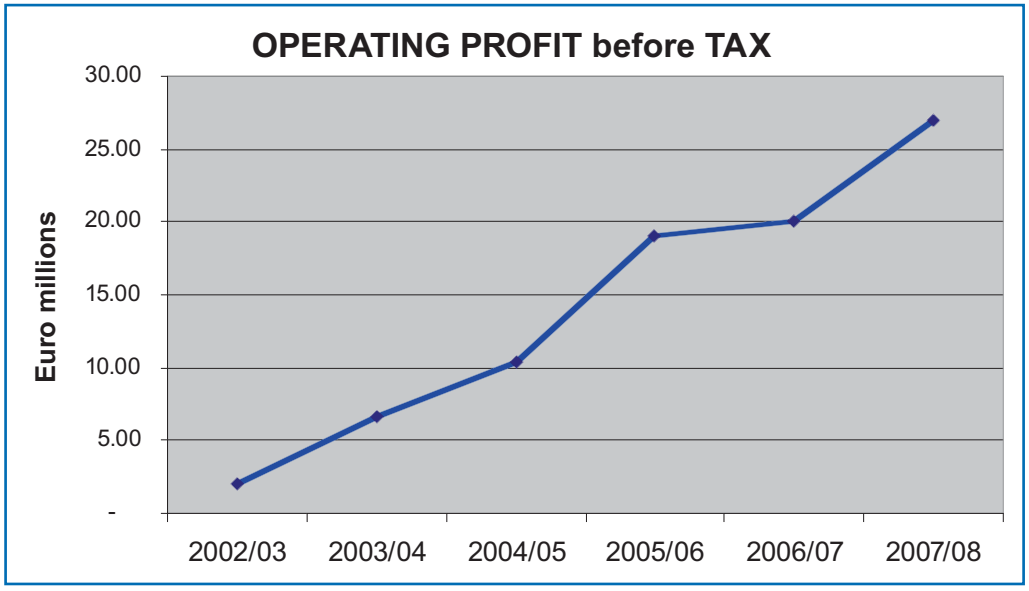
Results

The Bank commenced the restructuring of its share capital this year; it is no longer active in US dollar markets and now conducts the majority of its business in Euros, its functional and reporting currency as of 31 March 2008. In November 2007 the Bank bought back US$70million of its US dollar share capital using the proceeds from the simultaneous issue of Euro 50million new share capital. The remaining US$60million of US dollar share capital will be converted during the next year. The 2007/08 results and comparatives are presented in Euros.

Operating profit on ordinary activities before tax was Euro27million compared with Euro 20million in 2006/07. This equated to a pre-tax return on average equity of 26% compared to last year's 22%.

Return on equity after tax was 18% compared to 15% last year. This was the bank's sixth year of operations and the two graphs show the growth and progress achieved over that period.





The previous year's Euro comparatives have been calculated from the USdollar comparatives using the March 2008 year end US$/Euro exchange rate. This is consistent with IAS 21 but has produced the dip in the graph above.

Financial Review of the year - Continued

The US dollar interest rate fell by 3% to 2.25% through the year which reduced the earnings from the capital portfolio; the partial conversion into Euro share capital in November resulted in a small improvement as the Euro rate remained unchanged at 4%. The cost / income ratio improved again this year from 26% to 24%; this was a function of both increased revenues and the continued tight control over costs which has been a feature of the bank since it first opened.

Net interest income appears to have increased by 23% compared to the previous year. However, a major part of this is due to the US$/Euro translation rate applied to convert last year's US dollar comparatives. The underlying result was only a marginal improvement of 4%, largely due to increased margins on trade finance discountings. The demand for shorter term trade finance facilities increased through the year so generating a significant revenue stream which compensated for shortfalls elsewhere.

The slowdown in the Bank's balance sheet activity was most noticeable in the medium term credit portfolios. The loan portfolios, having been built up during the previous years, had matured and become an established revenue stream. However, they are now running off and the Bank is concentrating more and more on commission and fee business.

Fees and commissions were up over 50%. The focus on Trade Finance business produced the increased revenues which were expected following the marketing and service levels over the past years. The Dubai (DIFC) branch built upon the success of its first two years of trading and its increased contribution within trade finance further underlined the rationale behind the Bank's branch strategy. The branch produced 50% of the bank's total LC fees compared with last year's 35%. Since the overall fee total also increased by 50%, the scale of the branch growth was even more impressive. The branch is benefiting from the increasing volume of trade between Dubai and Iran.

Trade Finance

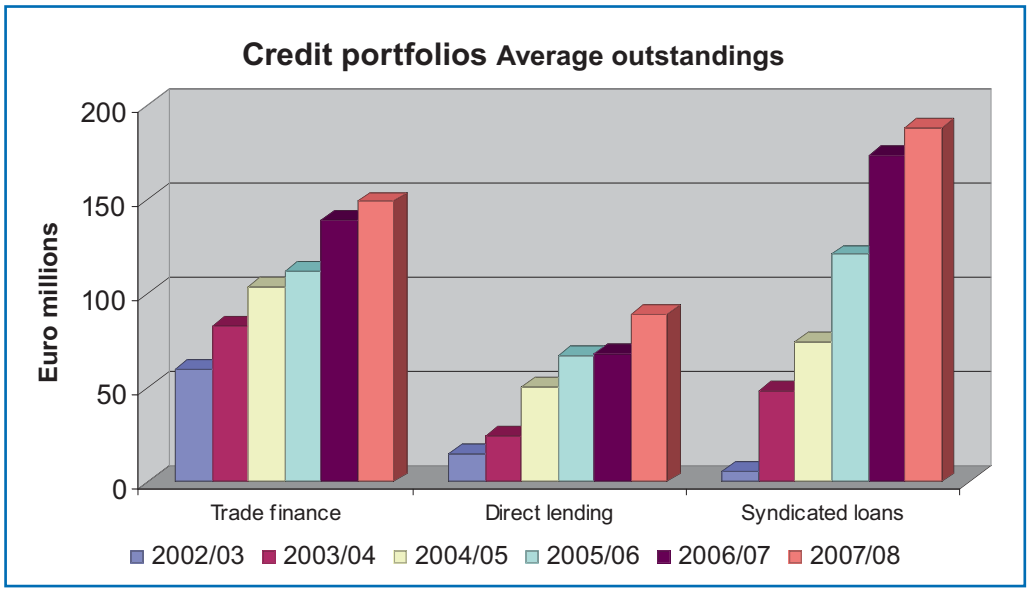
The trade finance team maintained the momentum built up last year and continued working close to capacity. The operation is running very efficiently and has been able to handle the increasing levels of business. The demand for the Bank's documentary credit services has remained strong due to the Bank's stress on providing a quality client service in line with its excellent reputation. The level of international trade flows in and out of Iran has not fallen off to any great extent and so the transaction volumes have been maintained. Fees from letters of credit issued were up in line with the corresponding business volumes from Iranian banks, predominantly our shareholders. These were substantially higher than last year and so accordingly, the demand for short term financing remained consistently active through the year.

Lending

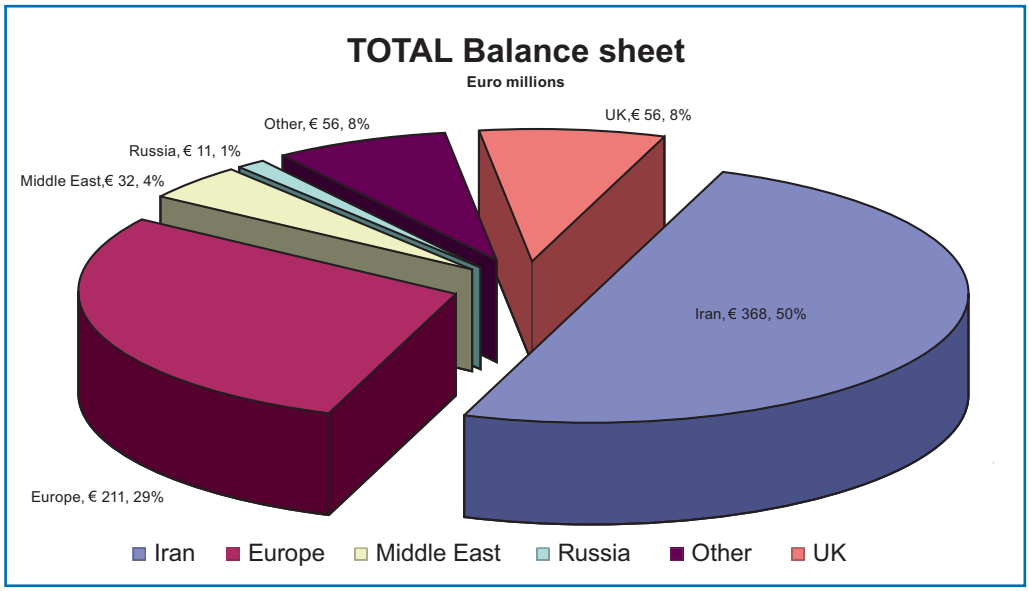
The loan portfolios decreased by 12% from last year end – a net reduction of Euro 33million in the year to Euro 240million. A quality loan portfolio has been one of the fundamental pillars of the bank's medium term strategy; this objective has not changed but the downturn in credit markets has interrupted the previous growth trend. There have been no problem loans in any of the portfolios since the Bank commenced trading in 2002, an enviable position and even more impressive given the current economic concerns. Consequently there was once again no loan provision charge in the P&L and the bank does not maintain a general provision.

Financial Review of the year - Continued

The average balance sheet was 11% lower than last year. The underlying balance sheet at the end of the year was also smaller than the previous year; the reduction was mainly within the loan portfolios contrary to the respective years' averages. The average loan outstandings were higher as can be seen below. Therefore the portfolio still produced a significant income contribution as the impact of the run-offs only began to show in the fourth quarter profit and loss account.



The loan portfolios are split approximately 60% / 40% between (primary) market syndicated loans and term lending to relationship customers.



Financial Review of the year - Continued

Treasury

The bank's funding sources were little changed from previous years, being predominantly its two shareholder banks, customers and the Central Bank of Iran. The bank comfortably maintained its short term liquidity ratios throughout the year. The growth in profitability and the increasing capital base have enabled the bank to present a strong and healthy picture to the market. However, the bank has not been able to progress to the next phase of its medium term plan in respect of taking funds from the inter-bank market; the continued uncertainty surrounding Iran has outweighed the Bank's improving credit standing. Regardless, the objective remains to diversify further the Bank's funding sources and this will be pursued aggressively once the market returns to normal.

The bank does not take or hold any proprietary trading positions. Foreign exchange profits are earned from customer related business. The deal flow dropped in the previous year and remained low through 2007/08 due to the move towards Euros – clients no longer need to sell their Euros for US$.

Customer Services

The bank offers a comprehensive banking service both to its customers and to banks in Iran, primarily its two shareholders, Bank Mellat and Bank Tejarat. These services are offered from either the head office in London or the Dubai branch. Transaction volumes and the resulting profits were steady throughout the bank's first four years; however, there was a marked reduction in the number of payment orders at the end of 2005/06 as a result of US$ services being curtailed; the transaction numbers are not expected to recover until the market circumstances return to normal. The revenues earned from this activity share an equal priority with the Bank's objective of providing a very high quality service to its customers. This is a highly people intensive business where the responsibilities include the need to monitor for and prevent money laundering and other financial crimes, which has always been one of the main objectives of the Bank.

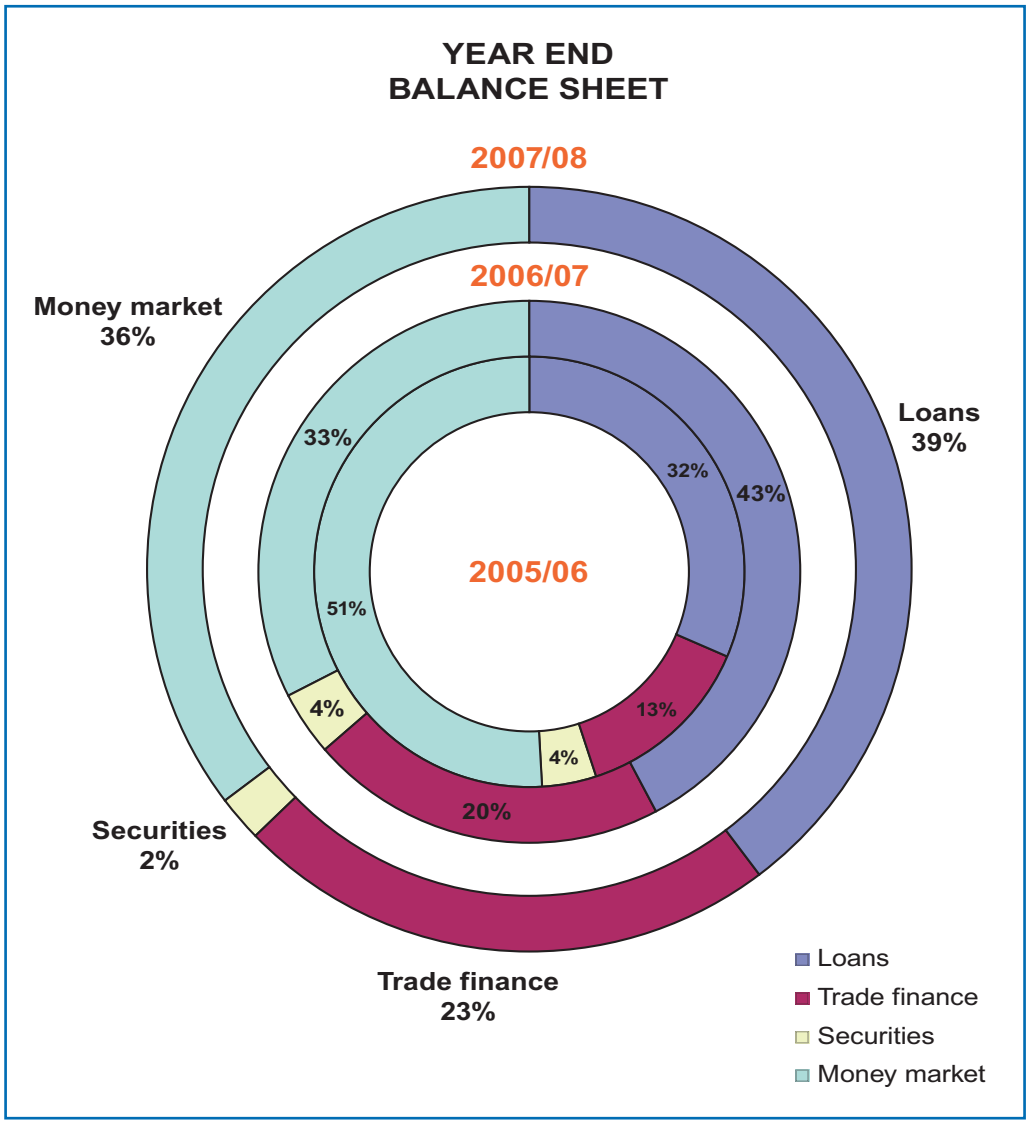
Capital Base & Balance Sheet

The capital base as at 31 March 2008, including this year's profit, totalled Euro 156.6million. The capital base is continually under review and is significantly in excess of the minimum regulatory requirements. A dividend will therefore be considered in the light of the current capital surplus.

The year end balance sheet total shows little change from the previous year end. There has been a shift away from medium term lending and a corresponding increase in short term bank exposure. The Bank has not been as active in the credit markets but has increased its business mainly through discounting – short term bank exposure. One result of this has been the maintenance of its healthy (short term) liquidity ratios.

Financial Review of the year - Continued

The following chart shows how the balance sheet composition has changed through the last three years:



Future Strategy

Our strategy for the next 12 months, which is part of our rolling five year plan, is now even more cautious than it was a year ago. We will continue to concentrate our resources on short term credit facilities and we expect the medium term loan portfolios to reduce further still. A return to the balance sheet growth scenario cannot happen in the current economic environment. We will however, continue to expand upon our role within the Mellat and Tejarat groups but the focus will remain on trade finance services. The diversification of our funding and asset base has been put on hold until the present uncertainties in the market are resolved.

Chairman's Statement

The financial year 2007/08 was the Bank's sixth year of operation and I am very pleased to report another excellent result from what was a very challenging and difficult year for all players in the financial sector. I believe the strength of the Bank, its capital and sound business strategy plus the drive and motivation of all the staff has maintained the Bank's standing and kept it in a position to grow further.

During the year the Bank started the exercise to convert its share capital into Euros. It issued Euro 50million of new Euro shares to the shareholders and used the proceeds to buy back from them US$70million of US$ shares. The Bank will complete the conversion exercise later this year. The Bank has presented for the first time its annual accounts in Euros; the previous year's comparatives are shown in Euros accordingly.

I am very pleased to report a profit before tax of Euro 27million which is a 34% increase over the previous year. Similarly profit after tax is up 34% at Euro 18.8million, resulting in a return on average equity of 18%. The cost income ratio improved further, reducing from 26% last year to 24%; again this was primarily a function of increased revenues, up 30%. Trade finance commission revenues were up 53% on last year's improved levels, so clearly illustrating the success of the Bank's increased focus on this core business activity.

The bank's credit portfolios remained problem free; however, the Bank was unable to follow up last year's expansion; the downturn in the international credit markets resulted in the Bank redirecting its resources away from the international syndicated loan market and concentrating more on Iranian exposures particularly shorter term trade finance facilities. The loan portfolios include relationship loans to mainly high quality Iranian counterparties and the remaining participations in loans, with a wider geographical spread, through the London syndications market. Prior to this year diversification of assets was always one of the main objectives of the Board. However, at 31st March 2008 50% of total asset exposure was Iranian risk, which was still slightly less than last year's 52%.

The Bank is very well capitalised, the capital base is made up of tier 1 capital of Euro 110million plus tier 2 capital of Euro 46.5million. This totals Euro 157million and continues to show a healthy excess over the Bank's current regulatory capital requirement and its medium term projections.

The Future

The Bank's increased focus on trade finance services is now producing the expected revenues; however, having achieved the initial objective, further efforts will be made to ensure that this business continues to grow. The Bank's capability and reputation in this market is very strong and we will continue to maintain and improve these strengths which in turn should lead to increases in commission and fee earnings. In this pursuit we are examining global markets, both established and emerging, and also reviewing our operating presence over the medium term. The Bank opened its first overseas branch in Dubai within the DIFC (Dubai International Financial Centre) in August 2005. The branch is fully established in Dubai and will move into larger offices in 2009 so assisting its expansion plans; it is a significant contributor towards the Bank's revenues.

Much of our existing business is, naturally, derived from Iran, both from customers based in Iran and customers trading with Iran. Despite external pressures on the Iranian economy, the business flows have not been adversely affected to the extent one might otherwise expect. High oil and gas prices are benefitting Iran's hard currency reserves and the demand for imports has remained strong through the past year. Iran's economy will continue to strengthen and the Bank, primarily through its trade finance services, will benefit accordingly.

I wish to thank my Board colleagues and the staff for their continuing hard work and dedication, without which these results would not have been achieved.

Likewise, the Board is very grateful for the support of our two shareholder Banks. They remain a major source of deposits, but just as importantly they refer significant volumes of trade finance business to us from their Iranian and other branch networks. Not only is this a great help to the Bank, it also gives tangible recognition to the Bank's competence and the importance of the London markets.

Chairman's Statement - Continued

I do not expect conditions in the global economy to improve in the near future but I remain optimistic that over the coming year they might begin to return to normal. The Board and I are confident that the Bank will continue to prosper and will maintain its strength and market standing so that in time it will be able to return to its growth strategy and achieve its long term objectives.

A Divandari
Chairman

20 June 2008

AI-Kashqari (Kashghari), *Mahmud ibn al-Husain ibn Muhammad Period: 11th century A.D./5th century A.H.*
The Muslim lands of Western Asia according to the map of Kashghari, from Divan-i Lughat al-Turk, 15th century A.D.

Directors' Report

The directors present their annual report and the audited financial statements of Persia International Bank Plc, (the "Company") for the year ended 31 March 2008.

The accounts have been prepared under International Financial Reporting Standards (IFRS).

Principal Activities

The Company is an authorised institution under the Financial Services and Markets Act 2000. The principal activity of the Company is the provision of commercial banking services. The Company offers a comprehensive service in all aspects of trade finance including providing short-term finance through bill discounting. In addition it provides traditional bank lending either through banking relationships or the syndications market. The major proportion of the Company's customer base is conducting business within Iran or trading with Iran. The Company has been trading for six years and has seen steady progress throughout that period both in terms of business volumes and results. It opened its first overseas branch in the Dubai International Financial Centre (DIFC) in August 2005, which further expanded its trade finance capabilities.

Business Review

The Company is required by the Companies Act to set out in this report a fair view of the business of the Company during the financial year ended 31 March 2008 and of the position of the Company at the end of the year and a description of the principal risks and uncertainties facing the company.

The balance sheet did not grow during the last year and the Company does not anticipate a return to its medium term growth strategy until the global markets begin to return to normal. However, it will consider opening further overseas branches. The capital base is sufficient for the current and near-term business levels and it will be able to accommodate the changes resulting from the introduction of the Basel II regulations. The principal risk facing the Company comes from the continuing political pressure on Iran, United Nations sanctions and the potential restriction of services of some large global banks. This situation has persisted for almost two years. Mitigating actions against this risk are set out in note 24. Please refer also to the Chairman's Statement for a more detailed review of the business and the future developments.

Share Capital

Due to restrictions imposed by the USA, the Company is no longer entering into business transactions denominated in US Dollars. Whilst this has caused the Company to redirect its business towards other currencies, mainly Euros, it has not adversely impacted significantly the Company's underlying transaction flows nor its income. The Company re-denominated part of its share capital from US Dollars into Euros in November 2007. This exercise was completed through the issue of 50million ordinary shares of Euro 1 each with most of the proceeds used to purchase 70 million ordinary shares of US$1 each; the US$ ordinary shares were subsequently cancelled. This realigned the capital base with the bank's functional currency. The remainder of the US Dollar share capital will be redenominated as the residual US Dollar loan portfolio runs off during the next financial year.

Results and Dividends

The results for the year are set out in detail in the income statement on page 18. The profit before tax amounted to Euro 27,007,000 (2007, Euro 20,075,000) and the profit attributable to shareholders for the financial year amounted to Euro 18,828,000, an 18% return on average shareholders' equity; (2007: Euro 14,048,000, 15%); this has been transferred to reserves. The directors paid a dividend of US$20,000,000 in June 2007 (2006 - US$15,000,000), the final dividend in respect of the previous year.

Directors

The directors who served throughout the year, except as noted below, were:

Chairman (Non-executive Director)	Dr A. Divandari
Vice Chairman (Non-executive Director)	Mr S.D. Eskandari (resigned June 2007)
Vice Chairman (Non-executive Director)	Dr M Davari (appointed December 2007)
Non-executive Director	Dr R Raei (appointed June 2007)
Chief Executive Officer	Mr. M. R. Meskarian
Executive Director	Mr. A. Akhondi
Executive Director	Mr. Z. Ashtari (resigned July 2007)
Non-executive Director	Mr. D. R. Curtis
Non-executive Director	Mr. G. Penny

Directors' Shareholdings and Interests in Contracts

None of the directors of the Company who served at the end of the financial year had an interest in the share capital of the Company at any point during the year. No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Company. There have been no changes in directors' interests from 31 March 2008 to the date of this report.

Financial Instruments

The Company has significant operations outside the UK and as such is exposed to movements in exchange rates. The Company is also exposed to interest rate risk through fixed rate contracts. With the objective of hedging exposures to interest rate risk and exchange rate risk the Company enters into derivative contracts such as forward foreign exchange contracts and interest rate swaps. All financial instruments, as at the balance sheet date, are held in the banking book. Details of the contracts open at the balance sheet date are provided in note 24.

Because derivative contracts are used to hedge the market risks of the Company's investment activities, the Company is not significantly exposed to market risks.

Supplier Payment Policy

Our policy is to pay suppliers' invoices within 30 days of invoice date or as otherwise agreed. The amount due to trade creditors by the Company at 31 March 2008 represents 20 days' (2007: 25 days) average daily purchases of goods and services received from such creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Directors' Indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that: so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Directors - Continued

Auditors

Mazars LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

M Meskarian
Chief Executive Officer

20 June 2008

Al-Harrani, *Ahmad ibn Hamdan ibn Shaib (ca. 1332 A.D./732 H.) World Map*

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Posidonius (Posidonii) of Apameia, *World Map from the Period (135-50 B.C.)*

Sinus Persicus *detail from the World map of* ***Posidonius***

Independent auditors' report to the members of Persia International Bank Plc

We have audited the financial statements of Persia International Bank Plc for the year ended 31 March 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Persia International Bank Plc - Continued

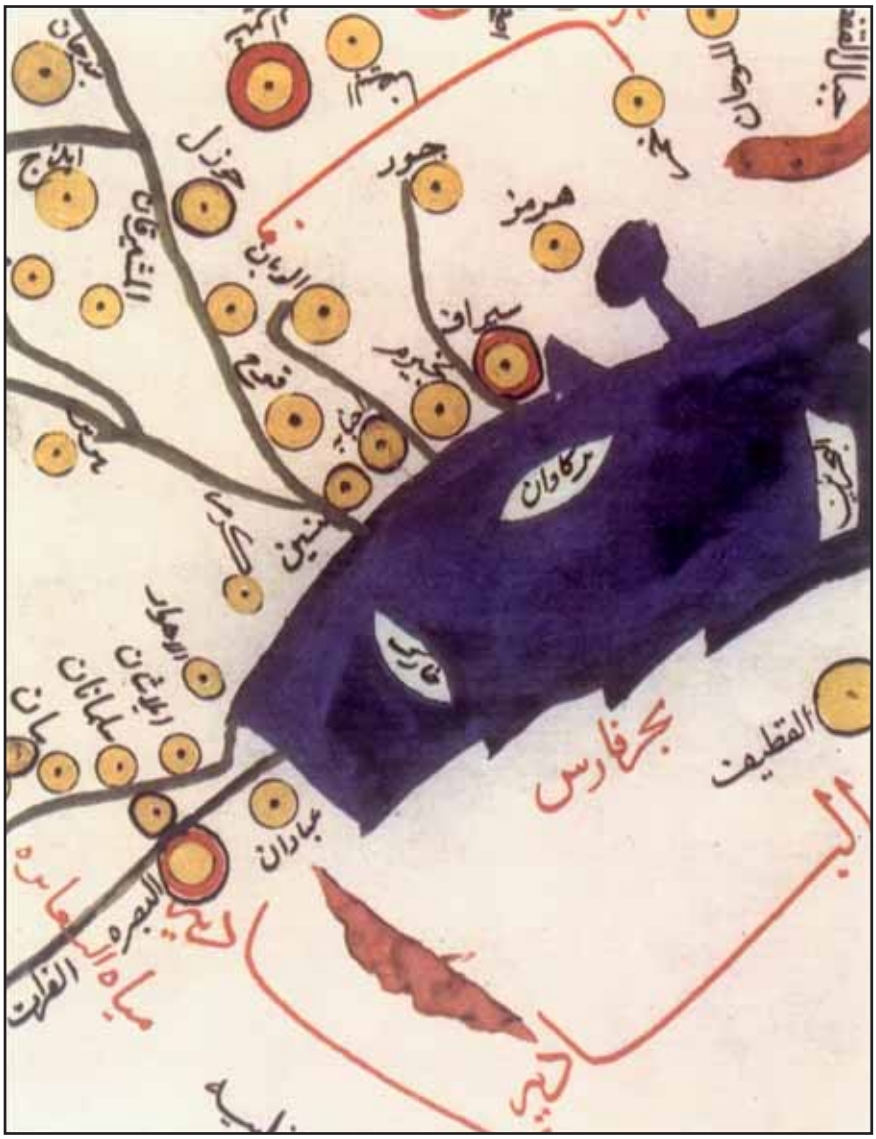
Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP
Chartered Accountants and Registered Auditors
Tower Bridge House, St Katharine's Way, London E1W 1DD

20 June 2008



Edrisi (Idrisi), *al-Sheikh Abu Abdullah Mohammad ibn Mohammad ibn Abdullah ibn Edris al-Edrisi al Hasani al-Talebi, (1100-1160 A.D./ 493-555 H.):*

Bahr-e Fars *(Persian Sea) in the detailed map of part six of the third Eqlim, from Edrisi (Idrisi) "Uns ol-Mahaj va Hadaiq al-Faraj" manuscript.*

Income Statement for the year ended 31 March 2008

	Note	2008 Euro'000	2007 Euro'000	2007 US$'000
Interest receivable and similar income				
Interest receivable and similar income arising from debt securities available for sale		1,649	2,095	3,294
Other interest receivable and similar income	2	49,867	51,696	81,272
		51,516	53,791	84,566
Interest expense and similar charges	3	(27,450)	(34,306)	(53,932)
Net interest income		24,066	19,485	30,634
Fees and commissions receivable		11,071	6,860	10,784
Fees and commissions payable		(125)	(57)	(89)
Other operating income	4	367	875	1,375
Operating income		35,379	27,163	42,704
Administrative expenses	5	(8,259)	(6,717)	(10,560)
Depreciation and amortisation	11	(252)	(233)	(367)
Gain / (Impairment loss) on available-for-sale securities		139	(138)	(217)
Profit on ordinary activities before tax		27,007	20,075	31,560
Tax on profit on ordinary activities	9	(8,179)	(6,027)	(9,475)
Profit on ordinary activities after tax		**18,828**	**14,048**	**22,085**
Profit attributable to the equity shareholders of the parent		**18,828**	**14,048**	**22,085**

Balance Sheet as at 31 March 2008

	Note	2008 Euro '000	2007 Euro '000	2007 US$'000
Assets				
Cash and balances at Central banks		5,758	17,783	27,957
Loans and advances to banks	22	470,045	413,962	650,790
Loans and advances to customers	22	239,580	273,086	429,318
Debt securities	10	16,588	29,230	45,953
Property, plant and equipment	11	2,292	328	516
Deferred tax asset	13	213	184	289
Derivative assets	21	25	213	335
Other assets	12	266	288	453
Prepayments and accrued income	14	126	83	131
Total assets		**734,893**	**735,157**	**1,155,742**
Liabilities				
Due to other banks	22	441,586	536,454	843,360
Customer accounts	22	130,852	55,167	86,728
Derivative liabilities	21	984	228	359
Other liabilities	15	4,820	5,409	8,504
Subordinated debt liabilities	16	46,672	39,501	62,099
		624,914	636,759	1,001,050
Called up share capital	17	88,166	82,692	130,000
Retained earnings	18	21,813	15,706	24,692
Total shareholders' equity	18	109,979	98,398	154,692
Total equity and liabilities		**734,893**	**735,157**	**1,155,742**
Memorandum items				
Contingent liabilities:				
Guarantees	23	67,265	61,935	97,368
Import LC's issued/confirmed	23	84,014	26,006	40,884
Commitments				
Other credit commitments	23	38,333	38,917	61,182

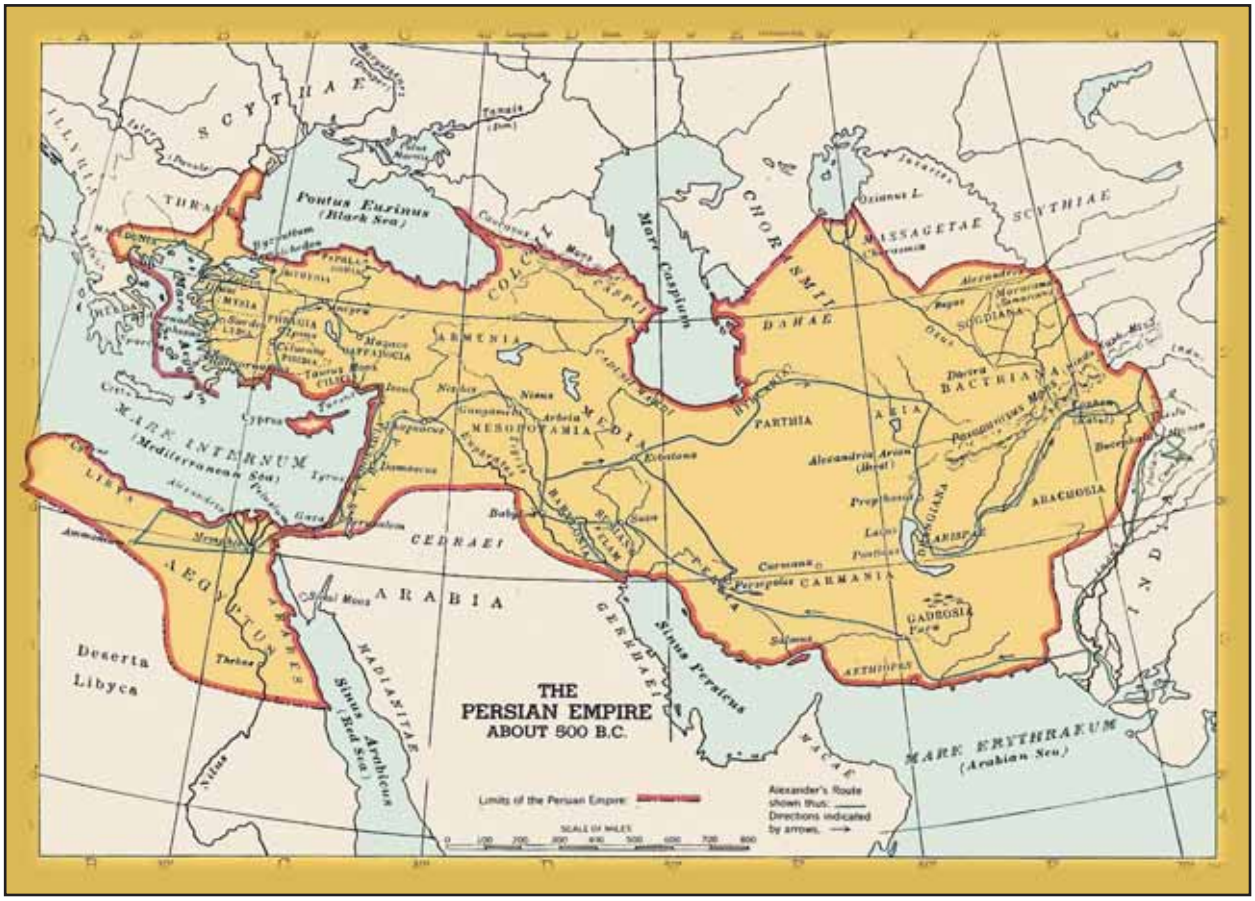
These financial statements were approved by the Board of Directors on 20 June 2008
Signed on behalf of the Board of Directors

Mr M Meskarian

Mr A Akhondi Asl

Statement of Recognised Income and Expense for the year ended 31 March 2008

	Note	2008 Euro '000	2007 Euro '000	2007 US$'000
Available for sale investments				
Valuation losses taken to equity		-	(168)	(264)
Transferred to profit and loss on sale		-	-	-
Tax on items taken directly to equity		-	50	79
Net expense recognised directly in equity	18	-	(118)	(185)
Profit for the year		18,828	14,048	22,085
Total recognised income and expense for the year		**18,828**	**13,930**	**21,900**
Attributable to:				
Equity holders of the parent		18,828	13,930	21,900
		18,828	**13,930**	**21,900**



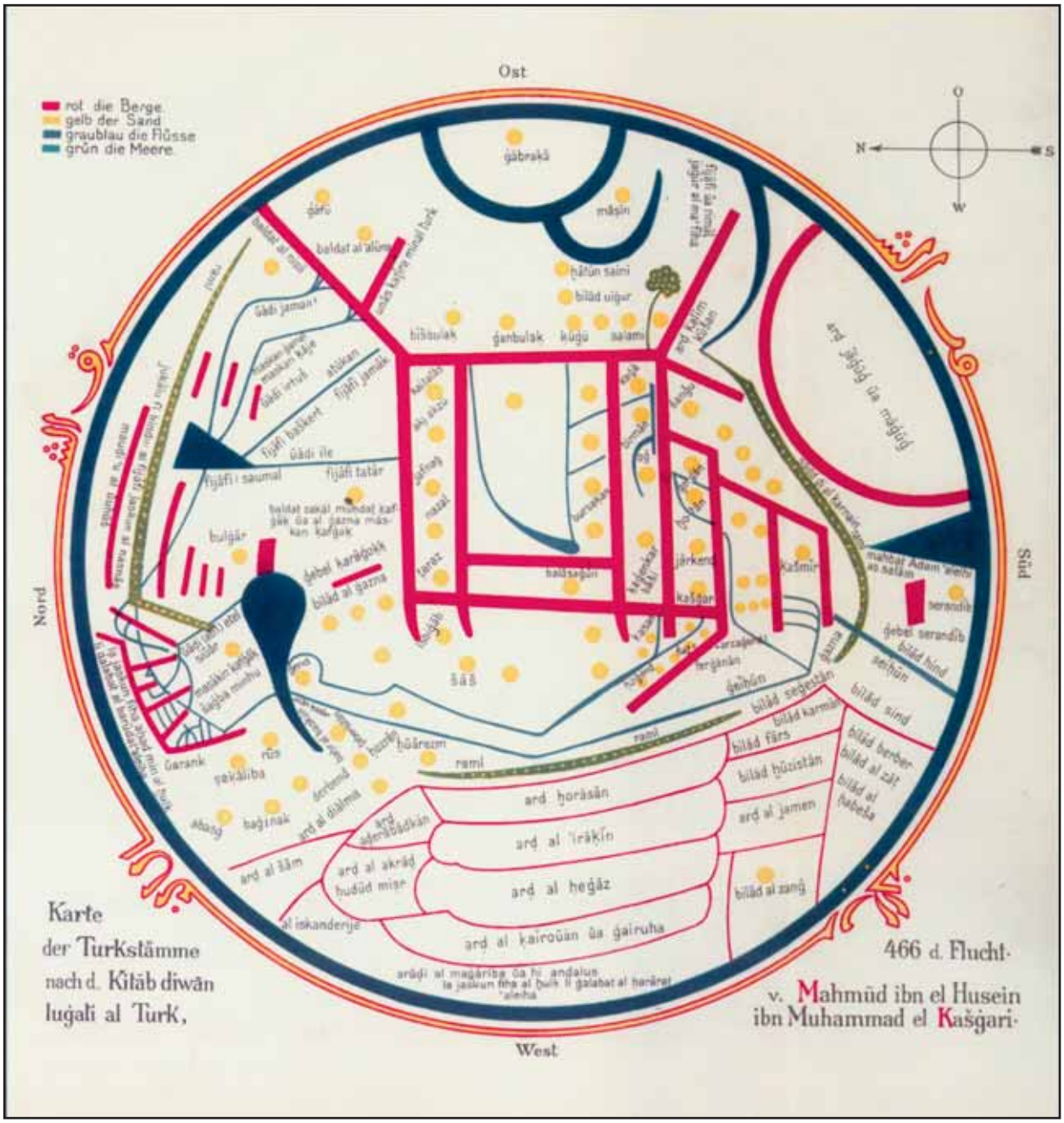
Cash Flow Statement for the year ended 31 March 2008

	Note	2008 Euro '000	2007 Euro '000	2007 US$'000
Cash flows from operating activities				
Profit on ordinary activities before tax		27,007	20,075	31,560
Depreciation and amortisation	11	252	233	367
Other non-cash movements		(182)	(167)	(263)
Interest on subordinated loan added back		2,552	9,656	15,180
Cash flows from operating profits before changes in operating assets and liabilities		29,629	29,797	46,844
Net decrease/(increase) in amounts due from banks and loans to customers		16,155	(69,279)	(108,913)
Net decrease/(increase) in debt securities		12,642	(197)	(310)
Net increase/(decrease) in derivative financial instruments		944	(132)	(207)
Net decrease /(increase) in other assets		22	(81)	(127)
(Increase)/decrease in prepayments and accrued income	14	(43)	100	157
Net increase/(decrease) in other liabilities		1,303	1,579	2,483
Foreign exchange differences		10,507	3,605	5,668
Net (decrease)/ increase in other borrowed funds		(19,183)	(199,213)	(313,183)
Taxation		(10,010)	(5,387)	(8,469)
Net cash flow from operating activities		41,966	(239,208)	(376,057)
Cash flows from investing activities				
Purchase of property, plant and equipment	11	(2,189)	(80)	(125)
Net cash flow from investing activities		(2,189)	(80)	(125)
Cash flows from financing activities				
Interest paid on subordinated loan		(2,532)	(9,627)	(15,135)
Issue of ordinary shares	18	2,183	9,541	15,000
Dividends paid	18	(12,721)	(9,541)	(15,000)
Net cash flow from financing activities		(13,070)	(9,627)	(15,135)
Net (decrease) / increase in cash and cash equivalents		26,707	(248,915)	(391,317)
Cash and cash equivalents at the beginning of the year		**234,622**	**483,537**	**760,167**
Cash and cash equivalents at the end of the year		**261,329**	**234,622**	**368,850**

Cash Flow Statement for the year ended 31 March 2008 - Continued

For the purpose of the cash flow statement, cash and cash equivalents comprise:

	Note	2008 Euro '000	2007 Euro '000	2007 US$'000
Cash and balances with central banks		5,758	17,783	27,957
Amounts due from banks on demand (see note 22)		255,571	216,839	340,893
		261,329	**234,622**	**368,850**



Notes to the Accounts for the year ended 31 March 2008

1 SIGNIFICANT ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

		Effective for annual periods beginning on or after:
IFRS2	Share based payment	1 January 2009
	- amendment relating to vesting conditions and cancellations	
IFRS3	Business Combinations	1 July 2009
	- comprehensive review on applying the acquisition method	
IFRS8	Operating segments	1 January 2009
IAS1	Presentation of Financial Statements	
	- comprehensive revision incl. requiring a statement of comprehensive income	1 January 2009
IAS1	- amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS23	Borrowing costs	1 January 2009
	- comprehensive revision to prohibit immediate expensing	
IAS27	Consolidated and Separate Financial Statements	1 July 2009
	- Consequential amendments arising from amendments to IFRS3	
	- amendment relating to cost of an investment on first-time adoption	1 January 2009
IAS28	Investments in associates	1 July 2009
	- Consequential amendments arising from amendments to IFRS3	
IAS31	Interests in Joint ventures	1 July 2009
	- Consequential amendments arising from amendments to IFRS3	
IAS32	Financial Instruments : Presentation	1 January 2009
	- amendments relating to disclosure of puttable instruments and obligations arising on liquidation	
IFRIC13	Customer Loyalty Programmes	1 July 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company. However, the IAS1 revisions will have a small effect on the accounts disclosure and presentation.

Functional and presentational currency

A change in the functional currency from US Dollars to Euros was recognised on 31st March 2008 and the presentational currency was changed on that date. The Bank's access to US Dollar markets has been restricted since the end of 2006 and the majority of its business is now transacted in Euros. In November US$70million of issued share capital was redenominated into Euros (€50million) and the remainder will be redenominated during 2008/09.

Basis of preparation

The accounts are prepared in Euros, as this is the currency of the primary economic environment in which the Company operates. Previous years' accounts were prepared in US Dollars and the comparatives are shown in both US Dollars and their Euro equivalent.

The accounts are prepared under the historical cost convention, except for available-for-sale financial assets and derivatives that are carried at fair value.

Notes to the Accounts for the year ended 31 March 2008

1 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interest income and expense

Interest income and expense on financial assets and liabilities measured at amortised cost is recognised in the income statement using the effective interest rate method, which allocates the income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability.

Fee and commission income

Fees receivable which represent a return for services provided are credited to income when the related service is performed. Fees receivable, which represent a return for risk borne and are in the nature of interest, are taken to the income statement using the effective interest rate method over the expected life of the transaction to which they relate.

Financial assets

Financial assets are classified into the following categories:

- financial assets at fair value through profit or loss: a financial asset is classified as such if it is held principally for the purpose of selling in the short term. Derivatives are also categorised at fair value through profit or loss;
- loans and receivables: are non-derivative financial assets with fixed or determinable payments not quoted in an active market and
- available for sale: are financial assets not classified in one of the above categories.

Loans and receivables are initially recognised at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Financial assets at fair value through profit or loss are initially and subsequently measured at fair value with changes in fair value taken to the income statement.

Available for sale financial assets are initially and subsequently measured at fair value, with changes in fair value recognised directly in equity until disposal, when the cumulative gain or loss is recognised in the income statement. Foreign exchange gains and losses, interest under the effective interest rate method and impairment losses arising on available-for-sale securities are recognised in the income statement.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Financial liabilities comprise amounts due to other banks, customer accounts and subordinated debt liabilities. They are measured at amortised cost using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment of financial assets

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment, as a result of events that occurred after initial recognition of the financial asset.

The amount of the loss is measured, for financial assets held at amortised cost and as available-for-sale, as the difference between the carrying amount of the asset and the discounted value of the revised estimated future cash flows, discounted at the asset's original effective interest rate.

Financial assets are written off only when it is reasonably certain that any future cash flows are irrecoverable.

Notes to the Accounts for the year ended 31 March 2008

1 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating lease rentals

Rentals payable under operating leases are accounted for on a straight-line basis over the lease term.

Property plant and equipment

Tangible fixed assets are stated at cost less provision for depreciation and any impairment in value. Depreciation of tangible fixed assets is provided on a straight-line basis over estimated useful lives - 3 years.

Taxation

Provision is made for taxation at current enacted rates on taxable profits. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pensions and other post-retirement benefits

The Company operates a defined contribution scheme, charging contributions to the income statement as they become payable in accordance with the rules of the scheme.

Derivatives and other financial instruments

The Company uses derivative financial instruments to reduce exposures to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative instruments for trading purposes.

The Company has not adopted a policy of applying hedge accounting. As a result, all derivatives are measured both initially and subsequently at fair value, with changes in fair value recognised in the income statement.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Translation differences are recognised in the income statement.

Critical accounting judgements and key sources of estimation uncertainty

In application of the Company's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The directors have not made any material estimates and assumptions in the process of applying the Company's accounting policies that are considered to have a significant effect on the amounts recognised in the financial statements.

Notes to the Accounts for the year ended 31 March 2008

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 Euro '000	2007 Euro '000	2007 US$'000
Interest receivable from banks	28,817	33,755	53,067
Interest receivable from customers	21,048	17,865	28,086
Interest receivable from shareholders	-	74	116
Other interest income	2	2	3
	49,867	**51,696**	**81,272**

All income included above has arisen from financial instruments that are classified as loans and receivables in accordance with IAS 39.

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2008 Euro '000	2007 Euro '000	2007 US$'000
Interest payable to banks	9,206	9,254	14,548
Interest payable to customers	4,045	2,925	4,599
Interest payable on deposits from shareholders	11,640	20,489	32,210
Interest payable on subordinated debt	2,559	1,638	2,575
	27,450	**34,306**	**53,932**

All expense included above has arisen from financial instruments classified as other financial liabilities in accordance with IAS 39.

4 OTHER OPERATING INCOME

	2008 Euro '000	2007 Euro '000	2007 US$'000
Foreign exchange income	(55)	169	265
(Loss)/gain on derivatives measured at fair value through P&L	(334)	143	225
Other banking charges	756	563	885
	367	**875**	**1,375**

5 ADMINISTRATIVE EXPENSES

	2008 Euro '000	2007 Euro '000	2007 US$'000
Wages and salaries	4,412	3,759	5,910
Social security costs	459	363	571
Other pension costs	347	290	455
Other administrative expenses	3,041	2,305	3,624
	8,259	**6,717**	**10,560**

Notes to the Accounts for the year ended 31 March 2008

6 DIRECTORS' EMOLUMENTS

	2008 Euro '000	2007 Euro '000	2007 US$'000
Emoluments	927	745	1,172
Highest paid director's emoluments			
Salary and bonus	131	109	172
Remuneration in relation to prior years	50	-	-
Housing allowance	34	34	53
Car allowance	9	10	15
Travel allowance	3	2	3
Membership of medical scheme	4	3	5
UK income tax and national insurance	147	100	157
	378	**258**	**405**

The directors are remunerated in Sterling.
None of the directors are members of pension schemes, share option schemes or long-term incentive schemes in respect of their services to Persia International Bank Plc.

7 INFORMATION REGARDING EMPLOYEES

The average number of persons employed by the Company, including executive directors, within each area of the business was:

	2008	2007
Banking operations	24	29
Trade finance	28	26
Administration	8	8
	60	**63**

8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2008 Euro '000	2007 Euro '000	2007 US$'000
Profit on ordinary activities before tax is after the following:			
Depreciation	252	233	367
The analysis of auditors' remuneration is as follows:			
Fees payable to the company's auditors for the audit of the company's annual accounts	101	93	147
Fees payable to the company's auditors and their associates for other services			
Tax services	-	11	17
other services	6	-	-

Notes to the Accounts for the year ended 31 March 2008

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2008 Euro '000	2007 Euro '000	2007 US$'000
(i) Analysis of tax charge on ordinary activities			
United Kingdom Corporation tax at 30% (2007 - 30%) based on the profit for the year.	8,215	6,045	9,504
	8,215	6,045	9,504
Deferred tax			
- timing differences, origination and reversal (note 15)	(36)	(18)	(29)
	8,179	**6,027**	**9,475**
(ii) Factors affecting tax charge for the year. The tax assessed for the year (& 2007) is higher than that resulting from applying the standard rate of corporation tax in the UK.			
Profit on ordinary activities before tax	**27,007**	**20,075**	**31,560**
Tax at 30% thereon	8,102	6,023	9,468
Effects of:			
Expenses not deductible for tax purposes	77	4	7
	8,179	**6,027**	**9,475**

10 DEBT SECURITIES

	2008 Euro '000	2007 Euro '000	2007 US$'000
Issued by other than public bodies			
Available for sale securities			
- other debt securities	16,588	29,230	45,953
	16,588	**29,230**	**45,953**
Due within one year	13,408	14,927	23,466
Due one year and over	3,180	14,303	22,487
	16,588	**29,230**	**45,953**
Debt securities			
- listed other than on a recognised UK exchange	13,403	26,043	40,943
- unlisted	3,185	3,187	5,010
	16,588	**29,230**	**45,953**

The unlisted investment securities are promissory notes purchased on the secondary market. The fair value has been calculated by discounting the cash flows at prevailing interest rates.

Notes to the Accounts for the year ended 31 March 2008

11 PROPERTY, PLANT AND EQUIPMENT

	Equipment fixtures and fittings 2008 Euro '000	Equipment fixtures and fittings 2007 Euro '000	Equipment fixtures and fittings 2007 US$'000
Cost			
At 1 April	2,076	1,826	2,870
Additions	2,189	80	125
Disposals	(385)	(33)	(53)
Exchange rate movement	-	203	320
At 31 March	**3,880**	**2,076**	**3,262**
Depreciation			
At 1 April	1,747	1,379	2,168
Charge for the year	252	233	67
Disposals	(385)	(33)	(53)
Exchange rate movement	(26)	168	264
At 31 March	**1,588**	**1,747**	**2,746**
NET BOOK VALUE			
At 31 March	**2,292**	**329**	**516**

12 OTHER ASSETS

	2008 Euro '000	2007 Euro '000	2007 US$'000
Trade receivables	147	117	184
Staff loans	75	128	201
Amounts due from shareholders	44	43	68
	266	**288**	**453**

Notes to the Accounts for the year ended 31 March 2008

13 DEFERRED TAX ASSET AND ANALYSIS

	2008 Euro '000	2007 Euro '000	2007 US$'000
At 1 April	184	130	205
Credit to income statement	36	19	29
Credit to equity on revaluation of available for sale securities	-	50	79
Adjustments re AFS prior years	7	-	-
Amortisation of deferred tax resulting from implementation of IFRS	(14)	(15)	(24)
At 31 March	**213**	**184**	**289**
Analysis of deferred tax balance			
Short-term timing differences	119	126	198
Capital allowances in excess of depreciation	94	58	91
As at 31 March	**213**	**184**	**289**

In accordance with the provisions of IAS12, the company has recognised the deferred tax asset as being receivable as it is expected that there will be sufficient future tax profits from which the future reversal of the underlying timing differences can be deducted. The directors have made this assessment based on the results for the year ended 31 March 2008.

14 PREPAYMENTS AND ACCRUED INCOME

	2008 Euro '000	2007 Euro '000	2007 US$'000
Prepayments	126	83	131
	126	**83**	**131**

15 OTHER LIABILITIES

	2008 Euro '000	2007 Euro '000	2007 US$'000
Corporation tax	921	2,833	4,454
Other liabilities	3,899	2,576	4,050
	4,820	**5,409**	**8,504**

Notes to the Accounts for the year ended 31 March 2008

16 SUBORDINATED DEBT LIABILITIES

	2008 Euro '000	2007 Euro '000	2007 US$'000
Dated loan capital	46,672	39,501	62,099
	46,672	**39,501**	**62,099**

All of the above loan capital consists of floating rate notes, redeemable in 2043, and listed on the Luxembourg stock exchange.

Interest is payable at a margin of 1% over six month EURIBOR. The 2007 Euro comparative results from translating the previous year's US$ comparatives at the March '08 closing rate; the underlying loan capital was not increased.

17 CALLED UP SHARE CAPITAL

	2008 Euro '000	2007 Euro '000	2007 US$'000
Authorised			
150,000,000 (2007 - nil) ordinary shares of Euro1 each	150,000	-	-
160,000,000 (2007 - 160,000,000) ordinary shares of US$1 each	101,775	101,775	160,000
50,000 (2007 - nil) ordinary shares of £1 each	63	-	-
Allotted, called up and fully paid:			
50,000,000 (2007 - nil) ordinary shares of Euro1 each	50,000	-	-
60,000,000 (2007 - 130,000,000) ordinary shares of US$1 each	38,166	82,692	130,000
	88,166	**82,692**	**130,000**

During the year, the company issued 50million ordinary shares of Euro1each at par for a consideration of €50million. From the proceeds, the bank bought back 70million of the US$ ordinary shares at par. These were subsequently cancelled.

Notes to the Accounts for the year ended 31 March 2008

18 MOVEMENTS IN SHAREHOLDERS' FUNDS AND RESERVES

	Issued share capital Euro '000	Retained earnings Euro'000	Reserves Euro'000	Total shareholders funds Euro '000
As at 31 March 2007	82,692	15,706	-	98,398
Profit attributable to the members	-	18,828	-	18,828
Dividend paid	-	(12,721)	-	(12,721)
New share capital	50,000	-	-	50,000
US$ share buy-back	(44,526)	-	-	(44,526)
Net movement	**5,474**	**6,107**	**-**	**11,581**
As at 31 March 2008	**88,166**	**21,813**	**-**	**109,979**

	Issued share capital Euro '000	Retained earnings Euro'000	Reserves Euro'000	Total shareholders funds Euro '000
As at 31 March 2006	73,151	11,200	118	84,469
Profit attributable to the members	-	14,047	-	14,047
Losses on available-for-sale securities	-	-	(118)	(118)
Dividend paid	-	(9,541)	-	(9,541)
New share capital	9,541	-	-	9,541
Net movement	**9,541**	**4,506**	**(118)**	**13,929**
As at 31 March 2007	**82,692**	**15,706**	**-**	**98,398**

	Issued share capital US$ '000	Retained earnings US$'000	Reserves US$'000	Total shareholders funds US$'000
As at 31 March 2006	115,000	17,607	185	132,792
Profit attributable to the members	-	22,085	-	22,085
Losses on available-for-sale securities	-	-	(185)	(185)
Dividend paid	-	(15,000)	-	(15,000)
New share capital	15,000	-	-	15,000
Net movement	**15,000**	**7,085**	**(185)**	**21,900**
As at 31 March 2007	**130,000**	**24,692**	**-**	**154,692**

Notes to the Accounts for the year ended 31 March 2008

19 INTEREST RATE GAP SENSITIVITY ANALYSIS

The following table provides the interest rate profile of the Company by allocating assets and liabilities into time bands by reference to the earliest of the next repricing date or the contractual maturity date.

As at 31 March 2008 Euro '000	Not more than three months Euro '000	More than three months but not more than six months Euro '000	More than six months but not more than one year Euro '000	More than one year but not more than five years Euro '000	More than five years Euro '000	Non-interest bearing Euro '000	Total Euro '000
Assets							
Loans and advances to banks	331,057	43,001	101,745	-	-	-	475,803
Loans and advances to customers	213,544	26,036	-	-	-	-	239,580
Debt securities	10,236	6,352	-	-	-	-	16,588
Property, plant and equipment	-	-	-	-	-	2,292	2,292
Derivative assets	-	-	-	-	-	25	25
Other assets	10	-	18	47	-	404	479
Prepayments and accrued income	-	-	-	-	-	126	126
Total assets	**554,847**	**75,389**	**101,763**	**47**	**-**	**2,847**	**734,893**
Liabilities							
Deposits by banks	420,030	-	21,556	-	-	-	441,586
Customer accounts	117,503	8,605	4,744	-	-	-	130,852
Subordinated liabilities	-	46,672	-	-	-	-	46,672
Derivative liabilities	-	-	-	-	-	984	984
Other liabilities	-	-	-	-	-	4,820	4,820
Shareholders' funds	-	-	-	-	-	109,979	109,979
Total liabilities & equity	**537,533**	**55,277**	**26,300**	**-**	**-**	**115,783**	**734,893**
Interest rate sensitivity gap	**17,314**	**20,112**	**75,463**	**47**	**-**	**(112,936)**	
Cumulative gap	**17,314**	**37,426**	**112,889**	**112,936**	**112,936**	**-**	

Notes to the Accounts for the year ended 31 March 2008

19 INTEREST RATE GAP SENSITIVITY ANALYSIS - CONTINUED

As at 31 March 2007 Euro '000	Not more than three months Euro '000	More than three months but not more than six months Euro '000	More than six months but not more than one year Euro '000	More than one year but not more than five years Euro '000	More than five years Euro '000	Non-interest bearing Euro '000	Total Euro '000
Assets							
Loans and advances to banks	307,774	52,537	71,434	-	-	-	431,745
Loans and advances to customers	247,646	25,440	-	-	-	-	273,086
Debt securities	1,433	27,797	-	-	-	-	29,230
Property, plant and equipment	-	-	-	-	-	328	328
Derivative assets	-	-	-	-	-	213	213
Other assets	47	5	1	49	-	370	472
Prepayments and accrued income	-	-	-	-	-	83	83
Total assets	**556,900**	**105,779**	**71,435**	**49**	**-**	**994**	**735,157**
Deposits by banks	509,842	6,335	20,277	-	-	-	536,454
Customer accounts	34,460	11,548	9,159	-	-	-	55,167
Subordinated liabilities	-	39,501	-	-	-	-	39,501
Derivative liabilities	-	-	-	-	-	228	228
Other liabilities	-	-	-	-	-	5,409	5,409
Shareholders' funds	-	-	-	-	-	98,398	98,398
Total liabilities & equity	**544,302**	**57,384**	**29,436**	**-**	**-**	**104,035**	**735,157**
Interest rate sensitivity gap	**12,598**	**48,395**	**41,999**	**49**	**-**	**(103,041)**	
Cumulative gap	**12,598**	**60,993**	**102,992**	**103,041**	**103,041**	**-**	

Notes to the Accounts for the year ended 31 March 2008

19 INTEREST RATE GAP SENSITIVITY ANALYSIS - CONTINUED

As at 31 March 2007 US$'000	Not more than three months US$'000	More than three months but not more than six months US$'000	More than six months but not more than one year US$'000	More than one year but not more than five years US$'000	More than five years US$'000	Non-interest bearing US$'000	Total US$'000
Assets							
Loans and advances to banks	483,851	82,594	112,302	-	-	-	678,747
Loans and advances to customers	389,324	39,994	-	-	-	-	429,318
Debt securities	2,253	43,700	-	-	-	-	45,953
Property, plant and equipment	-	-	-	-	-	516	516
Derivative assets	-	-	-	-	-	335	335
Other assets	74	8	1	78	-	581	742
Prepayments and accrued income	-	-	-	-	-	131	131
Total assets	**875,502**	**166,296**	**112,303**	**78**	**-**	**1,563**	**1,155,742**
Liabilities							
Deposits by banks	801,522	9,960	31,878	-	-	-	843,360
Customer accounts	54,175	18,155	14,398	-	-	-	86,728
Subordinated liabilities	-	62,099	-	-	-	-	62,099
Derivative liabilities	-	-	-	-	-	359	359
Other liabilities	-	-	-	-	-	8,504	8,504
Shareholders' funds	-	-	-	-	-	154,692	154,692
Total liabilities & equity	**855,697**	**90,214**	**46,276**	**-**	**-**	**163,555**	**1,155,742**
Interest rate sensitivity gap	**19,805**	**76,082**	**66,027**	**78**	**-**	**(161,992)**	
Cumulative gap	**19,805**	**95,887**	**161,914**	**161,992**	**161,992**	**-**	

Notes to the Accounts for the year ended 31 March 2008

20 NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS

The following analysis gives details of the assets and liabilities of the Company as at 31 March 2008 in Euros based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the company are matched or unmatched.

As at 31 March 2008	Euro Euro '000	US dollar Euro '000	Sterling Euro'000	Other currencies Euro '000	Total Euro '000
Assets					
Loans and advances to banks	382,491	41,886	15,953	35,473	475,803
Loans and advances to customers	181,618	38,775	9,568	9,619	239,580
Debt securities	10,196	6,392	-	-	16,588
Property, plant and equipment	-	27	95	2,170	2,292
Derivative assets	25	-	-	-	25
Other assets	414	15	-	50	479
Prepayments and accrued income	19	4	31	72	126
Total assets	**574,763**	**87,099**	**25,647**	**47,384**	**734,893**
Liabilities					
Deposits by banks	332,409	48,451	20,445	40,281	441,586
Customer accounts	115,562	4,476	10,301	513	130,852
Subordinated debt liabilities	46,672	-	-	-	46,672
Derivative liabilities	-	984	-	-	984
Other liabilities	14,856	(4,668)	(6,723)	1,355	4,820
Shareholders' funds	68,828	41,151	-	-	109,979
Total liabilities and equity	**578,327**	**90,394**	**24,023**	**42,149**	**734,893**
Net assets/(liabilities)	(3,564)	(3,295)	1,624	5,235	
Foreign exchange contracts	-	3,601	-	(3,601)	
Currency position at 31 March 2008	**(3,564)**	**306**	**1,624**	**1,634**	

Notes to the Accounts for the year ended 31 March 2008

20 NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS - CONTINUED

The following table incorporates credit risk and geographic concentrations of assets and liabilities.

As at 31 March 2008	Total assets Euro 'mln	Total liabilities Euro 'mln	Credit commitments Euro 'mln
Europe	281	162	2
Middle East	409	457	17
Far East	45	-	-
	735	**619**	**19**

As at 31 March 2007	US dollar Euro '000	Euro Euro '000	Sterling Euro '000	Other currencies Euro '000	Total Euro '000
Assets					
Loans and advances to banks	130,637	256,365	29,231	15,512	431,745
Loans and advances to customers	110,237	146,963	7,748	8,138	273,086
Debt securities	6,510	22,720	-	-	29,230
Property, plant and equipment	105	-	196	27	328
Derivative assets	213	-	-	-	213
Other assets	141	232	99	-	472
Prepayments and accrued income	152	245	150	9	556
Total assets	**247,995**	**426,525**	**37,424**	**23,686**	**735,630**
Liabilities					
Deposits by banks	139,124	363,066	22,712	11,552	536,454
Customer accounts	10,998	22,942	21,099	128	55,167
Subordinated debt liabilities	-	39,501	-	-	39,501
Derivative liabilities	-	228	-	-	228
Other liabilities	2,385	854	1,691	479	5,409
Shareholders' funds	98,398	-	-	-	98,398
Total liabilities and equity	**250,905**	**426,591**	**45,502**	**12,159**	**735,157**
Net assets/(liabilities)	(2,910)	(66)	(8,078)	11,527	
Foreign exchange contracts	4,852	6,771	-	(11,623)	
Currency position at 31 March 2007	**1,942**	**6,705**	**(8,078)**	**(96)**	

Notes to the Accounts for the year ended 31 March 2008

20 NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS - CONTINUED

The following table incorporates credit risk and geographic concentrations of assets and liabilities.

As at 31 March 2007	Total assets Euro 'mln	Total liabilities Euro 'mln	Credit commitments Euro 'mln
Europe	270	103	3
Middle East	438	528	36
Far East	27	-	-
	735	**631**	**39**

As at 31 March 2007 US$	US dollar US$'000	Euro US$'000	Sterling US$'000	Other currencies US$'000	Total US$'000
Assets					
Loans and advances to banks	205,375	403,031	45,954	24,387	678,747
Loans and advances to customers	173,303	231,040	12,181	12,794	429,318
Debt securities	10,235	35,718	-	-	45,953
Property, plant and equipment	165	-	308	43	516
Derivative assets	335	-	-	-	335
Other assets	222	365	155	-	742
Prepayments and accrued income	238	385	235	15	873
Total assets	**389,873**	**670,539**	**58,833**	**37,239**	**1,156,484**
Liabilities					
Deposits by banks	218,717	570,776	35,706	18,161	843,360
Customer accounts	17,290	36,067	33,170	201	86,728
Subordinated debt liabilities	-	62,099	-	-	62,099
Derivative liabilities	-	359	-	-	359
Other liabilities	3,749	1,343	2,659	753	8,504
Shareholders' funds	154,692	-	-	-	154,692
Total liabilities and equity	**394,448**	**670,644**	**71,535**	**19,115**	**1,155,742**
Net assets/(liabilities)	(4,575)	(105)	(12,702)	18,124	
Foreign exchange contracts	7,628	10,644	-	(18,272)	
Currency position at 31 March 2007	**3,053**	**10,539**	**(12,702)**	**(148)**	

Notes to the Accounts for the year ended 31 March 2008

20 NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS - CONTINUED

The following table incorporates credit risk and geographic concentrations of assets and liabilities.

As at 31 March 2007	Total assets US$million	Total liabilities US$million	Credit commitments US$million
Europe	424	162	5
Middle East	689	830	56
Far East	43	-	-
	1,156	**992**	**61**

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

Set out below is a year-end comparison of fair value and book values of all the company's financial assets and liabilities by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for financial instruments by discounting cash flows at prevailing interest rates.

Assets	*Category*	Book Value 2008 Euro '000	Fair Value 2008 Euro '000	Book Value 2007 Euro '000	Fair Value 2007 Euro '000	Book Value 2007 US$'000	Fair Value 2007 US$'000
Cash and balances at central banks	*Loans and receivables*	5,758	5,758	17,783	17,783	27,957	27,957
Loans and advances to banks	*Loans and receivables*	470,045	470,045	413,962	413,962	650,790	650,790
Loans and advances to customers	*Loans and receivables*	239,580	239,580	273,086	273,086	429,318	429,318
Debt securities	*Available for sale*	16,588	16,588	29,230	29,230	45,953	45,953
Derivative assets	*Fair value through P&L*	25	25	213	213	335	335
Other financial assets	*Loans and receivables*	392	392	371	371	584	584
Deferred tax asset	*Non-financial asset*	213	213	184	184	289	289
		732,601	**732,601**	**734,829**	**734,829**	**1,155,226**	**1,155,226**

Notes to the Accounts for the year ended 31 March 2008

21 FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

Liabilities	*Category*	Book Value 2008 Euro '000	Fair Value 2008 Euro '000	Book Value 2007 Euro '000	Fair Value 2007 Euro '000	Book Value 2007 US$'000	Fair Value 2007 US$'000
Due to other banks	*Other financial liabilities*	441,586	441,586	536,454	536,454	843,360	843,360
Customer accounts	*Other financial liabilities*	130,852	130,852	55,167	55,167	86,728	86,728
Derivative liabilities	*Fair value through P&L*	984	984	228	228	359	359
Other financial liabilities	*Other financial liabilities*	3,899	3,899	2,576	2,576	4,050	4,050
Corporation tax	*Non-financial liability*	921	921	2,833	2,833	4,454	4,454
Subordinated debt liabilities	*Other financial liabilities*	46,672	46,672	39,501	39,501	62,099	62,099
		624,914	**624,914**	**636,759**	**636,759**	**1,001,050**	**1,001,050**

Open derivative positions at the end of the year were as follows:

	Notional principal amount 2008 Euro '000	Fair value 2008 Euro '000	Notional principal amount 2007 Euro '000	Fair value 2007 Euro '000	Notional principal amount 2007 US$'000	Fair value 2007 US$'000
Interest rate derivatives						
Interest rate swaps	12,680	(181)	21,385	(340)	33,619	(534)
Foreign exchange derivatives						
Forward foreign exchange contracts	-	-	7,438	(13)	11,694	(20)
Foreign currency swaps	5,168	(550)	5,168	335	8,125	526
	17,848	**(731)**	**33,991**	**(18)**	**53,438**	**(28)**

Notes to the Accounts for the year ended 31 March 2008

22 MATURITY ANALYSIS

The following assets and liabilities of the Company are repayable as detailed below:

As at 31 March 2008 Euro '000	Not more than three months Euro '000	More than three months but not more than one year Euro '000	More than one year but not more than five years Euro '000	More than five years Euro '000	No fixed maturity Euro '000	Total Euro '000
Assets						
Cash and balances at Central banks	5,758	-	-	-	-	5,758
Loans and advances to banks	315,905	139,779	14,361	-	-	470,045
Loans and advances to customers	53,975	71,900	102,062	11,643	-	239,580
Debt securities	-	13,408	3,180	-	-	16,588
Other assets	-	-	-	-	2,796	2,796
Prepayments and accrued income	-	-	-	-	126	126
Total assets	**375,638**	**225,087**	**119,603**	**11,643**	**2,922**	**734,893**
Liabilities						
Due to other banks	204,380	237,206	-	-	-	441,586
Customer accounts	117,475	13,377	-	-	-	130,852
Other liabilities	-	-	-	-	5,804	5,804
Subordinated debt liabilities	-	-	-	46,672	-	46,672
Total liabilities	**321,855**	**250,583**	**-**	**46,672**	**5,804**	**624,914**
Net liquidity gap	**53,783**	**(25,496)**	**119,603**	**(35,029)**	**(2,882)**	**109,979**

Of the above loans and advances to banks, Euro256million are repayable on demand or short notice and are classified as cash and cash equivalents for the purposes of the cash flow statement.

Notes to the Accounts for the year ended 31 March 2008

22 MATURITY ANALYSIS - CONTINUED

As at 31 March 2007 Euro '000	Not more than three months Euro '000	More than three months but not more than one year Euro '000	More than one year but not more than five years Euro '000	More than five years Euro '000	No fixed maturity Euro '000	Total Euro '000
Assets						
Cash and balances at Central banks	17,783	-	-	-	-	17,783
Loans and advances to banks	233,055	138,776	42,131	-	-	413,962
Loans and advances to customers	55,834	18,924	189,507	8,821	-	273,086
Debt securities	-	14,926	14,304	-	-	29,230
Other assets	-	-	-	-	1,013	1,013
Prepayments and accrued income	-	-	-	-	83	83
Total assets	**306,672**	**172,626**	**245,942**	**8,821**	**1,096**	**735,157**
Liabilities						
Due to other banks	401,050	82,909	52,495	-	-	536,454
Customer accounts	30,218	24,949	-	-	-	55,167
Other liabilities	-	-	-	-	5,638	5,638
Subordinated debt liabilities	-	-	-	39,501	-	39,501
Total liabilities	**431,268**	**107,858**	**52,495**	**39,501**	**5,638**	**636,760**
Net liquidity gap	**(124,596)**	**64,768**	**193,447**	**(30,680)**	**(4,542)**	**98,397**

Of the above loans and advances to banks, Euro217million were repayable on demand or short notice, and are classified as cash and cash equivalents for the purposes of the cash flow statement.

Notes to the Accounts for the year ended 31 March 2008

22 MATURITY ANALYSIS - CONTINUED

As at 31 March 2007 US$'000	Not more than three months US$'000	More than three months but not more than one year US$'000	More than one year but not more than five years US$'000	More than five years US$'000	No fixed maturity US$'000	Total US$'000
Assets						
Cash and balances at Central banks	27,957	-	-	-	-	27,957
Loans and advances to banks	366,385	218,169	66,236	-	-	650,790
Loans and advances to customers	87,776	29,750	297,924	13,868	-	429,318
Debt securities	-	23,466	22,487	-	-	45,953
Other assets	-	-	-	-	1,593	1,593
Prepayments and accrued income	-	-	-	-	131	131
Total assets	**482,118**	**271,385**	**386,647**	**13,868**	**1,724**	**1,155,742**
Liabilities						
Due to other banks	630,491	130,341	82,528	-	-	843,360
Customer accounts	47,506	39,222	-	-	-	86,728
Other liabilities	-	-	-	-	8,863	8,863
Subordinated debt liabilities	-	-	-	62,099	-	62,099
Total liabilities	**677,997**	**169,563**	**82,528**	**62,099**	**8,863**	**1,001,050**
Net liquidity gap	**(195,879)**	**101,822**	**304,119**	**(48,231)**	**(7,139)**	**154,692**

Of the above loans and advances to banks, US$341million were repayable on demand or short notice, and are classified as cash and cash equivalents for the purposes of the cash flow statement.

Notes to the Accounts for the year ended 31 March 2008

23 MEMORANDUM ITEMS, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

As at 31 March 2008	2008 Euro '000	2007 Euro '000	2007 US$'000
Contingent Liabilities			
Guarantees	67,265	61,935	97,368
Import LC's Issued/confirmed	84,014	26,006	40,884
	151,279	87,941	138,252
Commitments			
Credit lines and other commitments to lend			
- less than one year	31,304	30,190	47,462
- over one year	7,029	8,727	13,720
	38,333	38,917	61,182
	189,612	**126,858**	**199,434**

24 RISK MANAGEMENT

In transacting its normal business the Company is exposed to the following risks: liquidity, credit, operational and market risk. Overall responsibility for managing these risks is delegated by the Company's Board to its Asset and Liabilities Committee ("ALCO"). ALCO is responsible for determining the risk policies and recommending the policies to the Board for their review and approval. ALCO comprises the Company's senior management and is attended by representatives of the business as necessary. It meets formally each month but can meet more regularly if required, eg. to consider the impact of significant changes in market circumstances. The monthly meeting follows a fixed agenda but it also reviews additional material as necessary, eg. qualitative risks such as reputation or political risk. The agenda includes reports on the four prime risks above, the Company's monthly management accounts and comparison to budget, the regulatory (FSA) requirements and new business.

Liquidity risk

As a bank, liquidity represents one of the most significant risks. The extreme scenario would be the Company being unable to meet its obligations from its financial liabilities as they fall due. Liquidity is monitored on a maturity mismatch basis and various stress scenarios are tested regularly.

Management of liquidity risk

The Board of Directors has set liquidity limits for the Company based upon the 8 days and 30 days liquidity ratios. These ratios are calculated as the net asset / liability positions as a percentage of total deposit liabilities; these are the same ratios as reported to the FSA. The total of all call balances and deposits maturing within 30 days must not exceed the total of maturing assets; negotiable assets (eg. marketable securities) are included as short term cash inflows but their values are discounted in order to recognise the possibility that full realisation of book value may not be possible in the event of a liquidity crisis.

The Company's liquidity is managed by its treasury function in order to ensure that it meets its obligations to its customers and also the FSA's requirements. The Treasurer works closely with the CFO (executive director) who has full knowledge of potential new assets and can influence their timing or negotiate additional shareholder funding accordingly. Senior management receives daily reports.

Notes to the Accounts for the year ended 31 March 2008

24 RISK MANAGEMENT - CONTINUED

The daily reports include a detailed maturity profile for all assets and liabilities which the treasurer uses to ensure the Company remains within its limits. New business / assets will not be taken on unless the Company is confident of its ability to fund. The asset and liability maturity profile is shown in note 22.

The following table shows the liquidity ratios and exposure:

		Euro'000	Euro '000	Euro '000	Euro '000
31 March 2008	Sight to:	8 days	30 days	6 months	one year
Assets		309,197	346,715	434,425	600,725
Liabilities		290,606	307,327	552,335	572,438
Mis-match		18,591	39,388	(117,910)	28,287
Ratio		3.4%	7.1%	-21.4%	5.1%
31 March 2007	Sight to:	8 days	30 days	6 months	one year
Assets		219,863	246,688	360,578	479,298
Liabilities		200,333	211,218	508,314	539,126
Mis-match		19,530	35,470	(147,736)	(59,828)
Ratio		3.8%	6.8%	-28.5%	-11.5%

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. Credit risk exposures are controlled through close monitoring of positions and credit ratings. Day-to-day management of credit risk is carried out by the credit and risk departments. The credit committee meets at least weekly; it considers all new credit applications; it can approve those up to Euro5million and recommends those above Euro 5 million for board approval. The credit exposure reports and credit committee minutes are reviewed at the ALCO meetings. The Company normally takes collateral; this may be security over a customer's assets, or in some instances cash. A number of loans are secured against the borrowers' portfolio of shares listed on the Tehran stock exchange. The Company has not yet suffered a non-performing loan which would require a provision; therefore it has not needed to use any form of allowance account for credit losses. The maximum exposure to credit risk at the reporting date is represented by the carrying amount of financial assets recorded in the financial statements.

Notes to the Accounts for the year ended 31 March 2008

24 RISK MANAGEMENT - CONTINUED

Concentrations of credit risk

The table below shows the Company's geographic concentrations of credit risk as at 31 March 2008.

	Iran Euro'000	UK Euro'000	Europe Euro '000	Other Euro'000	Total Euro'000
Loans and advances to banks	176,464	22,934	208,936	61,711	470,045
Loans and advances to customers	173,272	28,621	3,407	34,280	239,580
Debt securities	10,197	3,206	-	3,185	16,588
	359,933	**54,761**	**212,343**	**99,176**	**726,213**

At March 2007

	Iran Euro'000	UK Euro'000	Europe Euro '000	Other Euro'000	Total Euro'000
Loans and advances to banks	158,817	58,754	173,254	23,138	413,962
Loans and advances to customers	187,675	27,989	12,574	44,848	273,086
Debt securities	22,890	3,126	-	3,214	29,230
	369,382	**89,869**	**185,828**	**71,200**	**716,278**

Non-bank credit exposures by industrial sector

	2008 Euro'000	2007 Euro'000
Banking and financial services	2,368	5,237
Investment company	48,530	37,098
Manufacturing	50,697	55,606
Transport	10,810	19,698
Food and beverages	5,928	8,652
Oil	77,301	92,539
Trading company	19,294	25,939
Others	24,652	28,317
	239,580	**273,086**

Collateral management

The Company uses collateral as one of its fundamental credit management tools. Collateral is taken to provide additional security against exposures where it is considered appropriate and warrants a greater degree of prudence. This collateral may take the form of listed shares, other securities, cash or guarantees. Where listed shares or other securities are taken as collateral, the market value of the collateral is regularly monitored by management. In the event of default by the borrower and under the terms of the respective loan agreement, the Company may take possession of the collateral and apply it towards settlement of the outstanding debt.

Notes to the Accounts for the year ended 31 March 2008

24 RISK MANAGEMENT - CONTINUED

The following table shows the level of cover from the security held against Euro87million of loans and advances to customers which are collateralised by shares listed on the Tehran Stock Exchange.

Loans	Total exposure Euro '000	% cover
8	34,299	200
4	31,734	170
2	21,272	150

The Company does not use an internal credit rating system. The loan portfolios remain relatively small, having not grown over the past year due to the continuing political pressure on Iran, United Nations sanctions and the restriction of services of a number of large global banks. Therefore all new credit exposures are subject to a full credit analysis.

Impairment

Impaired loans and advances are those where the Company has determined that it is probable that it will be unable to recover all principal and interest due through the default of the borrower and the inability to realise sufficient collateral. The Company makes a provision for the amount determined to be irrecoverable and reduces the balance sheet value accordingly. There were no loans at 31 March 2008 (2007 nil) considered to be in default and hence no provisions required. At 31 March 2008 Euro571,000 was overdue in respect of a loan to a customer; this is currently being renegotiated. During the year a Euro1,250,000 repayment in respect of a customer loan was extended for one year to December 2008.

Operational risk

Operational risk arises from inadequate or failed internal processes, systems and personnel or from events external to the company. The Risk Management Committee reviews and considers all operational risks. Where operational risks have been identified, controls and procedures have been put in place to mitigate against these risks. Regular reports are made to senior management, to ALCO and to the Board.

Political risk

As referred to in the Directors' report, the Company faces the risk of continuing political pressure being applied on Iran, further UN sanctions being introduced and / or the withdrawal of services of some large global banks and the impact this would have on its business. In such circumstances, the Company has put in place mitigating actions that include continued support from its two shareholder banks and switching business into currencies for which facilities continue to be made available to it. The Company now has almost no dealings in US Dollars due to the US restrictions and its functional and reporting currency has been the Euro since March 2008.

Non-trading market risk

The bank does not trade either interest rate or exchange rate risk. Interest rate and currency risk arises in the Company's banking book through the holding of financial instruments, including loans and deposits. Exposure to movements in interest rates arises from mismatches between interest rate sensitive assets and liabilities. The risk is monitored and managed on a daily basis by the Company's Treasury function. Details of interest rate risk exposures are presented in note 19. The bank similarly does not take (trading) open positions in foreign currencies and so is exposed to very little FX risk, see note 21. Any positions arising out of client services or loan related transactions are covered through compensating external transactions.

Notes to the Accounts for the year ended 31 March 2008

24 RISK MANAGEMENT - CONTINUED

Interest rate risk

The Company does not have interest rate gaps in excess of one year. Non-interest bearing assets and liabilities are included with capital funds which are also undated. The effect of a 2% adverse movement in interest rates across all currencies and all dates at 31 March 2008 was Euro 1.4million; the profit for the following year, 2008/09 would be reduced accordingly (2007 Euro 1.2million). This calculation is determined by closing all interest rate gaps through compensating market deals at rates 2% above or below the existing gap rates.

Currency risk

The exposure to currency risk is measured and monitored daily. The small remaining open positions resulting from banking operating transactions are closed out in the market as soon as it is practical to do so. The effect of an adverse 5% movement in the rates of exchange between the short and long currencies would not be significant but would result in a loss of approximately Euro 180,000 which would reduce the year's profit accordingly, (2007, Euro 490,000). The method and assumptions used to determine the sensitivity to exchange rate movements was the same for both years.

Derivative instruments

The Company does not hold derivative instruments for trading purposes. Exposures to interest rate risk, eg. fixed rate security or loan, are limited through the use of hedging instruments. However, the Company has not adopted hedge accounting and thus these derivatives are fair valued through the income statement.

Capital management

The Company manages its capital base in order to provide a return to its shareholders that is at least in line with their opportunity cost of funding their investment. The FSA also sets and monitors a minimum capital requirement based upon the ratio of capital to total risk weighted exposures. These exposures include all assets plus off-balance sheet exposures and other risks, eg. operational risk.

The Company's capital comprises the following;

	2008 Euro '000	2007 Euro '000	2007 US$'000
Tier one			
Ordinary share capital	88,166	82,692	130,000
Retained earnings	21,813	15,706	24,692
	109,979	98,398	154,692
Tier two			
Subordinated loan	46,672	39,501	62,099
Total regulatory capital base	**156,651**	**137,899**	**216,791**

Notes to the Accounts for the year ended 31 March 2008

24 RISK MANAGEMENT - CONTINUED

The regulatory capital base is stated before the declaration of a dividend payable from the earnings of the year. The share capital was partially redenominated from US$ into Euros in November 2007 (see Directors' report).

The risk weighted exposures are determined according to specified requirements which reflect the degree of risk attached to the respective risk categories.

On 1st January 2008 the Basel II methodology came into effect. The regulatory capital remains unchanged; however, its allocation and usage has changed significantly. The risk weightings of a number of assets have increased and operational and other risks, not previously covered by Basel I, are now included in the capital requirement calculations. The Company's regulatory capital ratio was always considerably in excess of the previous FSA minimum of 18%. At December 2007 the capital adequacy ratio was 37% (December 2006, 34%). The new FSA reporting requirements include the determination of a (capital) solvency ratio. The ratio at 31 March 2008 was 251% which was equivalent to surplus capital of Euro 82million.

25 OPERATING LEASE COMMITMENTS

	2008 Euro '000	2007 Euro '000	2007 US$'000
Annual commitment under a non-cancellable operating lease for Bank Mellat's premises at 6 Lothbury. Expiring after 5 years	459,494	451,989	710,573

26 CAPITAL COMMITMENTS

The Company has entered into an agreement to purchase two units in a Dubai building, which is currently under construction; it is expected to be finished during 2009 at which time the Dubai branch will relocate. A number of stage payments have been paid up to 31 March 2008 totalling Euro 2,154,000 (AED 12.4million), (2007 nil). A further AED 6.2million will be paid over the next two years.

27 IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking is Bank Mellat, which owns 60% of the share capital of the Company. Bank Mellat is the parent of the smallest and largest groups into which the results of the Company are consolidated. Copies of the Group financial statements of Bank Mellat are available from its principal place of business at No.327, Taleghani Avenue, 15817 Tehran, Iran. The Company's other major shareholder is Bank Tejarat which owns 40%.

Notes to the Accounts for the year ended 31 March 2008

28 RELATED PARTIES

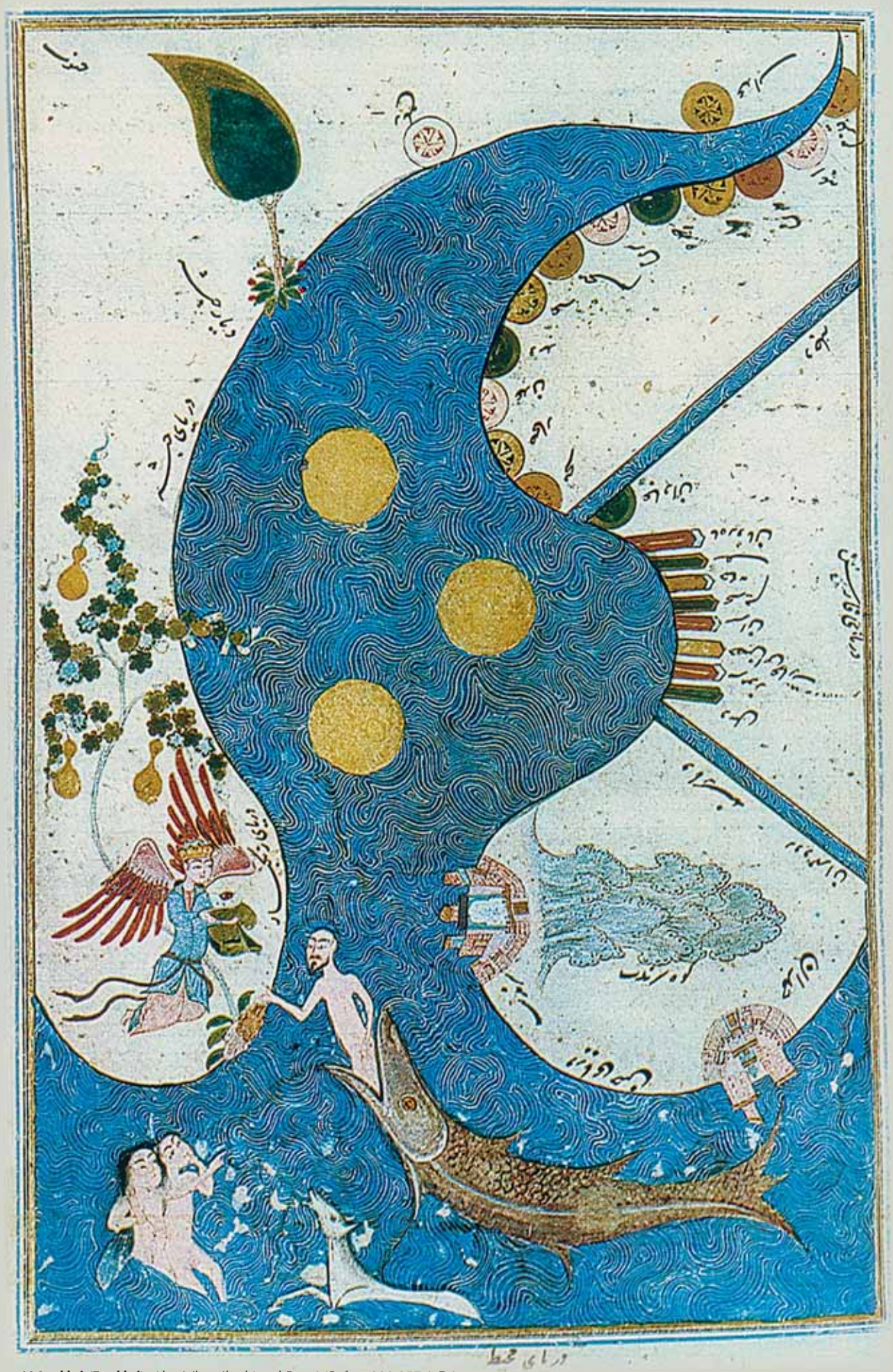
The Company is controlled by Bank Mellat which owns 60% of the share capital; Bank Tejarat owns the remaining 40% and is a related party with significant influence.

Significant numbers of transactions are entered into with related parties in the normal course of the Company's business. The Company takes deposits from its shareholder banks through the money markets; these can be for any periods up to one year including regular overnight placements. One of the Company's client services is discounting term LC's. A large number of discounts are LC's originally issued by the Company's shareholders.

The totals outstanding at the year end were:

		2008 Euro '000	2007 Euro '000	2007 US$'000
Deposits	Bank Mellat	167,645	148,081	232,798
	BankTejarat	109,540	111,029	174,548
Bills discounted	Bank Mellat	13,459	34,518	54,266
	BankTejarat	24,802	11,917	18,734

The totals for interest receivable and payable from/to Bank Mellat and Bank Tejarat during the year are shown in notes 2 & 3. There was no other related party income. The only other related party expense was in respect of premises rental (see note 25). The remuneration of key management of the Company is disclosed in note 6.



Al-Istakhri (Estakhri), *Abu-Is'haq Ibrahim al-Faresi (Before 930-957 A.D.)*
Darya-ye-Fars (Persian Sea) and its surroundings, From the Kitab al-Masalik va'l-Mamalik of Istakhri, ca. 1460

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