Persia International Bank Plc

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Persia
International Bank Plc

Annual Report & Accounts 2006/07

BOARD OF DIRECTORS

(September 2007)
Dr A Divandari, Chairman
Dr R Raei, Vice-Chairman
M. R. Meskarian, Chief Executive Officer
A. Akhondi, Executive Director
G. Penny, Non-executive Director
D. R. Curtis, Non-executive Director

GENERAL CONTACT DETAILS

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London EC2R 7HH

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Fax: +44 (0) 20 7606 2020
SWIFT: PIBP GB2L
Telex: +44 (0) 885426
Website: www.persiabank.co.uk

COMPANY SECRETARY

J. L. Bridger

AUDITORS

Deloitte & Touche LLP
London

DUBAI BRANCH

Address:
General Manager Mr. S. Tarassoli

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The Gate, P.O. Box 119871,
Dubai, UAE

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SWIFT: PIBPAEAD

EXECUTIVE MANAGEMENT

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Financial Controller
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Treasurer
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CHAIRMAN'S STATEMENT

The financial year 2006/07 was the Bank's fifth year of operation and the excellent results continued the profitable trend established since the Bank's opening.

I am very pleased to report a profit before tax of US$31.6million which was a 37% increase over the previous year. Accordingly profit after tax was up at US$22.1million, resulting in a net return on equity of 15.4%. The cost income ratio improved further, reducing from 29% last year to 26%; again this was primarily a function of increased revenues, up 31%. Trade finance commission revenues were 25% up on last year's levels, evidencing a much improved performance.

The Bank's credit portfolios remained problem free for the fifth year; however, whilst further expansion took place in the year, the Bank was somewhat constrained from achieving its overall growth target due to the exclusion from the US$ markets. The loan portfolios include relationship loans to mainly high quality Iranian counterparties and participations in loans, with a wider geographical spread, through the London syndications market. Diversification of assets has always been one of the objectives of the Board. However, at 31st March 2007 only 48% of total asset exposure was non-Iranian risk, down from 67% a year ago; this was mainly due to lower money market placements.

The Board has recommended a dividend of US$20million which will be paid early in the new year. The Bank is very well capitalised and after the dividend payment, the capital base will be made up of tier 1 capital of US$134.7million plus tier 2 capital of €46.5million. This totals almost US$200million and continues to show a healthy surplus within the Bank's current Basel II projections. The capital base will in turn be re-assessed as and when the plan for another branch is developed

THE FUTURE

The Bank's increased focus on its trade finance services has produced the anticipated step-up in revenues. The Bank's capability and reputation in this market is very strong and we will continue to pursue further significant 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 has fully established itself in Dubai and has become 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 Iran economy, the business flows have continued largely unaffected. The high oil and gas prices have continued to benefit Iran's hard currency reserves and the demand for imports remained strong through the past year. Iran's economy will continue to strengthen and PIB, primarily through its trade finance services, will offer increasing support to the country's progress.

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 expect conditions in London and internationally to remain cautious over the coming year before they gradually return to normal. The markets will nevertheless continue to be very competitive. The Board and I are looking forward to the next period and are confident the Bank will continue to grow and achieve its objectives.

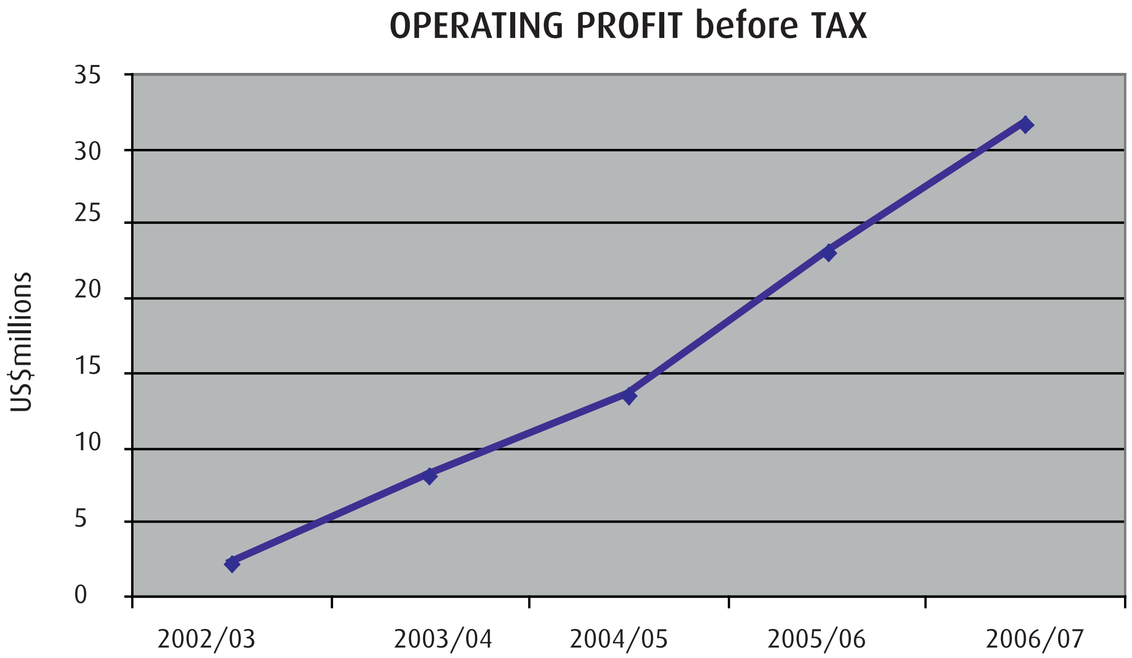
A Divandari
Chairman

15 June 2007

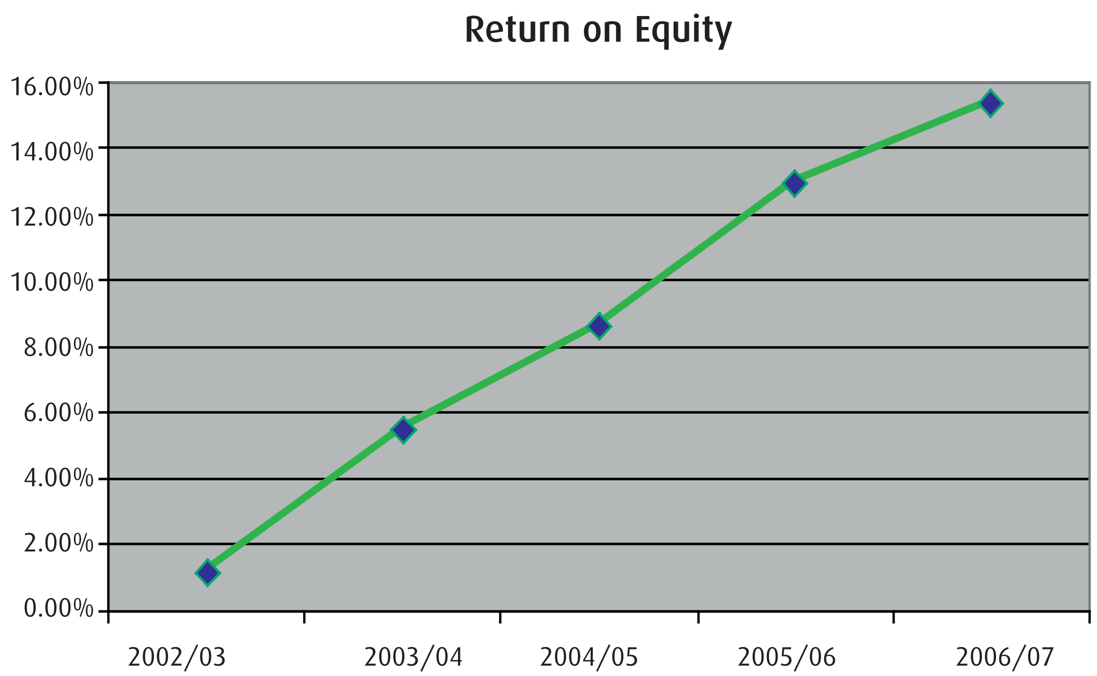
FINANCIAL REVIEW OF THE YEAR

RESULTS

Profit on ordinary activities before tax was US$31.6million compared with US$23.1million in 2005/06; this equated to a pre-tax return on average equity of 22% compared to last year's 18.5%.



Return on equity after tax was 15.4% compared to 13% last year. This was the bank's fifth year of operations and the two graphs show the rapid growth and progress achieved over that short period.



FINANCIAL REVIEW OF THE YEAR - continued

The US dollar interest rate increased for the third consecutive year which in turn benefited the earnings from the capital portfolio. However, this was partially offset by the US Dollar weakness which increased the Bank's Sterling based overhead expenses; the average exchange rate was US$1.90 compared with US$1.78 the previous year, a 7% adverse movement.

Net interest income was up 37%, the result of another successful year for the credit portfolios. These were expanded quite significantly during the year in line with the Bank's long term strategy. The demand for shorter term trade finance facilities increased through the second half of the year and is showing no sign of falling off; this in turn is generating a significant revenue stream.

The dividends paid out from the profits of the last three years were all immediately reinvested as new share capital in order to support the Bank's growth strategy. This year's dividend will be US$20million.

Fees and commissions were up over 40%. The Trade finance business produced the improved results expected from the efforts and concentration seen over the past two years. The Dubai (DIFC) branch had its first full year of trading and its contribution within trade finance underlined the rationale behind the Bank's branch strategy.

TRADE FINANCE

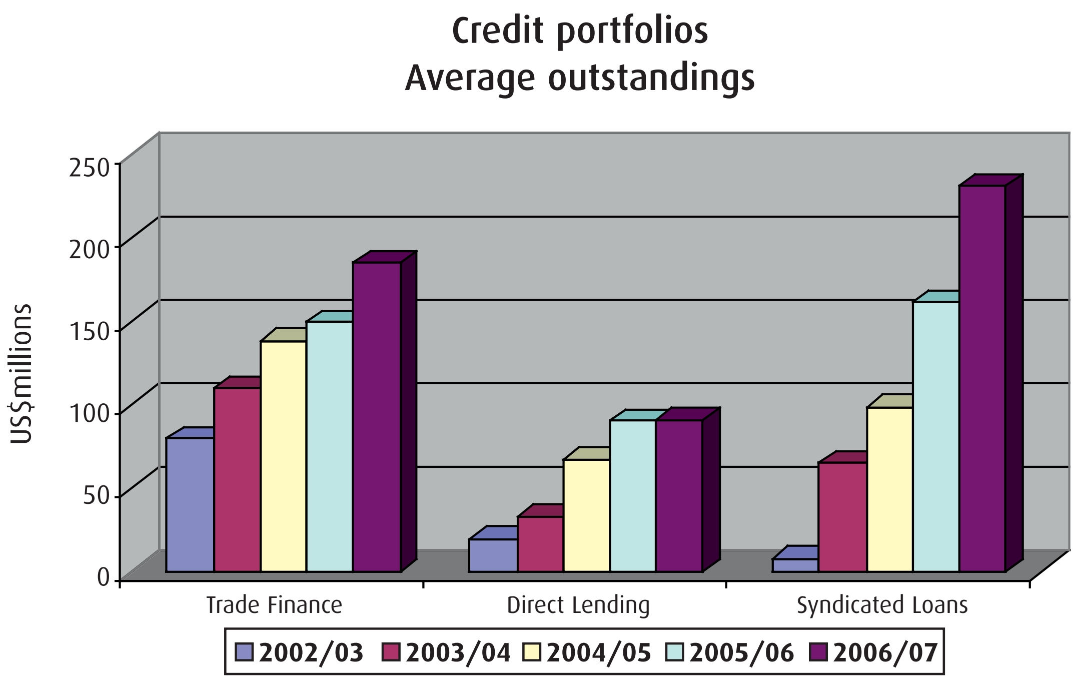
The Trade finance team carried on from last year working close to capacity throughout. The transaction processing system implemented just over a year ago has enabled the operation to run more efficiently and so in turn handle greater levels of business. The demand for the Bank's documentary credit services has grown over the last two years. This is in part due to the Bank's excellent reputation coupled with the continually increasing level of international trade flows in and out of Iran. Fees from letters of credit issued were relatively stable but the business volumes from Iranian banks, predominantly our shareholders, were substantially higher than in previous years. Consistent with this, the demand for short term financing increased quite sharply through the year having already recovered from the reduced levels experienced at the end of 2004/05.

LENDING

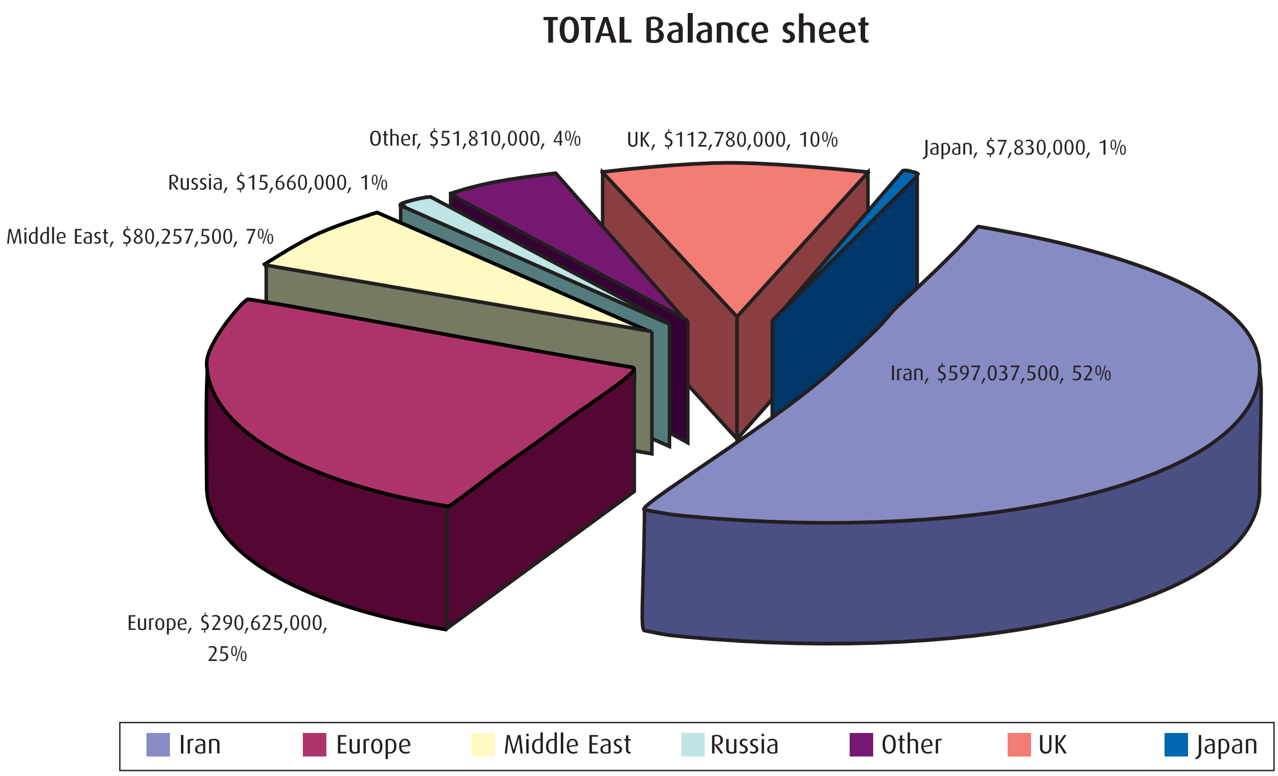
The loan portfolios increased by a third for the third successive year, US$102million in the year to US$429million. A quality loan portfolio has been one of the fundamental pillars of the Bank's medium term strategy. There have been no problem loans in any of the portfolios since the Bank commenced trading 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 (no longer allowed under IAS).

The average balance sheet was 41% higher than last year; loans made up 35%, the same as 2005/06 so giving rise to a significant income stream. This accounted for a large slice of the increase in net interest income. The portfolios are now fully matured and hence a significant transaction flow is required just to maintain the volumes. Loan maturities range from one year facilities through to eight years.

FINANCIAL REVIEW OF THE YEAR - continued



The loan portfolios are currently split roughly 65% / 35% between (primary) market syndicated loans and term lending to relationship customers. The Bank has continued to diversify where possible its geographical risk profile outside of its parent banks' home of Iran. The balance sheet at the end of the year was 20% down from the previous year; this reduction was entirely within money market placements and was not representative of the averages for the respective years.



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 made the progress it had planned in respect of taking funds from the inter-bank market; the uncertainty surrounding Iran has outweighed the Bank's continually 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.

Interest rate risk is kept to an absolute minimum with the interest rate fixing periods for all assets not funded by capital being matched by the corresponding liability funding. The Bank's few fixed rate assets are hedged using interest rate swaps; these have however, been marked to market through the P&L account under IAS 39.

The Bank does not take or hold any proprietary trading positions. Foreign exchange profits are earned from customer related business. The deal flow dropped somewhat through the year due to the general move towards Euros – clients no longer need to sell their Euros for US$ - and so there was not a repeat of the last two years' performance.

CUSTOMER SERVICES

The Bank offers a comprehensive banking service both to its customers and to banks in Iran, primarily its two parents, 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 in the fourth quarter of last year as a result of US$ services being curtailed. 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.

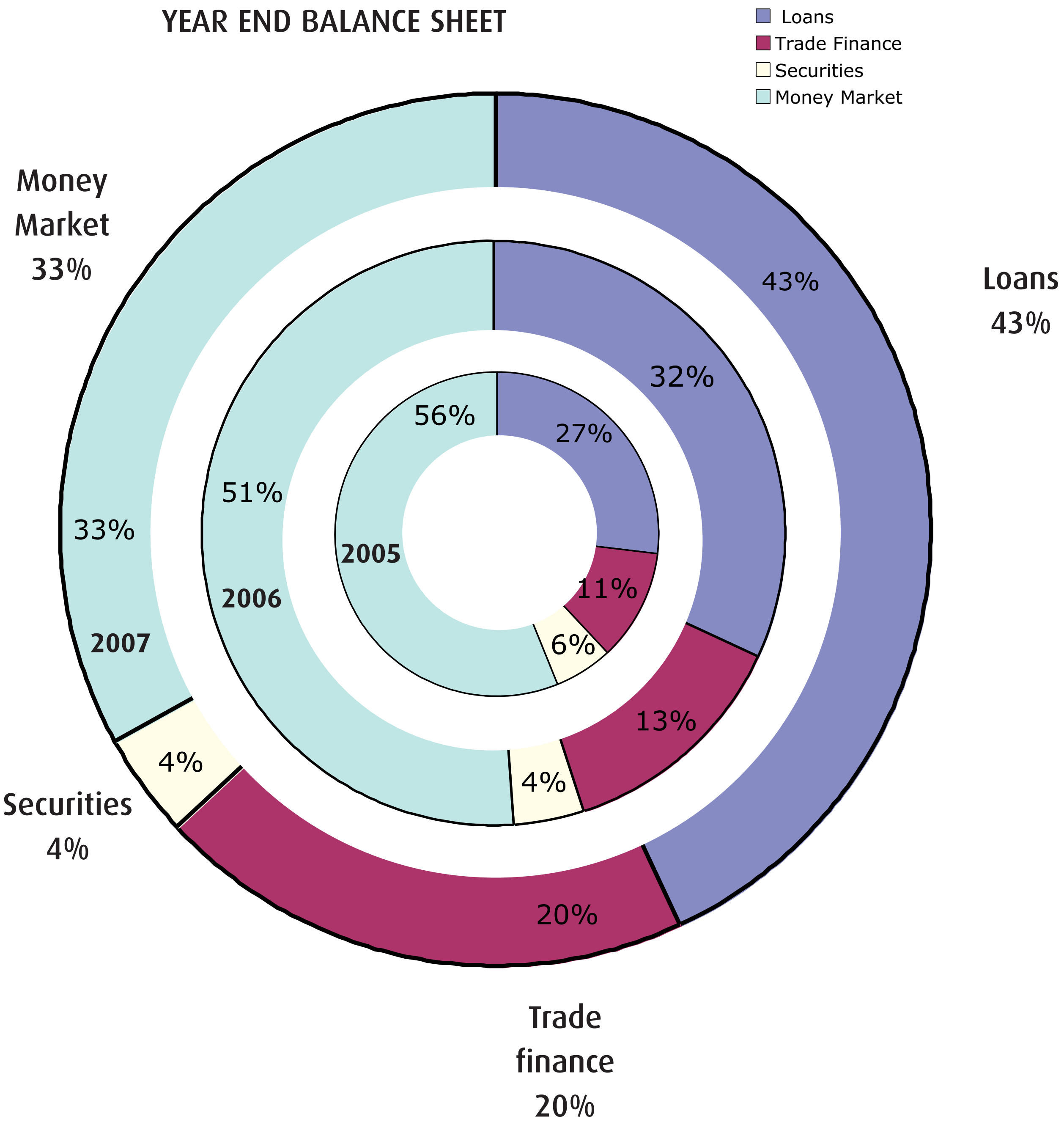
CAPITAL BASE & BALANCE SHEET

The capital base as at 31 March 2007 totalled US$217million compared with US$189million last year. This includes the subordinated debt (40 year Eurobond issue) of Euros 46.5million, which was equivalent to US$62.1million at the year end, a 10% appreciation (due to exchange rates) over last year. The Board has recommended a dividend of US$20million; however, dividends declared but not yet approved by the shareholders are not deducted from reserves. The capital base does not currently need to be maintained at the year end level, US$217million and so will reduce accordingly, albeit it will be reviewed during the year if circumstances change.

The balance sheet shows a 20% decrease from the previous year end but this was due to a number of relatively short term movements at both year ends. The underlying / average business volumes increased through the year in line with the plan. The Bank was particularly active in its chosen credit markets increasing its exposure through discounting, relationship loans and syndicated participations. It also retained its very healthy (short term) liquidity ratios and so in turn maintained an active presence in the inter-bank market.

FINANCIAL REVIEW OF THE YEAR - continued

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



FUTURE STRATEGY

Our strategy for the next 12 months, which is part of our rolling five year plan, is tinged with caution. We will continue to expand upon our role within the Mellat and Tejarat groups. We would also like to diversify both our funding and asset base and so move the Bank forwards into its next growth phase. However, this last is somewhat dependent upon Iran's position in the global financial markets

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 2007.
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 five years and has seen steady progress through 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 2007 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 Company plans to continue growing at a similar pace to the last three years; this will include consideration of 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. 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 is planning to re-denominate its share capital from US Dollars into Euros; this will realign the capital base with the currency in which the majority of transactions are expected to take place in the future. The principal risk facing the Company comes from the continuing political pressure on Iran, United Nations sanctions and/or the potential restriction of services of some large global banks. Mitigating actions against this risk are set out in note 25.

RESULTS AND DIVIDENDS

The results for the year are set out in detail in the income statement on page 8. The profit before tax amounted to US$31,560,000 (2006, US$23,068,000) and the profit attributable to shareholders for the financial year amounted to US$22,085,000, a 15.4% return on average shareholders' equity; (2006: $16,138,000, 13%); this has been transferred to reserves. The directors paid a dividend of US$15,000,000 in July 2006 (July 2005 - US$10,000,000), the final dividend in respect of the previous year.
A dividend of US$20million was declared out of the profits for 2007 but as it was declared after the balance sheet date it has not been included as a creditor at 31 March 2007.

DIRECTORS' REPORT - continued

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
Chief Executive Officer	Mr. M. R. Meskarian
Executive Director	Mr. A. Akhondi
Executive Director	Mr. Z. Ashtari
Non-executive Director	Mr. D. R. Curtis
Non-executive Director	Mr. G. Penny

Mr. Z. Ashtari resigned as a director effective 21st July 2007.

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 2007 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 22.

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 2007 represents 25 days' (2006: 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

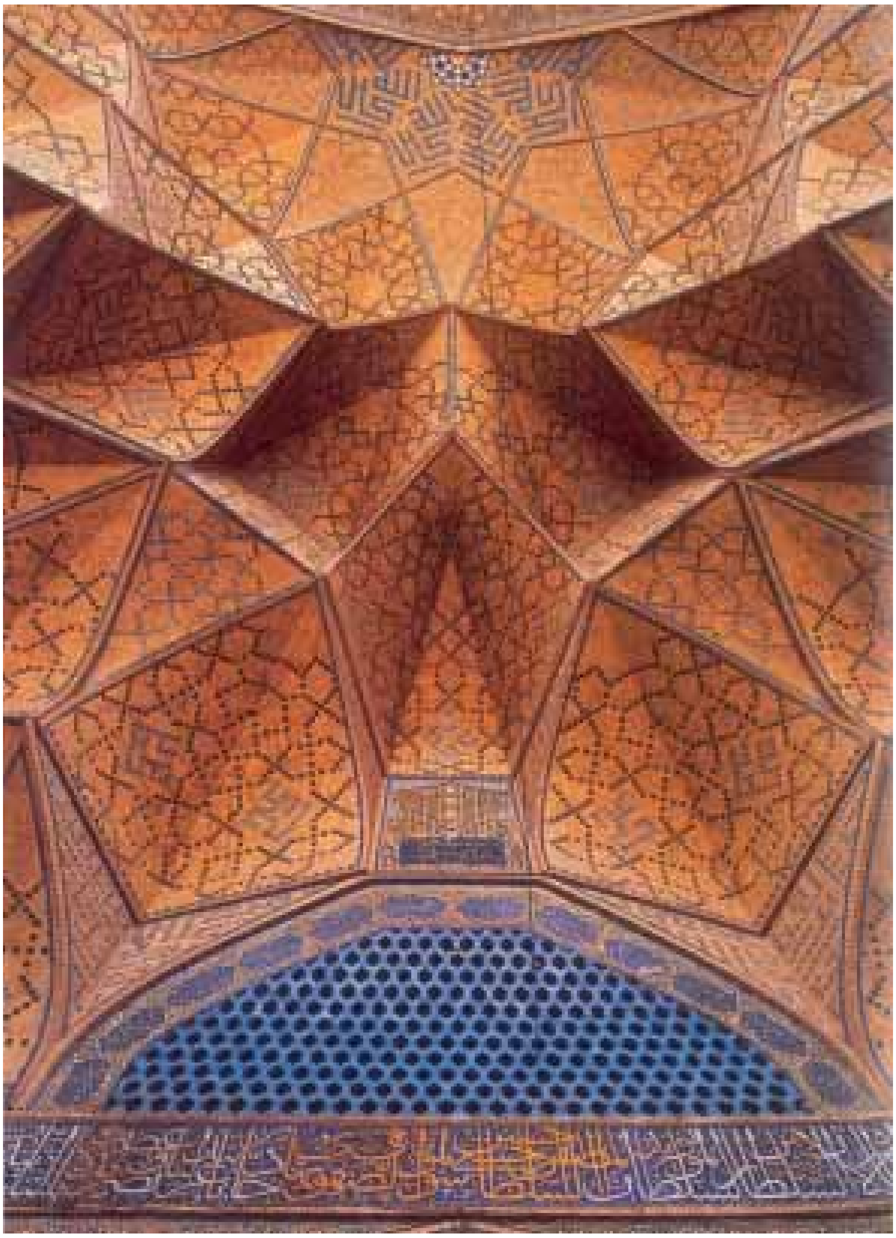
Each of the persons who is a director at the date of approval of this annual report confirms that: so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he/she ought to have taken as a director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

AUDITORS

Deloitte & Touche 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
15 June 2007



STATEMENT OF DIRECTOR'S 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 thedefinitions 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PERSIA INTERNATIONAL BANK PLC

We have audited the financial statements of Persia International Bank Plc (the Company) for the year ended 31 March 2007 which comprise the income statement, the balance sheet, the statement of recognised income and expenses, cash flow statement, and the related notes 1 to 29. 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 Annual Report and 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 and are 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Directors' Report. 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 further information outside the Annual Report.

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 judgments 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 - 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 2007 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.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London

Date 21 June 2007

INCOME STATEMENT

For the year ended 31 March 2007

	Note	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
INTEREST RECEIVABLE AND SIMILAR INCOME			
Interest receivable and similar income arising from debt securities		3,294	2,877
Other interest receivable and similar income	2	81,272	46,655
		84,566	49,532
INTEREST EXPENSE AND SIMILAR CHARGES	3	(53,932)	(27,134)
NET INTEREST INCOME		30,634	22,398
Fees and commissions receivable		10,784	7,403
Fees and commissions payable		(89)	(85)
Other operating income	4	1,375	2,795
OPERATING INCOME		42,704	32,511
Administrative expenses	5	(10,560)	(9,019)
Depreciation and amortisation	11	(367)	(424)
Impairment loss on available-for-sale securities		(217)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		31,560	23,068
Tax on profit on ordinary activities	9	(9,475)	(6,930)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		22,085	16,138
Profit attributable to the equity shareholders of the parent		22,085	16,138

BALANCE SHEET

As at 31 March 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Cash and balances at Central banks		27,957	1,917
Loans and advances to banks	23	650,790	1,060,725
Loans and advances to customers	23	429,318	327,827
Debt securities	10	45,953	45,643
Property, plant and equipment	11	516	702
Deferred tax asset	13	289	205
Derivative assets	22	335	695
Other assets	12	453	326
Prepayments and accrued income	14	131	288
TOTAL ASSETS		1,155,742	1,438,328
LIABILITIES			
Due to other banks	23	843,360	1,041,065
Customer accounts	23	86,728	202,206
Derivative liabilities	22	359	925
Other liabilities	15	8,504	4,965
Subordinated debt liabilities	16	62,099	56,375
		1,001,050	1,305,536
Called up share capital	17	130,000	115,000
Available for sale reserve	18	-	185
Retained earnings	18	24,692	17,607
TOTAL SHAREHOLDERS' EQUITY	18	154,692	132,792
TOTAL EQUITY AND LIABILITIES		1,155,742	1,438,328
MEMORANDUM ITEMS			
Contingent liabilities:			
Guarantees	24	97,368	79,983
Import LC's issued/confirmed	24	40,884	83,144
Commitments			
Other credit commitments	24	61,182	103,230

These financial statements were approved by the Board of Directors on 15 June 2007

Signed on behalf of the Board of Directors

Mr M Meskarian

Mr A Akhondi

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 March 2007

	Note	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Available for sale investments			
Valuation losses taken to equity		(264)	(1,203)
Transferred to profit and loss on sale		-	-
Tax on items taken directly to equity		79	361
Net expense recognised directly in equity	18	(185)	(84)
Profit for the year		22,085	16,138
Total recognised income and expense for the year		21,900	15,296
Attributable to:			
Equity holders of the parent		21,900	15,296
Effects of changes in accounting policy on implementation of IFRS			
Equity holders of the parent		-	1,206
		21,900	16,502

CASH FLOW STATEMENT

For the year ended 31 March 2007

	Note	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit on ordinary activities before tax		31,560	23,068
Depreciation and amortisation	13	367	424
Other non-cash movements		(263)	(962)
Interest on subordinated loan added back		15,180	1,829
CASH FLOWS FROM OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		46,844	24,359
Net (increase)/decrease in amounts due from banks and loans to customers		(108,913)	(120,192)
Net decrease/(increase) in debt securities		(310)	10,708
Net (decrease) in derivative financial instruments		(207)	(784)
Net decrease /(increase) in other assets		(127)	8
Decrease/(increase) in prepayments and accrued income	16	157	240
Increase in accruals and deferred income		-	-
Net (decrease) / increase in other liabilities		2,483	(3,402)
Foreign exchange differences		5,668	(4,036)
Net increase / (decrease) in other borrowed funds		(313,183)	405,667
Taxation		(8,469)	(3,069)
Net cash flow from operating activities		(376,057)	309,499
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(125)	(578)
Net cash flow from investing activities		(125)	(578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on subordinated loan		(15,135)	(1,806)
Issue of ordinary shares	20	15,000	10,000
Dividends paid	20	(15,000)	(10,000)
Net cash flow from financing activities		(15,135)	(1,806)
Net (decrease) / increase in cash and cash equivalents		(391,317)	307,115
Cash and cash equivalents at the beginning of the year		760,167	453,052
Cash and cash equivalents at the end of the year		368,850	760,167

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

	2007 US$'000	2006 US$'000
COMPANY		
Cash and balances with central banks	27,957	1,917
Amounts due from banks on demand (see note 23)	340,893	758,250
	368,850	760,167

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

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:
IFRS 7 *Financial instruments: Disclosures;* and the related amendment to IAS 1 on capital disclosures.

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 except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 April 2007.

Basis of preparation

The accounts are prepared in US dollars, as this is the currency of the primary economic environment in which the Company operates.

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

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 cateogies.

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.

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

1 ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Interest receivable from banks	53,067	26,624
Interest receivable from customers	28,086	20,027
Interest receivable from shareholders	116	2
Other interest income	3	2
	81,272	46,655

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Interest payable to banks	14,548	6,421
Interest payable to customers	4,599	3,887
Interest payable on deposits from shareholders	32,210	14,992
Interest payable on subordinated debt	2,575	1,834
	53,932	27,134

4. OTHER OPERATING INCOME

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Foreign exchange income	265	1,143
Fair valuation of derivatives	225	784
Other banking charges	885	868
	1,375	2,795

5. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Wages and salaries	5,910	4,873
Social security costs	571	529
Other pension costs	455	378
Other administrative expenses	3,624	3,239
	10,560	9,019

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

6. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Emoluments	1,172	967

Of the above emoluments, US$405,661 (2006: US$367,309) is attributable to the highest paid director. 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

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
The average number of persons employed by the company, including executive directors, within each area of the business was:		
Banking operations	29	29
Trade finance	26	26
Administration	8	8
	63	63

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Profit on ordinary activities before tax is after the following:		
Depreciation	367	424
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	147	106
Fees payable to the company's auditors and their associates for other services		
Tax services	17	13
other services	-	24

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
(i) Analysis of tax charge on ordinary activities		
United Kingdom Corporation tax at 30% (2006 - 30%) based on the profit for the year.	9,504	6,962
	9,504	6,962
Deferred tax		
- timing differences, origination and reversal (note 15)	(29)	(32)
	9,475	6,930

(ii) Factors affecting tax charge for the year.
The tax assessed for the year (& 2006) is higher than that resulting from applying the standard rate of corporation tax in the UK.

	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Profit on ordinary activities before tax	31,560	23,068
Tax at 30% thereon	9,468	6,920
Effects of:		
Expenses not deductible for tax purposes	7	10
	9,475	6,930

10. DEBT SECURITIES

	2007 US$'000	2006 US$'000
Issued by other than public bodies		
Available for sale securities		
- other debt securities	45,953	45,643
	45,953	45,643

	2007 US$'000	2006 US$'000
Due within one year	23,466	11,912
Due one year and over	22,487	33,731
	45,953	45,643

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

10. DEBT SECURITIES (continued)

	2007 Market value US$'000	2006 Market value US$'000
Debt securities		
- listed other than on a recognised UK exchange	40,943	36,032
- unlisted	5,010	9,611
	45,953	45,643

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.

11. PROPERTY, PLANT AND EQUIPMENT

	Equipment fixtures and fittings 2007 US$'000	Equipment fixtures and fittings 2006 US$'000
COST		
At 1 April	2,870	2,486
Additions	125	578
Disposals	(53)	-
Exchange rate movement	320	(194)
At 31 March	3,262	2,870
DEPRECIATION		
At 1 April	2,168	1,901
Charge for the year	367	424
Disposals	(53)	-
Exchange rate movement	264	(157)
At 31 March	2,746	2,168
NET BOOK VALUE		
At 31 March	516	702

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

12. OTHER ASSETS

	2007 US$'000	2006 US$'000
Trade receivables	184	82
Staff loans	201	184
Amounts due from shareholders	68	60
	453	326

13 DEFERRED TAX ASSET AND ANALYSIS

	2007 US$'000	2006 US$'000
At 31 March	205	799
Impact of implementation of IAS 39		(963)
At 1 April	205	(164)
Credit to income statement	29	32
Credit to equity on revaluation of available for sale securities	79	361
Amortisation of deferred tax resulting from implementation of IFRS	(24)	(24)
At 31 March	289	205
Analysis of deferred tax balance		
Short-term timing differences	198	143
Capital allowances in excess of depreciation	91	62
As at 31 March	289	205

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 2007.

14. PREPAYMENTS AND ACCRUED INCOME

	2007 US$'000	2006 US$'000
Prepayments	131	288
	131	288

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

15. OTHER LIABILITIES

	2007 US$'000	2006 US$'000
Corporation tax	4,454	3,443
Other liabilities	4,050	1,522
	8,504	4,965

16. SUBORDINATED DEBT LIABILITIES

	2007 US$'000	2006 US$'000
Dated loan capital	62,099	56,375
	62,099	56,375

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.

17. CALLED UP SHARE CAPITAL

	2007 US$'000	2006 US$'000
Authorised		
160,000,000 (2006 - 160,000,000) ordinary shares of US$1 each	160,000	160,000
Allotted, called up and fully paid:		
130,000,000 (2006 - 115,000,000) ordinary shares of US$1 each	130,000	115,000

During the year, the company issued 15,000,000 ordinary shares of US$1each at par for a consideration of US$15,000,000.

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

18 MOVEMENTS IN SHAREHOLDERS' FUNDS AND RESERVES

	Issued share capital US$'000	Retained earnings US$'000	Available for sale reserve 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

	Issued share capital US$'000	Retained earnings US$'000	Available for sale reserve US$'000	Total shareholders funds US$'000
As at 31 March 2005	105,000	11,290	-	116,290
Impact of adoption of IAS 32/39	-	179	1,027	1,206
At 1 April 2005	105,000	11,469	1,027	117,496
Profit attributable to the members	-	16,138	-	16,138
Losses on available-for-sale securities	-		(842)	(842)
Dividend paid	-	(10,000)	-	(10,000)
New share capital	10,000	-	-	10,000
Net movement	10,000	6,138	(842)	15,296
As at 31 March 2006	115,000	17,607	185	132,792

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

19. SEGMENTAL INFORMATION

In the opinion of the directors, the Company has only one primary business segment being commercial banking plus a relatively small element of retail banking services. Therefore there is no segmental analysis of the income statement. The following table shows total assets analysed according to their ultimate credit risk.

	Year ended 31 March 2007 US$million	Year ended 31 March 2006 US$million
Europe	424	612
Middle East	689	522
Far East	43	250
Africa	-	5
South America	-	49
	1,156	1,438

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

20. 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.

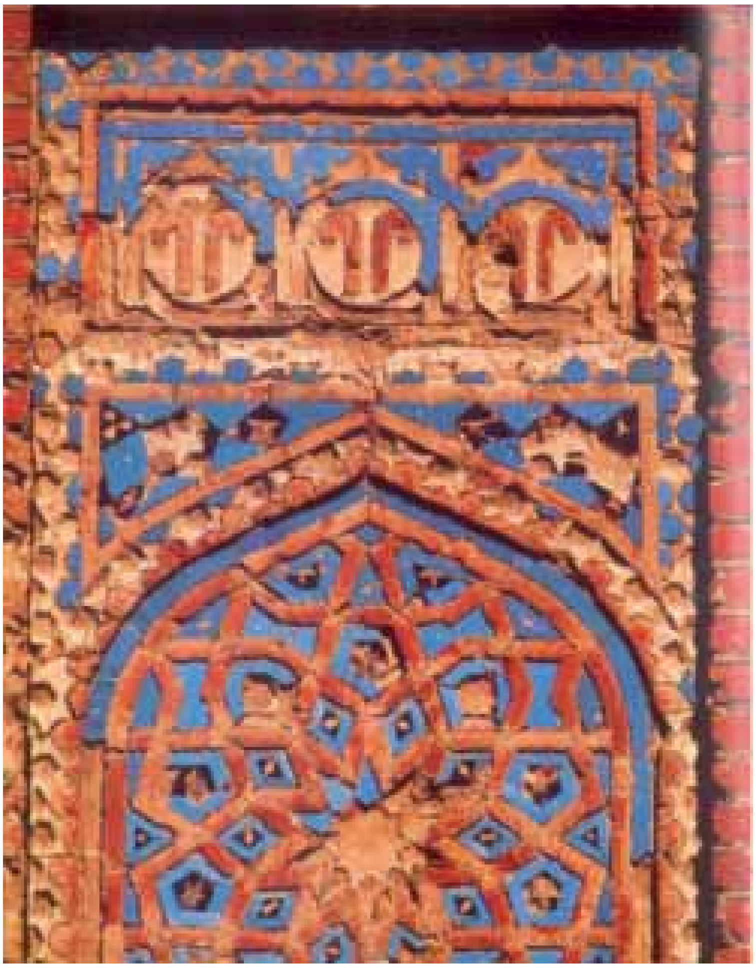
As at 31 March 2007	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
ASSETS							
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	-	

As at 31 March 2006	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
ASSETS							
Loans and advances to banks	950,825	48,358	63,459	-	-	-	1,062,642
Loans and advances to customers	281,249	42,004	4,574	-	-	-	327,827
Debt securities	14,312	28,871	-	2,460	-	-	45,643
Property, plant and equipment		-	-	-	-	702	702
Derivative assets	-	-	-	-	-	695	695
Other assets	76	7	47	48	-	353	531
Prepayments and accrued income		-	-	-	-	288	288
Total assets	1,246,462	119,240	68,080	2,508	-	2,038	1,438,328

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

20. INTEREST RATE GAP SENSITIVITY ANALYSIS (continued)

As at 31 March 2006	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
LIABILITIES							
Deposits by banks	1,003,164	6,022	31,879	-	-	-	1,041,065
Customer accounts	170,589	26,735	4,882	-	-	-	202,206
Subordinated liabilities	-	56,375	-	-	-	-	56,375
Derivative liabilities	-	-	-	-	-	925	925
Other liabilities	-	-	-	-	-	4,965	4,965
Shareholders' funds	-	-	-	-	-	132,792	132,792
Total liabilities & equity	1,173,753	89,132	36,761	-	-	138,682	1,438,328
Interest rate sensitivity gap	72,709	30,108	31,319	2,508	-	(136,644)	
Cumulative gap	72,709	102,817	134,136	136,644	136,644	-	



NOTES TO THE ACCOUNTS

for the year end 31 March 2007

21. NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS

The following analysis gives details of the assets and liabilities of the Company as at 31 March 2007 in US dollars 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 2007	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)	

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	-	-
Africa	-	-	-
South America	-	-	-
	1,156	992	61

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

21. NET CURRENCY POSITION ANALYSIS AND GEOGRAPHIC CONCENTRATIONS (continued)

As at 31 March 2006	US dollar US$000	Euro US$000	Sterling US$000	Other currencies US$000	Total US$000
ASSETS					
Loans and advances to banks	706,542	298,427	53,139	4,534	1,062,642
Loans and advances to customers	271,111	38,066	4,005	14,645	327,827
Debt securities	14,550	31,093	-	-	45,643
Property, plant and equipment	286	-	350	66	702
Derivative assets	695	-	-	-	695
Other assets	226	5	300	-	531
Prepayments and accrued income	1	-	277	10	288
Total assets	993,411	367,591	58,071	19,255	1,438,328
LIABILITIES					
Deposits by banks	724,769	290,497	25,299	500	1,041,065
Customer accounts	148,783	19,919	33,504	-	202,206
Subordinated debt liabilities	-	56,375	-	-	56,375
Derivative liabilities	-	925	-	-	925
Other liabilities	3,534	344	1,072	15	4,965
Shareholders' funds	132,792	-	-	-	132,792
Total liabilities and equity	1,009,878	368,060	59,875	515	1,438,328
Net assets / (liabilities)	(16,467)	(469)	(1,804)	18,740	
Foreign exchange contracts	19,039	-	-	(18,563)	
Currency position at 31 March 2006	2,572	(469)	(1,804)	177	

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

As at 31 March 2006	Total assets US$million	Total liabilities US$million	Credit commitments US$million
Europe	612	237	5
Middle East	522	1,063	93
Far East	250	-	5
Africa	5	-	-
South America	49	-	-
	1,438	1,300	103

NOTES TO THE ACCOUNTS
for the year end 31 March 2007

22. 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.

	Book value 2007 US$000	Fair value 2007 US$000	Book value 2006 US$000	Fair value 2006 US$000
ASSETS				
Cash and balances at central banks	27,957	27,957	1,917	1,917
Loans and advances to banks	650,790	650,790	1,060,725	1,060,725
Loans and advances to customers	429,318	429,318	327,827	327,827
Debt securities	45,953	45,953	45,643	45,643
Derivative assets	335	335	695	695
Other financial assets	873	873	819	819
	1,155,226	1,155,226	1,437,626	1,437,626
LIABILITIES				
Due to other banks	843,360	843,360	1,041,065	1,041,065
Customer accounts	86,728	86,728	202,206	202,206
Derivative liabilities	359	359	925	925
Other financial liabilities	8,504	8,504	4,965	4,965
Subordinated debt liabilities	62,099	62,099	56,375	56,375
	1,001,050	1,001,050	1,305,536	1,305,536

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

	Notional principal amount 31 March 2007 US$000	Fair value 2007 US$000	Notional principal amount 31 March 2006 US$000	Fair value 2006 US$000
Interest rate derivatives				
Interest rate swaps	33,619	(534)	31,000	(925)
Foreign exchange derivatives				
Forward foreign exchange contracts	11,694	(20)	9,174	75
Foreign currency swaps	8,125	526	10,000	620
	53,438	(28)	50,174	(230)

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

23. MATURITY ANALYSIS

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

31 March 2007	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	304,118	(48,231)	(7,139)	154,692

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

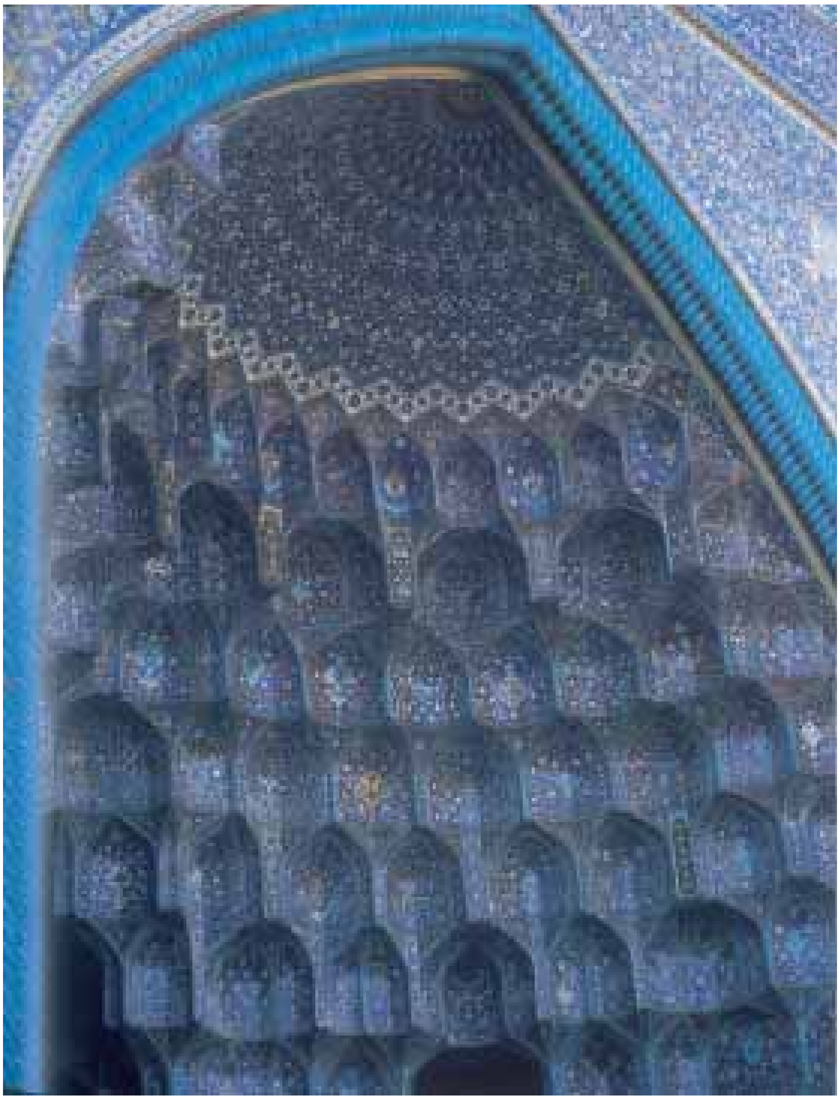
31 March 2006	Not more than three months US$000	More than three months but not more than one year US$000	More than one year but not more than five years US$000	More than five years US$000	No fixed maturity US$000	Total US$000
ASSETS						
Cash and balances at Central banks	1,917	-	-	-	-	1,917
Loans and advances to banks	830,779	160,252	69,694	-	-	1,060,725
Loans and advances to customers	141,071	33,619	148,345	4,792	-	327,827
Debt securities	-	11,912	33,731	-	-	45,643
Other assets	-	-	-	-	1,928	1,928
Prepayments and accrued income	-	-	-	-	288	288
Total assets	973,767	205,783	251,770	4,792	2,216	1,438,328
LIABILITIES						
Due to other banks	1,003,164	37,901	-	-	-	1,041,065
Customer accounts	171,114	31,092	-	-	-	202,206
Other liabilities	-	-	-	-	5,890	5,890
Subordinated debt liabilities	-	-	-	56,375	-	56,375
Total liabilities	1,174,278	68,993	-	56,375	5,890	1,305,536
Net liquidity gap	(200,511)	136,790	251,770	(51,583)	(3,674)	132,792

Of the above loans and advances to banks, US$758million 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 end 31 March 2007

24. MEMORANDUM ITEMS, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

	2007 US$'000	2006 US$'000
CONTINGENT LIABILITES		
Guarantees	97,368	79,983
Import LC's Issued/confirmed	40,884	83,144
	138,252	163,127
COMMITMENTS		
Other commitments:		
Credit lines and other commitments to lend		
- less than one year	47,462	31,179
- over one year	13,720	72,051
	199,434	266,357



NOTES TO THE ACCOUNTS
for the year end 31 March 2007

25.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 comprises the Company's senior management and is attended by representatives of the business as necessary. The Committee is responsible for approving the risk policies and recommending the policies to the Board. ALCO is also responsible for monitoring and managing the risks of the policies to the Board. ALCO is also responsible for monitoring and managing the risks of the regulatory requirements, and generally for the management of the assets and liabilities.

Liquidity risk

As a bank, liquidity risk represents one of the significant risks. The Company's liquidity is managed by its treasury function to ensure that it meets its obligations to its customers and the FSA's requirements. Liquidity is monitored on a maturity mismatch basis and various stress scenarios are tested regularly. Senior management receives daily reports.

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, with overall responsibility residing with ALCO. The Company will take collateral when required; this may be security over a customer's assets, or more commonly, cash.

Operational risk

Operational risk arises from inadeqate 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 Bank 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 Bank 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.

Non-trading market 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 22.

Derivative instruments

The Company does not hold derivative instruments for trading purposes. Exposures to market risks are limited through the use of hedging instruments. The Company has not adopted hedge accounting and thus these derivatives are fair valued through the income statement.

NOTES TO THE ACCOUNTS

for the year end 31 March 2007

26. OPERATING LEASE COMMITMENTS

		2007 US$'000	2006 US$000
Annual commitment under a non-cancellable operating lease for Bank Mellat's premises at 6 Lothbury.	Expiring after 5 years	710,573	631,620

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%.

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:	Year ended 31 March 2007 US$'000	Year ended 31 March 2006 US$'000
Deposits Bank Mellat	232,798	449,021
Bank Tejarat	174,548	293,866
Bills discounted Bank Mellat	54,266	26,620
Bank Tejarat	18,734	28,009

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 26).

The remuneration of key management of the company is disclosed in note 6.

29. POST BALANCE SHEET EVENTS

A final dividend of US$20,000,000 was approved by the shareholders on 8 June 2007.