بسم الله الرحمن الرحیم

In the Name of God

BOARD OF DIRECTORS

S. Manouchehri, Chairman
S. A. Milani Hosseini, Vice-Chairman
M. R. Meskarian, Chief Executive Officer
A. Akhondi, Executive Director
Z. Ashtari, Executive Director
G. Penny, Non-executive Director
D. R. Curtis, Non-executive Director

COMPANY SECRETARY

J. L. Bridger

AUDITORS

DELOITTE & TOUCHE LLP
London

GENERAL CONTACT DETAILS

Address:
6 Lothbury
London EC2R 7HH

Tel: +44 (0) 20 7606 8521
Fax: +44 (0) 20 7606 2020
SWIFT: PIBP GB2L
Telex: +44 (0) 885426
Website: www.persiabank.co.uk

DUBAI BRANCH

General Manager Mr. Samad Tarassoli

Address:
4th Floor,
The Gate, P.O. Box 119871,
Dubai, UAE

Tel: +9714 362 0811
Fax: +9714 362 0812
SWIFT: PIBPAEAD

EXECUTIVE MANAGEMENT

M. R. Meskarian
Chief Executive Officer
☎ +44 (0) 20 7214 7230
✉ m.meskarian@persiabank.co.uk

A. Akhondi
Executive Director & CFO
☎ +44 (0) 20 7214 7208
✉ a.akhondi@persiabank.co.uk

Z. Ashtari
Executive Director & COO
☎ +44 (0) 20 7214 7205
✉ z.ashtari@persiabank.co.uk

B. Singh
Credit Manager
☎ +44 (0) 20 7214 7206
✉ b.singh@persiabank.co.uk

S. Boyne
Manager Documentary Credits
☎ +44 (0) 20 7214 7228
✉ boynes@persiabank.co.uk

J. L. Bridger
Financial Controller
☎ +44 (0) 20 7214 7209
✉ j.bridger@persiabank.co.uk

N. Canter
Treasurer
☎ +44 (0) 20 7214 7217
✉ n.canter@persiabank.co.uk

G. Geekie
Risk Manager
☎ +44 (0) 20 7214 7238
✉ g.geekie@persiabank.co.uk

CONTENTS

Silver coin of Shah Abbas II
(AD 1653)

CHAIRMAN'S STATEMENT

The financial year 2004/05, the Bank's third year of operation, was very successful, building on the foundations laid in the previous two.

I am very pleased to report a profit before tax of US$13.45million which was a 66% increase over the previous year. Profit after tax, US$9.4million showed a similar improvement, resulting in a return on equity of 8.4%. The cost income ratio improved sharply reducing from 49% last year to 38% this. This was a function of both increased revenues, up 37% and prudent control of overheads. The Bank has begun to fulfil its potential. The expansion and diversification of the Bank's credit portfolios gained momentum in the year, meeting or exceeding the objectives set. The loan portfolios have remained problem free, and include relationship loans to mainly high quality Iranian counterparties and participations in loans to a range of other borrowers, with a wide geographical spread, through the London syndications market. Trade finance commission revenues maintained the levels seen last year, evidencing another strong performance. However, one or two of the trade finance business lines fell short of expectations and additional focus and attention will be applied in the coming year in order to achieve our overall business targets.

The Board is recommending a dividend of US$10million. Even though the Bank is already very well capitalised (tier 1 capital of US$106million and tier 2 capital of EUR46.5million), the shareholders intend to invest a similar amount in new ordinary shares, thus illustrating their confidence in the Bank and their support for its current strategy. Following this subscription, the Bank's tier 1 capital will rise to US$116million.

THE FUTURE

The Bank is now set to implement the next phase of its rolling four year strategic plan. It is strongly capitalised, has up-to-date skills and systems, and has established its business profile and core activities. We are now looking to further develop the Bank's trade finance services and in turn, increase its commission and fee earnings; in this pursuit we are examining global markets, both established and emerging.

Whilst only in its third year of business operations, the Bank has undertaken a major initiative towards achieving this next market development goal. We will be opening our first overseas branch in Dubai in July. The branch is being set up within the newly created DIFC (Dubai International Financial Centre). The Bank's management and staff have applied a great deal of work and effort towards getting the branch established, for which my fellow directors and I are very grateful.

Much of our existing business is, naturally, derived from Iran and Iranian customers, and the main element is trade finance, where we are very strong. The international oil price appears to be settling at the higher levels seen over the past year, and, with Iran's hard currency reserves continuing to improve and demand for imports remaining strong, we aim to capitalise on our existing connections there and to develop new ones.

Following on from my last year's report, I am pleased to report that the Bank has begun to establish inter-bank relationships in the UK. These are essential for a London-based bank, and this year's result leads me to hope for further material progress in this area in the next one or two years.

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. The Board also wishes to express its appreciation to the staff for maintaining the loyalty and commitment which they have shown from the Bank's inception.

CHAIRMAN'S STATEMENT - continued

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.

I expect conditions in London and internationally to remain very competitive, but the Board faces the future with growing confidence.

S MANOUCHEHRI
Chairman

JUNE 2005

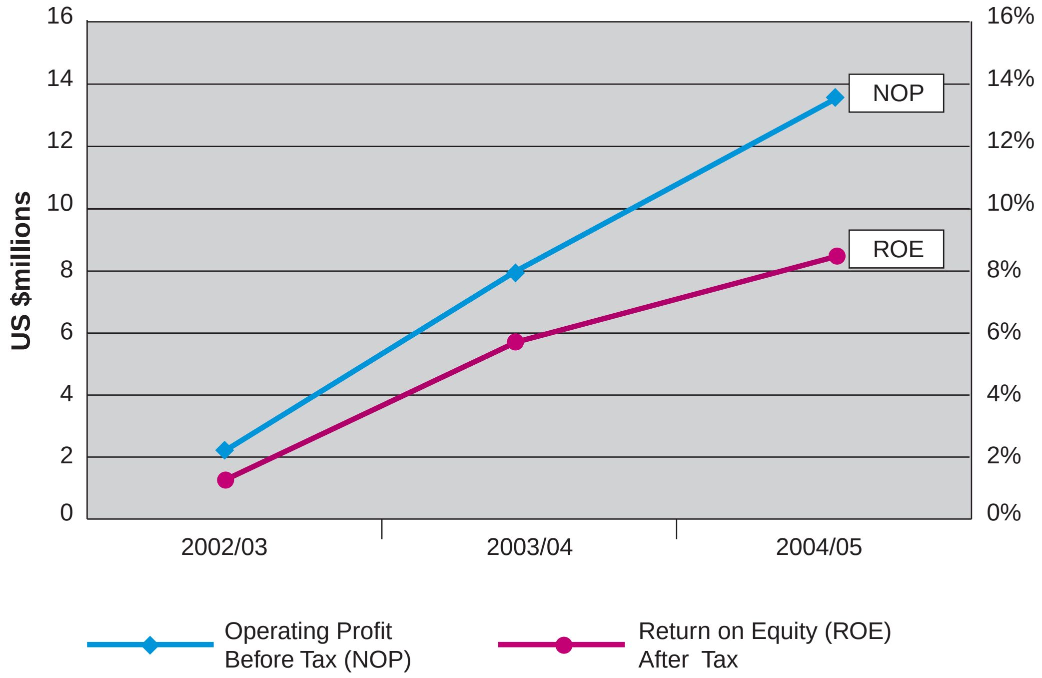
Dirham of Kai Khosrau II
(AD 1241-42)

FINANCIAL REVIEW OF THE YEAR

RESULTS

Profit on ordinary activities before tax was US$13.4million compared with US$8.1million in 2003/04. This was the Bank's third year of operations and the results showed a significant excess over the year's budget. The increase in US dollar interest rates benefited the earnings from the capital portfolio but operating profit in 2004/05 was again adversely impacted by the weakness of the US dollar which increased the US dollar value of the Bank's Sterling based overhead expenses. The average exchange rate was US$1.85 compared with US$1.70 the previous year, resulting in an increase of approximately 9%, equivalent to US$750,000, in expenses.

RESULTS



Net interest income was up 79%; having established an active presence in the lending market during the Bank's second year of operation, the credit portfolios were further expanded in line with both the long term strategy and balance sheet allocation model. Fees and commissions remained in line with the previous year; whilst this was a good performance, we expect significant improvement in the light of the opening of the Bank's first branch in Dubai in the Summer of 2005; its main business will be trade finance related. Foreign exchange earnings similarly, were the same as 2003/04 but this was higher than anticipated and so produced an excellent result for the second year running.

TRADE FINANCE

The trade finance team consolidated its position in 2004/05. The business volumes maintained the levels of the previous year and were steady throughout, not exhibiting the volatility seen in 2003/04. The Bank's services in respect of letters of credit continued to experience strong demand. This was partly due to the surge in the price of oil, Iran's biggest export. Additional focus will be applied in the next period to expanding the customer base. Reimbursement transaction numbers were just above the high levels of last year but again significant growth is expected here in the next few years. Fees from letters of credit issued were satisfactory but the Bank's internal risk limits and market conditions were responsible for a relatively quiet year.

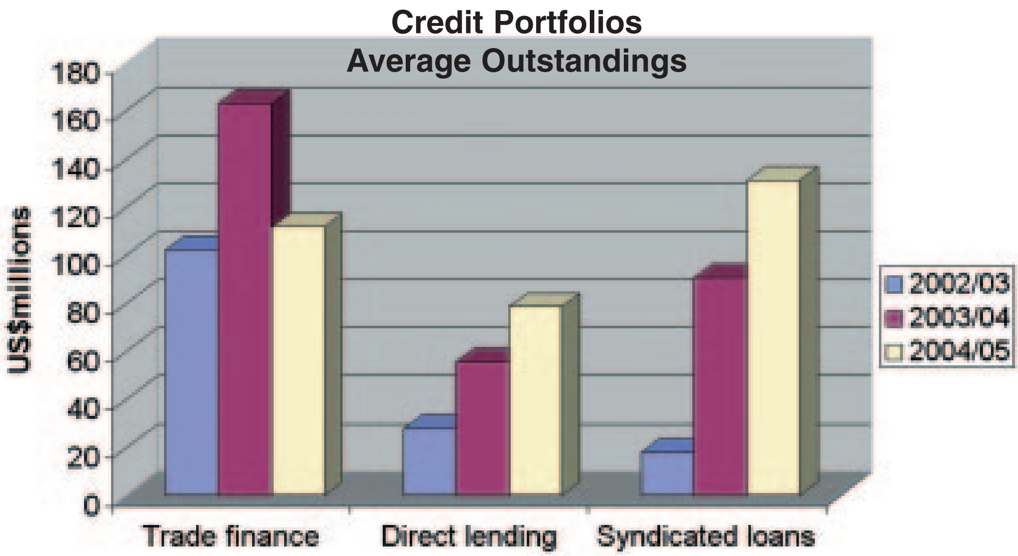
The demand for short term financing was down by about a third from the fourth quarter of 2003/04; however, the overall levels were steady and the average outstandings were up 25% over last year. This, coupled with higher lending yields was consistent with the improved market conditions and resulted in a significant increase in net interest income.

FINANCIAL REVIEW OF THE YEAR - continued

LENDING

The loan portfolios increased by a third, US$63million in the year to US$246million. One of the cornerstones of the bank's strategy for its early years was to establish a quality loan portfolio and the third year saw considerable progress with loans now making up almost 25% of the balance sheet. This has produced a significant annuity income stream, making up a large part of the increase this year in net interest income.

This will continue to grow over the next few years with the transaction flow including both new and replacement business; the loan maturities range from one year facilities through to eight years and so the repayment schedules are already creating the need for replacement business. The credit department, having increased during the past year will continue to expand with the business.



The increase in lending has given the Bank opportunities to diversify its geographical risk profile outside of its parent banks' home of Iran. The Bank's portfolios are currently split 65% / 35% between (primary) market syndicated loans and term lending to relationship customers.

So far there have been no problem loans and the P&L provision charge results solely from the policy decision to maintain a general provision of 1% against the majority of the loan portfolios. The P&L charge of US$1.36million compared with US$0.77million for the previous year largely reflects the growth in the portfolios. The composition of the general provision will be reviewed as part of the project for the implementation of the new accounting standards over the next few years.

TREASURY

The Bank's funding is still split between the three sources: its two shareholder banks, customers and the Central Bank of Iran. The Bank has on only a few occasions taken funds from the inter-bank market; however, the objective remains to diversify further the Bank's funding sources and this year's strong results plus the increased capital base will lend themselves to further market approaches during the coming year. The Bank comfortably maintained its short term liquidity ratios throughout the year.

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.

Foreign exchange earnings all resulted from customer related business. Initial budget expectations were for a reduction here but the deal flow stayed steady throughout and the Bank was able to repeat last year's performance. The Bank does not take or hold any proprietary trading positions.

FINANCIAL REVIEW OF THE YEAR - continued

CUSTOMER SERVICES

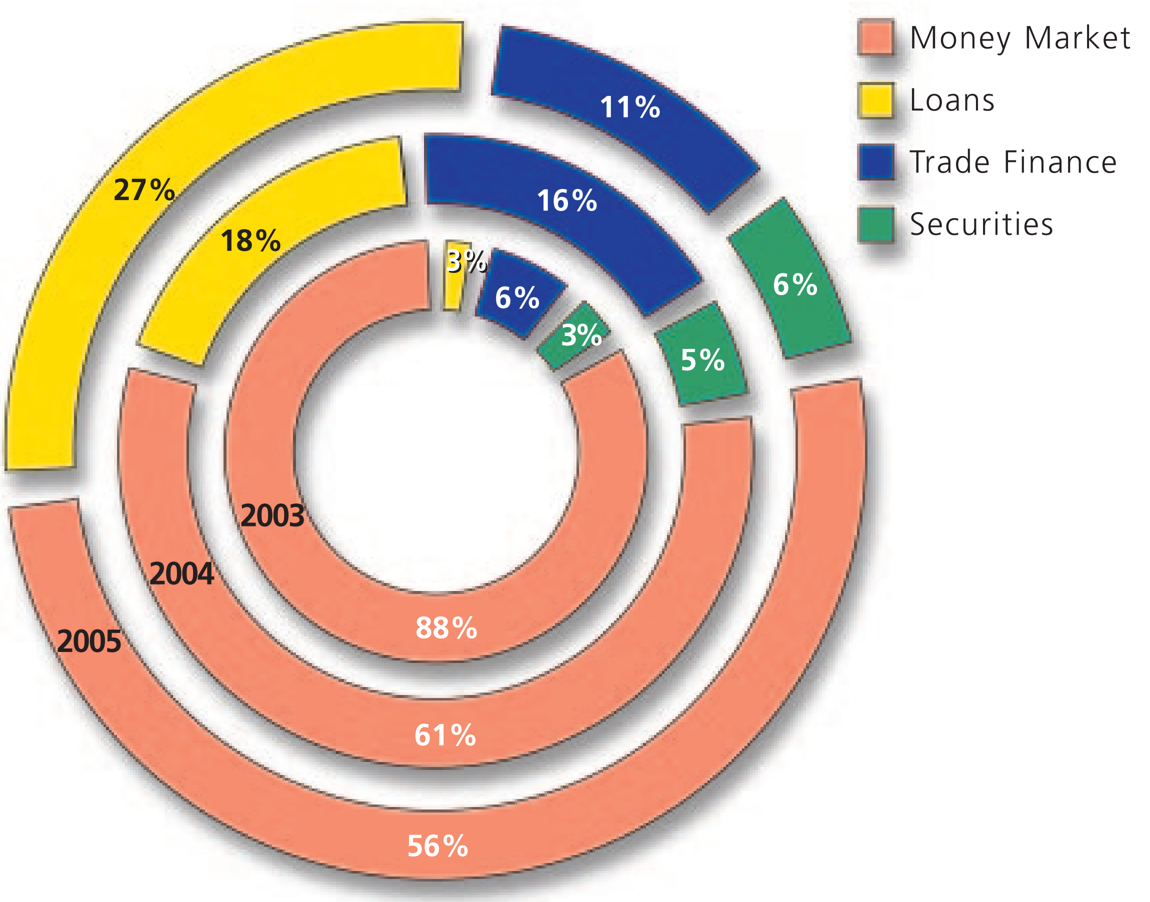
The Bank offers a comprehensive banking service both to its customers and to banks in Iran, primarily its two parents, Bank Mellat and Bank Tejarat. Transaction volumes were similar to 2003/04 so generating the same level of revenue which is satisfactory when analysed in conjunction with the Bank's desire to provide a high quality service to its customers. This is a highly people intensive business where the requirements are compounded by the need to monitor for and prevent money laundering and other financial crimes.

CAPITAL BASE & BALANCE SHEET

The capital base as at 31 March 2005 totalled US$166.6million. This includes the subordinated debt of Euros 46.5million, which due to the strength of the Euro against the US dollar was equivalent to US$60.3million at the year end, a further 6% appreciation on top of last year's 12%. The capital base will be increased by a further US$10million during the second quarter. This effective reinvestment of the dividend is a significant factor within our medium term growth strategy.

The balance sheet total was little changed from the previous year, down just US$20million at US$1,019million. The Bank's asset profile has developed in line with its balance sheet strategy and the capital adequacy ratio

BALANCE SHEET



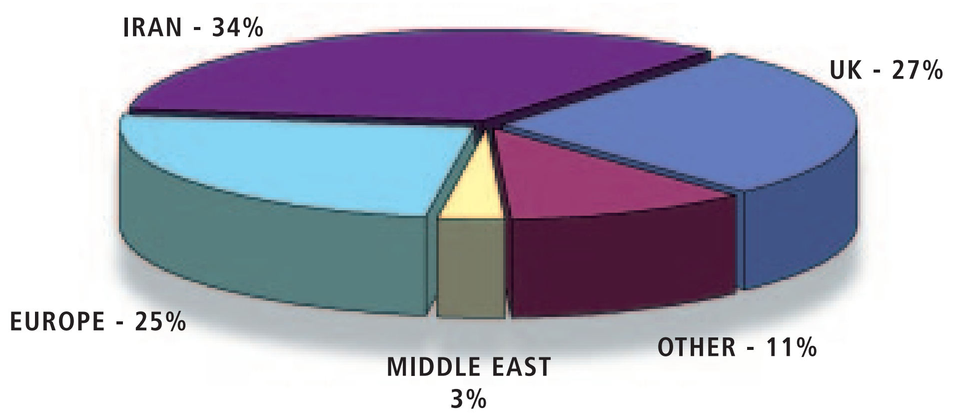
has slightly reduced accordingly. Money market placements were lower by US$91million whilst customer loans and debt securities were higher by US$69million. The capital ratio is still well in excess of the minimum required and hence can accommodate further reallocation and optimisation of the capital usage. Although the introduction of Basel II will potentially increase the capital required, the projections run as part of the implementation project, which is gradually gaining momentum, show that PIB's capital ratio will remain above 20%. The current capital surplus will reduce but this should not adversely impact the medium term strategy.

FINANCIAL REVIEW OF THE YEAR - continued

CAPITAL BASE & BALANCE SHEET - continued

The Bank's geographic asset distribution has not changed significantly over the past year; balance sheet exposure to Iran remains at about one third of the total and Europe accounts for just over half -

TOTAL BALANCE SHEET GEOGRAPHIC DISTRIBUTION 2004/05



FUTURE STRATEGY

Our strategy for the next 12 months, which is part of our current four year plan, is to continue to develop our role within the Mellat and Tejarat groups. At the same time we will continue to diversify both our funding and asset base, to improve the mix of business and provide a solid base for the future development of Persia International Bank Plc.

Gold Dinar of Malik Shah
(AD 1073-92)

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of Persia International Bank Plc, (the "Company" or the "Bank") and its subsidiaries (together the "Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is to provide banking related services. The Company is an authorised institution under the Financial Services and Markets Act 2000. Levels of business have continued to increase during the first years of operations and the directors are confident of continued steady progress.

RESULTS AND DIVIDENDS

The results for the year are set out in detail in the Consolidated Profit and Loss account on page 11. The profit attributable to shareholders for the financial year amounted to US$9,394,000; (2004: $5,676,000). The directors propose to pay a dividend of US$10,000,000 for the year (2004 - US$5,000,000), with the shortfall of US$606,000 to be transferred to reserves.

DIRECTORS

The directors who held office throughout the year were:

Chairman (Non-Executive Director)	Mr. S. Manouchehri
Vice Chairman (Non-Executive Director)	Mr. S. A. Milani Hosseini
Chief Executive Officer	Mr. M. R. Meskarian
Executive Director	Mr. S. Tarassoli
Executive Director	Mr. Z. Ashtari
Non-Executive Director	Mr. D. R. Curtis
Non-Executive Director	Mr. G. Penny

The following changes have taken place since the balance sheet date:
Mr. S. Tarassoli resigned effective 5th April 2005 and Mr A. Akhondi was appointed as an Executive Director on 6th April 2005.

DIRECTORS' SHAREHOLDINGS AND INTERESTS IN CONTRACTS

None of the directors of the Company who held office at the end of the financial year had an interest in the share capital of the Company or any UK group 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 2004 to the date of this report.

FINANCIAL INSTRUMENTS

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 25.

Because derivative contracts are used to hedge the market risks of the Company's investment activities, the Company is not directly exposed to market risks. The credit risk associated with derivative contracts is the responsibility of the respective sanctioning authorities who have approved the counterparty exposure limits in consultation with the Company's credit committee.

DIRECTORS' REPORT - continued

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 Bank at 31 March 2005 represents 28 days' (2004: 27 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.

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
20-Jun-05

Gold Dinar from Seljuky Dynasty (AD 1040-1194)

Gold Dinar of Ardashir I (AD 224-41)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Persian bronze Coin
(2nd Century AD)

Gold Daric, named after the Persian king Darius
(521-486 BC)

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 2005 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, and the related notes 1 to 31. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards 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 circumstances of the company and the group, 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London

27 June 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2005

	Note	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
INTEREST RECEIVABLE			
Interest receivable and similar income arising from debt securities		2,596	2,312
Other interest receivable and similar income	2	29,575	19,069
		32,171	21,381
INTEREST PAYABLE	3	(18,303)	(13,626)
NET INTEREST INCOME		13,868	7,755
Fees and commissions receivable		8,068	7,760
Fees and commissions payable		(77)	(151)
Other operating income	4	1,923	1,945
OPERATING INCOME		23,782	17,309
Administrative expenses	5	(8,658)	(8,134)
Depreciation and amortisation	13	(322)	(312)
Provisions for bad and doubtful debts	8	(1,356)	(769)
GROUP OPERATING PROFIT/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		13,446	8,094
Tax on profit on ordinary activities	10	(4,052)	(2,418)
GROUP PROFIT FOR THE FINANCIAL YEAR		9,394	5,676
Dividends		(10,000)	(5,000)
(LOSS)/PROFIT RETAINED FOR THE FINANCIAL YEAR		(606)	676

All activities derive from continuing operations.

There are no recognised gains and losses in either the current or prior year, other than the profit retained for the year. Accordingly, no statement of total recognised gains and losses is shown.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 March 2005

	Note	Group 2005 US$000	Company 2005 US$000	Group 2004 US$000	Company 2004 US$000
ASSETS					
Cash and balances at Central banks		2,142	2,142	671	671
Loans and advances to banks	26	707,989	707,989	800,129	800,129
Loans and advances to customers	26	245,755	245,755	183,166	183,166
Debt securities	11	53,810	53,810	47,123	47,123
Shares in Group undertakings	12	-	-	-	-
Tangible fixed assets	13	585	585	578	578
Other assets	14	1,133	1,133	2,133	2,133
Prepayments and accrued income	16	7,829	7,829	5,326	5,326
TOTAL ASSETS		1,019,243	1,019,243	1,039,126	1,039,126
LIABILITIES					
Deposits by banks	26	646,071	646,071	665,317	665,317
Customer accounts	26	188,036	188,036	200,461	200,461
Other liabilities	17	14,901	14,901	12,173	12,295
Accruals and deferred income	18	3,625	3,625	2,478	2,478
Subordinated debt liabilities	19	60,320	60,320	56,801	56,801
		912,953	912,953	937,230	937,352
SHARE CAPITAL AND RESERVES					
Called up share capital	20	105,000	105,000	100,000	100,000
Profit and loss account		1,290	1,290	1,896	1,774
EQUITY SHAREHOLDERS' FUNDS	21	106,290	106,290	101,896	101,774
TOTAL LIABILITIES		1,019,243	1,019,243	1,039,126	1,039,126
MEMORANDUM ITEMS					
Contingent liabilities:					
Guarantees		3,912	3,912	4,008	4,008
Import LC's issued/confirmed		107,882	107,882	141,029	141,029
Commitments					
Other commitments		160,158	160,158	172,936	172,936

These financial statements were approved by the Board of Directors on 20 June 2005

Signed on behalf of the Board of Directors
20 June 2005

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	Note	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(i)	44,186	153,889
RETURNS ON INVESTMENTS AND SERVICING FINANCE			
Interest paid on subordinated liabilities		(1,917)	(1,569)
		42,269	152,320
TAXATION			
UK corporation tax paid		(3,642)	(2,366)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of investment securities		(6,687)	(13,095)
Purchase of tangible fixed assets		(329)	(654)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT ACTIVITIES		(7,016)	(13,749)
FINANCING			
Equity dividend paid		(5,000)	-
Issue of ordinary shares		5,000	-
INCREASE IN CASH	(ii)	31,611	136,205

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 March 2005

(I). RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Operating profit	13,446	8,094
(Increase)/decrease in prepayments and accrued income	(2,503)	305
Increase in accruals and deferred income	1,147	155
Provision for bad and doubtful debt	1,356	769
Depreciation and amortisation	322	312
Interest on subordinated loan added back	1,912	1,557
Net cash inflow from trading activities	15,680	11,192
Movement in loans and advances to banks and customers	48,537	286,582
Movement in deposits by banks and customers	(31,671)	(154,235)
Movement in other assets	1,000	125
Movement in other liabilities	7,121	4,118
Foreign exchange difference on subordinated debt	3,519	6,107
Net cash inflow from operating activities	44,186	153,889

(II). ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	At 31 March 2004 US$000	Cash Flow	At 31 March 2005 US$000
Cash and balances at banks	671	1,471	2,142
Loans and advances to banks repayable on demand	430,568	20,342	450,910
	431,239	21,813	453,052

(III). ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	At 31 March 2004 US$000	Effect of foreign exchange differences	Cash Flow	At 31 March 2005 US$000
Subordinated liabilities	56,801	3,519	-	60,320

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

1 ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The Group accounts have been prepared under the historical cost convention as modified by the inclusion of certain securities at valuation, and in accordance with applicable United Kingdom law and accounting standards. The Group accounts are prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 relating to banking groups and the Statements of Recommended Accounting Practice issued by the British Bankers' Association.

BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Persia International Bank Plc and its subsidiary undertakings Tejco Limited and Mellco Limited. Details of the subsidiary undertakings are given in note 12. The Company has taken advantage of the exemption available under section 230 of the Companies Act and therefore not presented the profit and loss account for the parent company. The parent company's profit after tax for the financial year amounted to $9,515,000 (2004: $5,570,000).

INCOME RECOGNITION

Interest income is recognised in the profit and loss account as it accrues other than interest of doubtful collectability, which is credited to a suspense account and excluded from interest income. The closing balance on the suspense account is netted in the balance sheet against accrued interest receivable, or as the case may be, the amount debited to the borrower. Suspended interest is written off where there is no longer any realistic prospect of it being recovered.

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 which are in the nature of interest are taken to the profit and loss account over the period of the loan or on a systematic basis over the expected life of the transaction to which they relate.

PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Specific provisions are made against advances for which recovery is considered to be doubtful. General provision is made in respect of losses which although not yet specifically identified, are known from experience to be present in any portfolio of bank advances. Loans and advances are written off where there is no realistic prospect of recovery.

OPERATING LEASE RENTALS

Rentals payable under operating leases are accounted for on an accruals basis.

TANGIBLE FIXED ASSETS

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

SUBSIDIARY UNDERTAKINGS

Persia International Bank Plc's investments in subsidiary undertakings are stated at cost less any impairment in value.

DEBT SECURITIES AND EQUITY SHARES

Shares and securities intended for use on a continuing basis in the Group's activities are classified as fixed asset investment securities. Such shares and securities are stated at cost less provision for any impairment in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts on a level-yield basis over the period to maturity. The amortisation of premiums or discounts is included in net interest income. Shares and securities held for trading purposes are marked to market; any gains and losses are taken directly to the profit and loss account.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

1 ACCOUNTING POLICIES - continued

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 profit and loss account as they become payable in accordance with the rules of the scheme.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to reduce exposures to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative instruments for trading purposes. Financial instruments in the non-trading book, including loans and investment securities, are measured at amortised cost. Income and expenses on non-trading instruments are amortised over the life of the instrument, with adjustments made to reflect changes in estimated premiums and discounts. Exposures to market risks are limited through the use of hedging instruments. These are accounted for on the same basis as the underlying asset, liability, position or cash flow being hedged with income and expense being recognised in the profit and loss account.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or if appropriate at the forward contract rate. Translation differences are recognised in the profit and loss account.

2. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Interest receivable from banks	19,430	14,617
Interest receivable from customers	10,121	4,448
Interest receivable from parent companies	21	-
Other interest income	3	4
	29,575	19,069

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

3. INTEREST PAYABLE

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Interest payable to banks	3,102	2,297
Interest payable to customers	2,838	2,484
Interest payable on deposits from parent companies	10,451	6,943
Interest payable on subordinated debt	1,912	1,902
	18,303	13,626

4. OTHER OPERATING INCOME

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Foreign exchange income	1,200	1,227
Other banking charges	723	718
	1,923	1,945

5. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Wages and salaries	4,332	4,116
Social security costs	488	386
Other pension costs	313	287
Other administrative expenses	3,525	3,345
	8,658	8,134

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

6. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000 (as restated)
Emoluments	1,051	953

Of the above emoluments, US$336,679 (2004: US$271,919) 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

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

	Year ended 31 March 2005 No.	Year ended 31 March 2004 No.
Banking operations	28	31
Trade finance	20	16
Administration	7	7
	55	54

8. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

		Year Ended 31 March 2005	
	General US$000	Specific US$000	Total US$000
GROUP AND COMPANY			
As at 1st April 2004	1,194	22	1,216
Charge for the year	1,356	-	1,356
Amounts written off	-	-	-
Exchange adjustments	16	-	16
Provision as at 31st March 2005	2,566	22	2,588

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

9. GROUP OPERATING PROFIT/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Profit on ordinary activities before taxation is after the following:		
Income		
Income from listed investment securities	2,340	1,349
Expenses		
Auditors' remuneration		
- audit	86	88
- other services	123	58
Depreciation	322	312

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

		Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
(i)	Analysis of tax charge on ordinary activities		
	United Kingdom Corporation tax at 30% (2004 - 30%) based on the profit for the year.	4,486	2,695
	Adjustment in respect of prior years	9	79
		4,495	2,774
	Deferred tax		
	- timing differences, origination and reversal (note 15)	(435)	(356)
	- adjustment in respect of prior years	(8)	-
		4,052	2,418

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

	Year ended 31 March 2005 US$000	Year ended 31 March 2004 US$000
Profit on ordinary activities before tax	13,446	8,094
Tax at 30% thereon	4,034	2,428
Effects of:		
Expenses not deductible for tax purposes	9	8
Capital allowances less than (in excess of) depreciation	32	33
Movement in short term timing differences (general provision)	411	226
	4,486	2,695

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

11. DEBT SECURITIES

GROUP AND COMPANY

	2005 US$000	2004 US$000
ISSUED BY OTHER THAN PUBLIC BODIES		
Investment securities		
- other debt securities	53,810	47,123
	53,810	47,123

	2005 US$000	2004 US$000
Due within one year	18,178	11,775
Due one year and over	35,632	35,348
	53,810	47,123
Unamortised net discount on investment securities	113	90

INVESTMENT SECURITIES	US$000
As at 1st April 2004	47,123
Acquisitions	11,703
Maturities	(7,166)
Amortised discount / premium	20
Exchange rate movement	2,130
At 31 March 2005	53,810

	2005		2004	
	Balance sheet US$000	Market value US$000	Balance sheet US$000	Market value US$000
INVESTMENT SECURITIES				
- listed other than on a recognised UK exchange	44,491	45,958	36,163	38,222
- unlisted	9,319	9,319	10,960	10,960
	53,810	55,277	47,123	49,182

The unlisted investment securities are promissory notes purchased on the secondary market. In the opinion of the directors, the fair value of these amounts is not materially different to their carrying value in the Balance Sheet.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

12. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represents:

SUBSIDIARY	COUNTRY OF REGISTRATION	% OF EQUITY	PRINCIPAL BUSINESS ACTIVITY	YEAR END
Mellco Limited	England and Wales	100%	Dormant	31 March
Tejco Limited	England and Wales	100%	Dormant	31 March

13. TANGIBLE FIXED ASSETS

GROUP AND COMPANY

	Equipment fixtures and fittings 2005 US$000	Equipment fixtures and fittings 2004 US$000
COST		
At 1 April	2,207	1,373
Additions	318	617
Disposals	(101)	
Exchange rate movement	62	217
At 31 March	2,486	2,207
DEPRECIATION		
At 1 April	1,629	1,137
Charge for the year	322	312
Disposals	(101)	
Exchange rate movement	51	180
At 31 March	1,901	1,629
NET BOOK VALUE		
At 31 March	585	578

14. OTHER ASSETS

	Group and Company 2005 US$000	Group and Company 2004 US$000
Trade debtors	80	45
Staff loans	189	176
Amounts due from shareholders	65	1,556
Deferred tax asset (note 15)	799	356
	1,133	2,133

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

15. DEFERRED TAX ASSET AND ANALYSIS

	Group and Company 2005 US$000	Group and Company 2004 US$000
Movement on deferred taxation balance in the year		
At 1 April 2004	356	-
(Charge)/Credit to Profit and Loss Account	443	356
At 31 March 2005	799	356
Analysis of deferred tax balance		
short term timing differences -		
General provision for bad & doubtful debts	769	358
Capital allowances in excess of depreciation	30	(2)
As at 31 March and credited to profit and loss account	799	356

In accordance with the provisions of FRS19, 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 2005.

16. PREPAYMENTS AND ACCRUED INCOME

	Group and Company 2005 US$000	Group and Company 2004 US$000
Prepayments	528	272
Accrued interest receivable	7,301	5,054
	7,829	5,326

17. OTHER LIABILITIES

	Group 2005 US$000	Company 2005 US$000	Group 2004 US$000	Company 2004 US$000
Corporation tax	2,376	2,376	1,532	1,532
Proposed dividend	10,000	10,000	5,000	5,000
Other liabilities	2,525	2,525	5,641	5,763
	14,901	14,901	12,173	12,295

18. ACCRUALS AND DEFERRED INCOME

GROUP AND COMPANY

	2005 US$000	2004 US$000
Accrued interest payable	3,625	2,478
	3,625	2,478

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

19. SUBORDINATED DEBT LIABILITIES

GROUP AND COMPANY

	2005 US$000	2004 US$000
Dated loan capital	60,320	56,801
	60,320	56,801

The floating rate notes are redeemable in 2043, and are listed on the Luxembourg stock exchange. Interest is payable at a margin of 1% over six month EURIBOR.

20. CALLED UP SHARE CAPITAL

	2005 US$000	2004 US$000
AUTHORISED		
105,000,000 (2004 - 100,001,000) ordinary shares of US$1 each	105,000	100,001
ALLOTTED, CALLED UP AND FULLY PAID:		
105,000,000 (2004 - 100,000,010) ordinary shares of US$1 each	105,000	100,000

During the year 5million ordinary shares were issued for a consideration of US$5million

21. MOVEMENTS IN SHAREHOLDERS' FUNDS AND RESERVES

	Issued share capital US$000	Profit and Loss account Company US$000	Profit and Loss account Subsidiaries US$000	Profit and Loss account Group US$000	Total shareholders funds US$000
As at 1 April 2004	100,000	1,774	122	1,896	101,896
Profit attributable to the members	-	9,516	(122)	9,394	9,394
Dividend	-	(10,000)	-	(10,000)	(10,000)
New share capital	5,000	-	-	-	5,000
Net additions	5,000	(484)	(122)	(606)	4,394
As at 31 March 2005	105,000	1,290	-	1,290	106,290

22. SEGMENTAL INFORMATION

In the opinion of the directors, the Company operates in one business segment, namely commercial and retail banking, and in one geographical segment, namely the United Kingdom, since the Company operates from only one office.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

23. INTEREST RATE GAP SENSITIVITY ANALYSIS FOR THE NON-TRADING BOOK

As at 31 March 2005	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	585,904	57,717	66,510	-	-	-	710,131
Loans and advances to customers	221,430	24,230	95	-	-	-	245,755
Debt securities	7,496	37,596	6,124	2,594	-	-	53,810
Tangible fixed assets	-	-	-	-		585	585
Other assets	80	11	47	70	-	925	1,133
Prepayments and accrued income	-	-	-	-	-	7,829	7,829
TOTAL ASSETS	814,910	119,554	72,776	2,664	-	9,339	1,019,243
LIABILITIES							
Deposits by banks	641,784	788	3,503	-	-	-	646,075
Customer accounts	146,093	31,321	10,618	-	-	-	188,032
Subordinated liabilities	-	60,320	-	-	-	-	60,320
Other liabilities	-	-	-	-	-	-	-
Accruals and deferred income	-	-	-	-	-	18,526	18,526
Shareholders' funds	-	-	-	-	-	106,290	106,290
TOTAL LIABILITIES	787,877	92,429	14,121	-	-	124,816	1,019,243
OFF BALANCE SHEET ITEMS							-
Interest rate sensitivity gap	27,033	27,125	58,655	2,664	-	(115,477)	
Cumulative gap	27,033	54,158	112,813	115,477	115,477	-	

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

23. INTEREST RATE GAP SENSITIVITY ANALYSIS FOR THE NON-TRADING BOOK - CONTINUED

As at 31 March 2004

	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	1,039,688	26,372	21,648	10,501	-	-	1,098,209
Loans and advances to customers	29,467	14	43	7,379	-	-	36,903
Debt securities	4,900	29,128	-	-	-	-	34,028
Tangible fixed assets	-	-	-	-	-	236	236
Other assets	-	-	-	-	-	1,902	1,902
Prepayments and accrued income	-	-	-	-	-	5,631	5,631
TOTAL ASSETS	1,074,055	55,514	21,691	17,880	-	7,769	1,176,909
LIABILITIES							
Deposits by banks	893,396	-	-	-	-	-	893,396
Customer accounts	70,412	36,199	20,006	-	-	-	126,617
Subordinated liabilities	-	50,694	-	-	-	-	50,694
Other liabilities	-	-	-	-	-	2,659	2,659
Accruals and deferred income	-	-	-	-	-	2,323	2,323
Shareholders' funds	-	-	-	-	-	101,220	101,220
TOTAL LIABILITIES	963,808	86,893	20,006	-	-	106,202	1,176,909
OFF BALANCE SHEET ITEMS	-	-	-	-	-	-	-
INTEREST RATE SENSITIVITY GAP	110,247	(31,379)	1,685	17,880	-	(98,433)	
CUMULATIVE GAP	110,247	78,868	80,553	98,433	98,433	-	

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

24. NET CURRENCY POSITION ANALYSIS

The following analysis gives details of the assets and liabilities of the Group and Company as at 31 March 2005 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 and the extent to which they are hedged by off-balance sheet instruments.

As at 31 March 2005	US dollar US$000	Euro US$000	Sterling US$000	Other Currencies US$000	Total US$000
ASSETS					
Loans and advances to banks	516,571	132,670	58,653	2,237	710,131
Loans and advances to customers	195,870	35,669	3,746	10,470	245,755
Debt securities	16,084	37,726	-	-	53,810
Tangible fixed assets	-	-	585	-	585
Other assets	758	105	270	-	1,133
Prepayments and accrued income	2,294	2,590	2,850	95	7,829
TOTAL ASSETS	731,577	208,760	66,104	12,802	1,019,243
LIABILITIES					
Deposits by banks	487,438	125,643	32,990	-	646,071
Customer accounts	135,716	21,191	31,129	-	188,036
Subordinated debt liabilities	-	60,320	0	-	60,320
Other liabilities	11,764	1,025	2,108	4	14,901
Accruals and deferred income	2,560	362	703	-	3,625
Shareholders' funds	106,290	-	-	-	106,290
TOTAL LIABILITIES	743,768	208,541	66,930	4	1,019,243
NET ASSETS	(12,191)	219	(826)	12,798	
OFF BALANCE SHEET ITEMS					
FOREIGN EXCHANGE CONTRACTS	11,933	-	-	(12,403)	
CURRENCY POSITION AT 31 MARCH 2005	(258)	219	(826)	395	

All operations are based in London and the reporting currency is US dollars. Accordingly a structural currency analysis has not been provided.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

24. NET CURRENCY POSITION ANALYSIS - continued

As at 31 March 2004

	US dollar US$000	Euro US$000	Sterling US$000	Other Currencies US$000	Total US$000
ASSETS					
Loans and advances to banks	497,447	189,299	114,049	5	800,800
Loans and advances to customers	154,081	18,323	9	10,753	183,166
Debt securities	14,514	32,609	-	-	47,123
Tangible fixed assets	-	-	578	-	578
Other assets	799	-	1,334	-	2,133
Prepayments and accrued income	1,988	1,315	2,013	10	5,326
TOTAL ASSETS	668,829	241,546	117,983	10,768	1,039,126
LIABILITIES	481,183	100,629	83,505	-	665,317
Customer accounts	86,161	83,853	30,447	-	200,461
Subordinated debt liabilities	-	56,801	-	-	56,801
Other liabilities	9,078	452	2,639	4	12,173
Accruals and deferred income	681	1,241	556	-	2,478
Shareholders' funds	101,896	-	-	-	101,896
TOTAL LIABILITIES	678,999	242,976	117,147	4	1,039,126
NET ASSETS	(10,170)	(1,430)	836	10,764	
OFF BALANCE SHEET ITEMS					
FOREIGN EXCHANGE CONTRACTS	10,000	-	-	(10,753)	
CURRENCY POSITION AT 31 MARCH 2004	(170)	(1,430)	836	11	

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

25. 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 and exchange rates.

	Book value 2005 US$000	Fair value 2005 US$000	Book value 2004 US$000	Fair value 2004 US$000
ASSETS				
Loans and advances to banks	707,989	707,989	800,129	800,129
Loans and advances to customers	245,755	245,755	183,166	183,166
Debt securities	53,810	55,277	47,123	48,811
	1,007,554	1,009,021	1,030,418	1,032,106
LIABILITIES				
Deposits by banks	646,071	646,071	665,317	665,317
Deposits by customers	188,036	188,036	200,461	200,461
	834,107	834,107	865,778	865,778

	Notional principal amount 31 March 2005 US$000	Fair value 2005 US$000	Book value 2005 US$000	Notional principal amount 31 March 2004 US$000
INTEREST RATE DERIVATIVES				
Interest rate swaps	32,890	(1,596)	-	31,263
FOREIGN EXCHANGE DERIVATIVES				
Forward foreign exchange contracts	2,016	74	74	-
Foreign currency swaps	10,000	(486)	-	10,000
	44,906	(2,008)	74	41,263

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein are as follows:

	US$000
Unrecognised losses on hedges at 1 April 2004	2,883
Losses arising in previous year that were recognised in 2004/05	(1,152)
Losses arising before 1 April 2004 that were not recognised in 2004/05	1,731
Losses arising in 2004/05 that were not recognised in 2004/05	351
Unrecognised losses on hedges at 31 March 2005	2,082
Losses expected to be recognised in 2005/06	1,286

There were no unrecognised gains brought forward or carried forward.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

26 MATURITY ANALYSIS

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

2005	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	Provision for bad and doubtful debts US$000	Total US$000
ASSETS						
Loans and advances to banks	571,030	122,882	14,077	-	-	707,989
Loans and advances to customers	20,855	76,166	149,261	2,061	(2,588)	245,755
Debt securities	7,494	8,288	38,028	-	-	53,810

Of the above loans and advances to banks, US$451million are repayable on demand or short notice. Included in the above are non-performing loans and advances to customers of US$22,000 which have been fully provided.

LIABILITIES						
Deposits by banks	591,780	54,291	-	-	-	646,071
Customer accounts	146,306	41,730	-	-	-	188,036

2004	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	Provision for bad and doubtful debts US$000	Total US$000
ASSETS						
Loans and advances to banks	659,703	104,125	36,301	-	-	800,129
Loans and advances to customers	3,157	22,985	158,240	-	(1,216)	183,166
Debt securities	-	11,775	35,348	-	-	47,123

Of the above loans and advances to banks, US$431million were repayable on demand or short notice.

LIABILITIES						
Deposits by banks	659,584	5,733	-	-	-	665,317
Customer accounts	163,120	37,341	-	-	-	200,461

Of the above assets and liabilities, the following amounts are due from or due to the shareholders:

	As at 31 March 2005 US$000	As at 31 March 2004 US$000
ASSETS		
Loans and advances to banks	-	-
LIABILITIES		
Deposits by banks	447,850	456,302

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

27. MEMORANDUM ITEM, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

GROUP AND COMPANY	As at 31 March 2005 US$000	As at 31 March 2004 US$000
CONTINGENT LIABILITIES		
Guarantees	3,912	4,008
Import LC's issued/confirmed	107,882	141,029
COMMITMENTS	111,794	145,037
Other commitments:		
Credit lines and other commitments to lend		
- less than one year	65,081	107,009
- over one year	95,077	65,927
	271,952	317,973

	Notional principal amount 2005 US$000	Net replacement cost 2005 US$000	Notional principal amount 2004 US$000	Net replacement cost 2004 US$000
DERIVATIVES				
Exchange rate contracts with financial institutions held for non-trading purposes				
- over five years	-	-	-	-
- five years or less but over one year	10,000	-	10,000	-
- less than one year	2,016	74	-	-
Interest rate contracts with financial institutions held for non-trading purposes				
- over five years	-	-	-	-
- five years or less but over one year	32,890	-	31,263	
- less than one year	-	-	-	-
	44,906	74	41,263	-

All derivatives entered into are with banks.

Because all derivatives are for hedging purposes, the directors consider that further disclosures regarding market risk are unnecessary. Net replacement cost is defined as the cost of replacing all transactions with a positive fair value.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

28. RISK MANAGEMENT

In transacting its normal business the Company is exposed to the following risks: liquidity risk, credit risk, operational risk and market. 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 Company in relation to existing and new business, for ensuring compliance with the Company's 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 treasurer to ensure that it meets its obligations to its customers and to the FSA's requirements. Liquidity is monitored on a maturity mismatch basis and reported to senior management daily

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 delegated to credit specialists in the individual business units, with overall responsibility residing with ALCO. If the Company requires collateral, this may be security over a customer's assets, or more commonly, cash.

OPERATIONAL RISK

Operational risk arises from inadequate or failed internal processes, systems and personnel or from events external to the company. Where operational risks have been identified, controls and procedures have been put in place to mitigate against these risks. Risks that arise are reported to senior management, to ALCO and to the Board when necessary.

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 23.

DERIVATIVE INSTRUMENTS

The Bank does not hold derivative instruments for trading purposes. Financial instruments are measured at accrued cost. Income and expenses on financial instruments are amortised over the life of the instruments, with adjustments made to reflect changes in estimated premiums or discounts. Where the Bank has entered into legally binding netting agreements, positive and negative values of derivatives are offset within the balance sheet totals. Exposures to market risks are limited through the use of hedging instruments. These are accounted for on the same basis as the underlying asset, liability, position or cash flow being hedged with income and expense being recognised in the profit and loss account. Instruments that cease to be non-trading hedges as a result of the underlying item or position being derecognised are remeasured at fair value before being reclassified as trading. In common with the derecognised item or position, the income or expense generated from the related hedge, including any associated deferred income or expense, is recognised in full in the period. In other circumstances, reclassified non-trading hedges are remeasured at fair value on their reclassification and any income or expense generated amortised over the life of the underlying item or position.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

29. OPERATING LEASE COMMITMENTS

	2005 US$000	2004 US$000
Annual commitment under a non-cancellable operating lease for premises at 6 Lothbury	-	1,098
Expiring between one and five years	-	1,098

30. ULTIMATE PARENT COMPANY AND RELATED PARTY DISCLOSURES

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 Bank's other major shareholder is Bank Tejarat which owns 40%.

31. RELATED PARTIES

Transactions during the year and balances due to or from related parties as at 31 March 2005 have been separately analysed as appropriate in the notes to the accounts. All transactions with related parties are carried out on an arms length basis.