Persia
International Bank Plc

Annual Report & Accounts
2005/06

بسم الله الرحمن الرحیم

In the Name of God

BOARD OF DIRECTORS

A. Divandari, Chairman
S. D. Zareh Eskandari, 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

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CHAIRMAN'S STATEMENT

I was appointed Chairman towards the end of the year covered by this report, and I would like to express my appreciation of the contribution to these results, made by my predecessor, Mr S. Manouchehri and the previous Vice-chairman, Mr S.A. Milani Hosseini, who together led the Bank from its inception to its present very healthy position.

These financial statements have been prepared for the first time under International Financial Reporting Standards (IFRS).

The financial year 2005/06, the Bank's fourth year of operation, was very successful, continuing the encouraging progress achieved in the previous three years.
I am very pleased to report a profit before tax of US$23.1million, a 72% increase over the previous year, and a net profit after tax of US$16.1million representing a 64% improvement. This resulted in a net return on equity of 12.9%. The Bank's cost income ratio improved from 38% last year to 29%. This is primarily a function of increased revenues, which rose by 37%, but also of tight control of costs. Trade finance commission revenues maintained the healthy levels seen last year.

The Bank's loan portfolio grew by 45% in volumes outstanding, and in spite of this growth it remained problem free for the fourth year. Greater diversification of the Bank's asset base, a primary objective of the Board, meant that by the year end, 67% of total asset exposure was non-Iranian risk. Meanwhile the Bank's regulatory capital base remained strong, with Tier 1 Capital of US$132million and Tier 2 Capital of €46.5million (equivalent to US$56million).

A highlight of the year was the successful opening of the Bank's first overseas branch within the Dubai International Financial Centre (DIFC) in August 2005. Its performance in achieving break-even in less than a year has exceeded our expectations, and there are good prospects of strong growth.

The Board is recommending a dividend of US$15million. Under the new accounting rules this can no longer be shown in the 2005/6 accounts, but, if approved by shareholders, it will be paid early in the new year. As in the last three years, the shareholders have expressed their intention to apply any dividend paid to subscribe for new ordinary shares thus illustrating their confidence in the Bank and their support for its current strategy.

THE FUTURE

The emphasis for the current year is on increasing commission and fee income and further diversification of the Bank's business. The Board believes that this will be most easily achieved by concentrating on its trade finance services, a field in which the Bank has considerable expertise and experience, and in which it enjoys a high reputation. Encouraged by the success of the Dubai Branch, the Board is considering the possibility of extending, in a measured way, the Bank's global reach, into other developed and developing markets.

The Board continues to work on inter-bank relationships, in order to diversify the Bank's sources of funds and to increase the proportion of term deposits on the liabilities side of the balance sheet.

Much of our existing business is, naturally, derived from Iran, both from customers based in Iran and customers trading with Iran. Despite external pressures on the Iranian economy, the business flows have continued largely unaffected, with the high oil price over the past year benefiting Iran's hard currency reserves and sustaining the demand for imports. We anticipate therefore that Iran's growth will continue at the current pace in the absence of greater diplomatic tensions, and PIB will be making every effort to support the country's progress.

CHAIRMAN'S STATEMENT - continued

I wish to thank my Board colleagues and the Bank's staff for their continuing hard work and dedication, without which these results would not have been achieved. The Directors also wish to express their appreciation of their former colleagues, the outgoing Chairman and Vice-chairman.

The Board is very grateful for the continued support of our two shareholder Banks. They remain a major source of deposits, but no less importantly they refer large 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.

It would perhaps be over-optimistic to expect the recent strong economic growth across the global economy to continue without interruption, and we anticipate some turbulence in the markets in which we operate for the rest of this year. Those markets will certainly remain very competitive. Nevertheless, the Board and I are looking forward to the year ahead in the belief that the Bank will continue to grow and achieve its objectives.

Dr. A. Divandari
Chairman

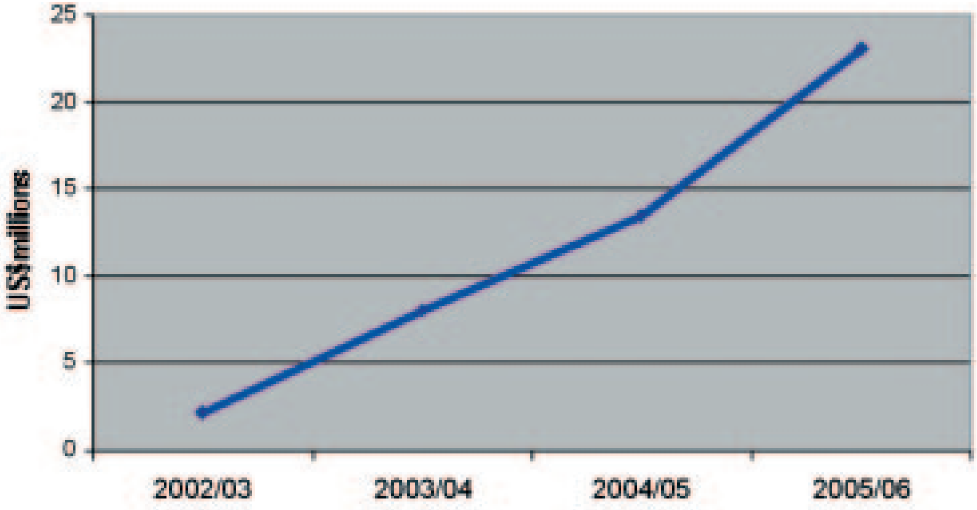
June 2006

FINANCIAL REVIEW OF THE YEAR

RESULTS

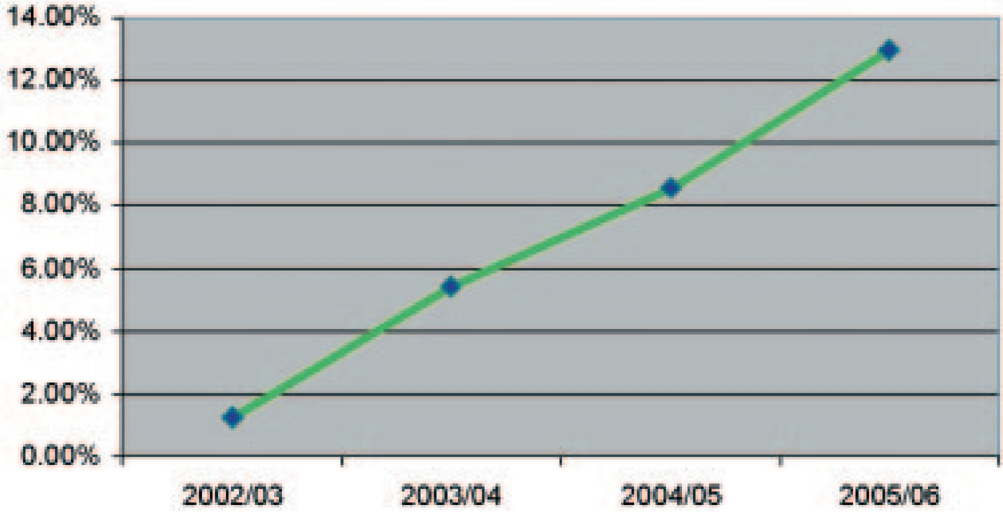
Profit on ordinary activities before tax was US$23.1million compared with US$13.4million in 2004/05; this equated to a pre-tax return on average equity of 18.5% compared to last year's 12.3%.

OPERATING PROFIT BEFORE TAX



Return on equity after tax was almost 13% compared to 8.4% last year. This was the Bank's fourth year of operations and the two graphs show the rapid growth and progress achieved over that very short period.

RETURN ON EQUITY



The continued increases in US dollar interest rates benefited the earnings from the capital portfolio and in addition operating profit in 2005/06 benefited from a more efficient management of costs and the strength of the US Dollar which decreased the Bank's Sterling based overhead expenses. The average exchange rate was US$1.78 compared with US$1.85 the previous year.

The 2005/06 financial statements have been prepared under International Financial Reporting Standards (IFRS) for the first time. The differences are not unduly significant and the impacts on the balance sheet are shown in accounts note 32. The previous year's accounts have not been restated – IFRS 1 includes an exemption not to restate the prior period information for the requirements of IAS32 and IAS39 - hence there are one or two small variances resulting from the IFRS changes.

FINANCIAL REVIEW OF THE YEAR - continued

Net interest income was up 61%, the majority of the increase coming from the credit portfolios. These were further expanded during the year in line with the Bank's long term strategy and are now closer to their target levels. Future increases will be more closely related to the growth in the capital base; however, share capital is being increased for the third consecutive year so creating further room for expansion.

Fees and commissions remained in line with the previous year, although it appears otherwise due to the introduction of IFRS – loan related fees are now amortized over the lives of the associated loans (effective interest) and included in interest income. Trade finance maintained the fee levels seen over the past two years. Foreign exchange earnings were also the same as the last two years.
The Bank opened its first branch in Dubai (DIFC) in August 2005. The branch quickly established its trading operation and returned a small profit in its first short trading period.

TRADE FINANCE

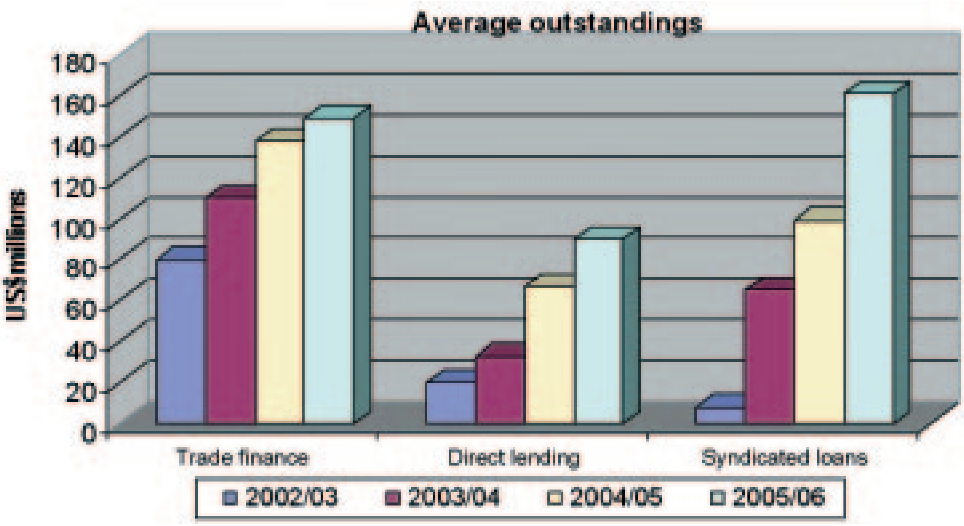
The trade finance team were working at or close to capacity throughout the year. Their new IT system was fully operational and began producing the improvements and efficiencies anticipated. The demand for the Bank's documentary credit services continued on from last year driven by the increasing level of international trade flows in and out of Iran. Fees from letters of credit issued were satisfactory but the Bank will be seeking to expand this activity in the next few years. The business volumes from Iranian banks, mainly our shareholders were quite steady through the year and higher than the levels of the previous year.

The demand for short term financing recovered from the reduced levels at the end of last year and the overall levels were consistent throughout 2005/06.

LENDING

The loan portfolios increased by a third for the second successive year, US$80million in the year to US$328million. A quality loan portfolio is one of the fundamental pillars of the Bank's medium term strategy. There are currently no problem loans in any of the portfolios, an enviable position which has held true since the Bank first opened. Consequently there was no loan provision charge in the P&L and the Bank does not maintain a general provision (no longer allowed under IAS). Loans made up 35% of the average balance sheet through the year, producing a significant income stream. This in turn accounted for a large part of the increase in net interest income. The portfolios have matured such that a large proportion of the transaction flow is now replacement business; the loan maturities range from one year facilities through to eight years.

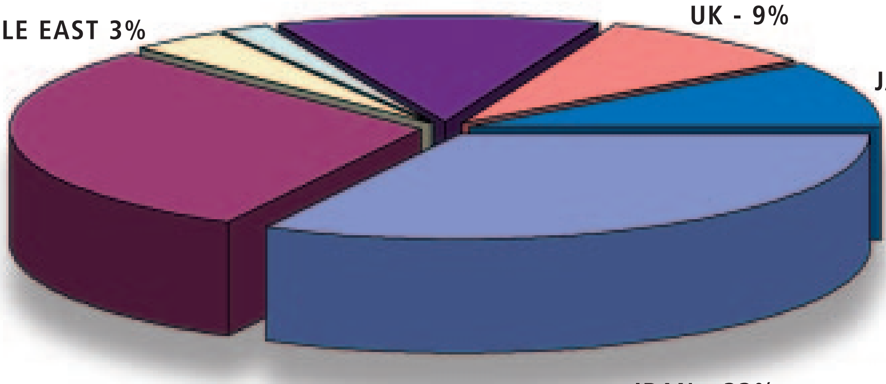
CREDIT PORTFOLIOS



FINANCIAL REVIEW OF THE YEAR - continued

The loan portfolios are currently split roughly 70% / 30% between (primary) market syndicated loans and term lending to relationship customers. The Bank has continued to diversify its geographical risk profile outside of its parent banks' home of Iran. The balance sheet was increased significantly last year but despite this, more than two thirds of the Bank's assets are non-Iranian.

TOTAL BALANCE SHEET



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 continued to make progress in taking funds from the inter-bank market; and the objective remains to diversify further the Bank's funding sources. The growth in profitability and the increasing capital base enable the Bank to present a strong and healthy picture to the market and we anticipate further concerted 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. 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 from this year 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 saw very little fluctuation through the year resulting in 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 have been steady throughout the Bank's first four years as have the resulting profits. 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.

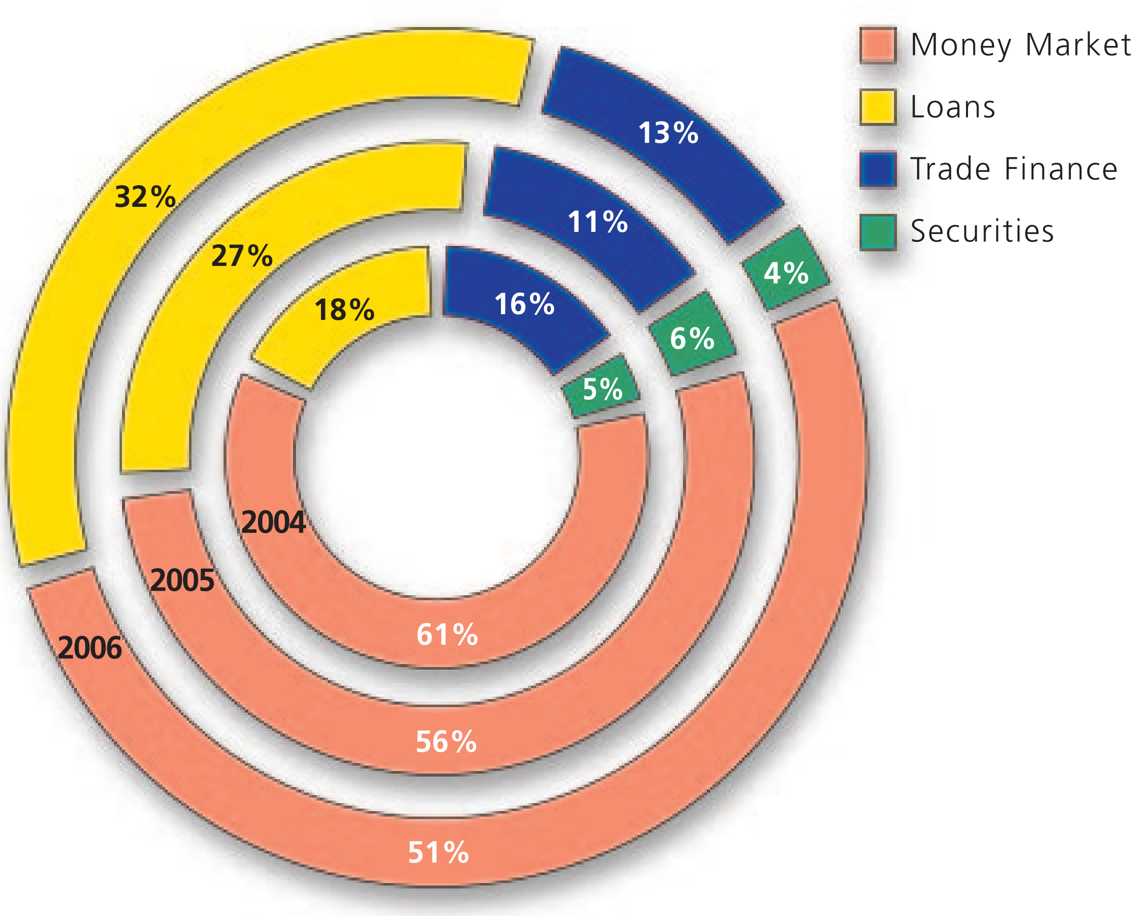
FINANCIAL REVIEW OF THE YEAR - continued

CAPITAL BASE & BALANCE SHEET

The capital base as at 31 March 2006 totalled US$189million. This includes the subordinated debt (40 year Eurobond issue) of Euros 46.5million, which was equivalent to US$56.4million at the year end, a 6.5% depreciation (due to exchange rates) from last year. The Board has recommended a dividend of US$15million but under the new accounting rules, dividends declared but not yet approved by the shareholders are not deducted from reserves. However, the capital base will be maintained at the year end level, US$189million through an increase of US$15million in share capital during the first quarter.

The balance sheet shows a 40% increase over the previous year end but this was due to a number of relatively short term transactions. The underlying business volumes increased by approximately 10% through the year in line with our 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.

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 to expand upon 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 platform for the Bank's future progress.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of Persia International Bank Plc, (the 'Company') and its subsidiaries (together the "Group") for the year ended 31 March 2006. Accounts have been prepared under International Financial Reporting Standards (IFRS) for the first time.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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 is trading with Iran. The Company has been trading for just four years and has seen steady progress through that period both in terms of business volumes and results. It opened its first overseas branch in Dubai (DIFC) in August 2005 which further expanded its trade finance capabilities.

The Company plans to continue growing at a similar pace to the last two years; this will include consideration of opening further overseas branches. The capital base is sufficient for the current and near-term business levels plus will be able to accommodate the changes resulting from the introduction of the Basel II regulations. The principal risk and uncertainty facing the Company comes from the world-wide debate surrounding Iran's development of nuclear power and possible United Nations sanctions. Even without these, a number of the large global banks are beginning to withdraw their services from Iran. This unhelpful development coupled with restrictions currently imposed by the USA regarding the use of the US Dollar are counter-productive.

RESULTS AND DIVIDENDS

The results for the year are set out in detail in the consolidated income statement on page 15. The profit attributable to shareholders for the financial year amounted to US$16,138,000, a 13% return on average shareholders' equity; (2005: $9,394,000, 8%); this has been transferred to reserves. The directors paid a dividend of US$10,000,000 in July 2005 (2004 - US$5,000,000), the final dividend in respect of the previous year. A dividend of US$15million was declared out of the profits for 2006 but as it was declared after the balance sheet date it has not been included as a creditor at 31 March 2006.

DIRECTORS

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

Chairman (Non-executive Director)	Dr. A. Divandari	appointed	17.02.06
	Mr. S. Manouchehri	resigned	17.02.06
Vice Chairman (Non-executive Director)	Mr. S.D. Zareh Eskandari	appointed	17.02.06
	Mr. S. A. Milani Hosseini	resigned	17.02.06
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		

DIRECTORS' REPORT - continued

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 2006 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 24.

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, see note 27.

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 2006 represents 25 days' (2005: 28 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
23-Jun-06

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRSs) and have also elected to prepare company financial statements in accordance with IFRSs.

Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulations.

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

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
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the company's assets, for the system of internal control, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

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

We have audited the group and parent company financial statements (the ‘financial statements’) of Persia International Bank Plc for the year ended 31 March 2006 which comprise the group income statement, the group and company balance sheets, the group cash flow statement, the group statement of recognised income and expenses and the related notes 1 to 33. 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 for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors’ report is consistent with the financial statements. We also 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 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 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 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.

INDEPENDENT AUDITORS' REPORT - continued

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the individual company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 31 March 2006;
- 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.

SEPARATE OPINION IN RELATION TO IFRS

As explained in Note 1 to the financial statements, the group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 March 2006 and of its profit for the year then ended.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London

Date 23 June 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Note	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
INTEREST RECEIVABLE AND SIMILAR INCOME			
Interest receivable and similar income arising from debt securities		2,877	2,596
Other interest receivable and similar income	2	46,655	29,575
		49,532	32,171
INTEREST EXPENSE AND SIMILAR CHARGES	3	(27,134)	(18,303)
NET INTEREST INCOME		22,398	13,868
Fees and commissions receivable		7,403	8,068
Fees and commissions payable		(85)	(77)
Other operating income	4	2,795	1,923
OPERATING INCOME		32,511	23,782
Administrative expenses	5	(9,019)	(8,658)
Depreciation and amortisation	13	(424)	(322)
Impairment losses on loans and receivables	8	-	(1,356)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		23,068	13,446
Tax on profit on ordinary activities	10	(6,930)	(4,052)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		16,138	9,394
Profit attributable to the equity shareholders of the parent		16,138	9,394

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 March 2006

	Note	Group 2006 US$000	Company 2006 US$000	Group 2005 US$000 Restated	Company 2005 US$000 Restated
ASSETS					
Cash and balances at Central banks		1,917	1,917	2,142	2,142
Loans and advances to banks	25	1,060,725	1,060,725	711,509	711,509
Loans and advances to customers	25	327,827	327,827	246,995	246,995
Debt securities	11	45,643	45,643	56,351	56,351
Investments in Group undertakings	12	-	-	-	-
Property, plant and equipment	13	702	702	585	585
Deferred tax asset	15	205	205	799	799
Derivative assets	24	695	695	-	-
Other assets	14	326	326	334	334
Prepayments and accrued income	16	288	288	528	528
TOTAL ASSETS		1,438,328	1,438,328	1,019,243	1,019,243
LIABILITIES					
Due to other banks	25	1,041,065	1,041,065	647,908	647,908
Customer accounts	25	202,206	202,206	189,696	189,696
Derivative liabilities	24	925	925	-	-
Other liabilities	17	4,965	4,965	4,901	4,901
Subordinated debt liabilities	18	56,375	56,375	60,448	60,448
		1,305,536	1,305,536	902,953	902,953
Called up share capital	19	115,000	115,000	105,000	105,000
Available for sale reserve	20	185	185	-	-
Retained earnings	20	17,607	17,607	11,290	11,290
TOTAL SHAREHOLDERS' EQUITY	20	132,792	132,792	116,290	116,290
TOTAL EQUITY AND LIABILITIES		1,438,328	1,438,328	1,019,243	1,019,243
MEMORANDUM ITEMS					
Contingent liabilities:					
Guarantees	26	79,983	79,983	3,912	3,912
Import LC's issued/confirmed	26	83,144	83,144	107,882	107,882
Commitments					
Other commitments	26	103,230	103,230	160,158	160,158

These financial statements were approved by the Board of Directors on 23 June 2006
Signed on behalf of the Board of Directors

Mr. M. Meskarian
Mr. A. Akhondi Asl

23 June

CONSOLIDATED AND COMPANY STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 March 2006

	Note	Group Year ended 31 March 2006 US$000	Company Year ended 31 March 2006 US$000	Group Year ended 31 March 2005 US$000	Company Year ended 31 March 2005 US$000
AVAILABLE FOR SALE INVESTMENTS					
Valuation losses taken to equity		(1,203)	(1,203)	-	-
Transferred to profit and loss on sale		-	-	-	-
TAX ON ITEMS TAKEN DIRECTLY TO EQUITY		361	361	-	-
NET EXPENSE RECOGNISED DIRECTLY IN EQUITY	20	(842)	(842)	-	-
PROFIT FOR THE YEAR		16,138	16,138	9,394	9,394
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		15,296	15,296	9,394	9,394
ATTRIBUTABLE TO:					
Equity holders of the parent		15,296	15,296	9,394	9,394
Minority interest		-	-		
EFFECTS OF CHANGES IN ACCOUNTING POLICY:					
Equity holders of the parent		1,206	1,206		
		16,502	16,502		

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2006

	Note	Group Year ended 31 March 2006 US$000	Company Year ended 31 March 2006 US$000	Group Year ended 31 March 2005 US$000	Company Year ended 31 March 2005 US$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit on ordinary activities before tax		23,068	23,068	13,446	13,446
Provisions for impairment		-	-	1,356	1,356
Depreciation and amortisation	13	424	424	322	322
Other non-cash movements		(962)	(962)	-	-
Interest on subordinated loan added back		1,829	1,829	1,912	1,912
Cash generated from operations		24,359	24,359	17,036	17,036
Taxation		(3,069)	(3,069)	(3,642)	(3,642)
CASH FLOWS FROM OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		21,290	21,290	13,394	13,394
Net (increase)/decrease in treasury and other bills		-	-	-	-
Net (increase)/decrease in amounts due from banks and loans to customers		(120,192)	(120,192)	48,537	48,537
Net decrease/(increase) in debt securities		10,708	10,708	(6,687)	(6,687)
Net (decrease) in derivative financial instruments		(784)	(784)	-	-
Net decrease in other assets		8	8	1,000	1,000
Decrease/(increase) in prepayments and accrued income	16	240	240	(2,503)	(2,503)
Increase in accruals and deferred income		-	-	1,147	1,147
Net (decrease)/increase in other liabilities		(3,402)	(3,402)	7,121	7,121
Foreign exchange differences		(4,036)	(4,036)	3,519	3,519
Net increase/(decrease) in other borrowed funds		405,667	405,667	(31,671)	(31,671)
Net cash flow from operating activities		309,499	309,499	33,857	33,857
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	13	(578)	(578)	(329)	(329)
Netcash from investing activities		(578)	(578)	(329)	(329)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subordinated loan		(1,806)	(1,806)	(1,917)	(1,917)
Issue of ordinary shares	20	10,000	10,000	5,000	5,000
Dividends paid	20	(10,000)	(10,000)	(5,000)	(5,000)
Net cash from financing activities		(1,806)	(1,806)	(1,917)	(1,917)
Net increase in cash and cash equivalents		307,115	307,115	31,611	31,611
Cash and cash equivalents at the beginning of the year		453,052	453,052	421,441	421,441
Cash and cash equivalents at the end of the year		760,167	760,167	453,052	453,052

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

	2006 US$000	2005 US$000
GROUP AND COMPANY		
Cash and balances with central banks	1,917	2,142
Amounts due from banks on demand (see note 25)	758,250	450,910
	760,167	453,052

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

1. ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts have been prepared under International Financial Reporting Standards (IFRS) for the first time. Further details are provided in note 32. Results for the comparative period are prepared on the same basis as those for 2006, except that advantage has been taken of the exemption in IFRS 1 not to restate the prior period information for the requirements of IAS 32 and IAS 39.

Balances previously shown separately within the balance sheet in Prepayments and accrued income and Accruals and deferred income have been reclassified into loans and deposits in the 2005 balance sheet to assist comparability with the current year. Loans and deposits include their corresponding accrued interest amounts, this being a requirement under IAS 39. The comparative figures for loans and deposits have therefore been restated accordingly (see note 32 - balance sheet reclassifications).

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

ASSETS	CLASSIFICATION
Loans and advances to banks and customers	Loans and receivables
Debt securities	Available for sale
Derivative assets	Fair value
LIABILITIES	
Due to other banks	Amortised cost
Customer accounts	Amortised cost
Derivative liabilities	Fair value
Subordinated debt	Amortised cost

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 income statement for the company. The company’s profit after tax for the financial year amounted to $16,138,000 (2005: $9,515,000).

INTEREST INCOME AND EXPENSE

Interest income 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 which are in the nature of interest are taken to the income statement over the period of the loan using the effective interest rate method over the expected life of the transaction to which they relate.

IMPAIRMENT OF FINANCIAL ASSETS

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of events that occurred after initial recognition of the financial asset.The amount of the loss is measured, for financial assets held at amortised cost and as available for sale, as the difference between the carrying amount of the asset and the discounted value of the revised estimated future cash flows, discounted at the asset's original effective interest rate.

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

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

1. ACCOUNTING POLICIES - continued

OPERATING LEASE RENTALS

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

PROPERTY PLANT AND EQUIPMENT

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 provision for impairment.

FINANCIAL ASSETS

Financial assets are classified into the following categories:

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

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

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

Available for sale financial assets are initially and subsequently measured at fair value, with changes in fair value recognised directly in equity, except for foreign exchange gains and losses, interest under the effective interest rate method and impairment that are recognised in the income statement.

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 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.

The Group 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 ended 31 March 2006

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Interest receivable from banks	26,624	19,430
Interest receivable from customers	20,027	10,121
Interest receivable from shareholders	2	21
Other interest income	2	3
	46,655	29,575

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Interest payable to banks	6,421	3,102
Interest payable to customers	3,887	2,838
Interest payable on deposits from shareholders	14,992	10,451
Interest payable on subordinated debt	1,834	1,912
	27,134	18,303

4. OTHER OPERATING INCOME

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Foreign exchange income	1,143	1,200
Derivative fair value movements	784	-
Other banking charges	868	723
	2,795	1,923

5. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Wages and salaries	4,873	4,332
Social security costs	529	488
Other pension costs	378	313
Other administrative expenses	3,239	3,525
	9,019	8,658

The average number of persons employed by the Group and the Bank, including executive directors, was 63 (2005: 55), of whom 7 (2005: nil) were employed outside the UK.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

6. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000 (as restated)
Emoluments	967	1,051

Of the above emoluments, US$367,309 (2005: US$336,679) 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 and group including executive directors, within each area of the business was:

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Banking operations	29	28
Trade finance	26	20
Administration	8	7
	63	55

8. IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	General US$'000	Specific US$'000	Total US$'000
GROUP AND COMPANY			
As at 31March 2005	2,566	22	2,588
Exchange adjustments	(51)	-	(51)
Impact of implementation of IAS 39 (note 32)	(2,515)	-	(2,515)
At 1 April 2005	-	22	22
Charge for the year	-	-	-
Amounts written off	-	(22)	(22)
Impairment allowance as at 31 March 2006	-	-	-

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Profit on ordinary activities before tax is after the following:		
Income	-	-
Income from listed investment securities	2,682	2,340
Expenses		
Auditors' remuneration		
- audit	106	86
- other services	37	123
Depreciation	424	322

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
(i) Analysis of tax charge on ordinary activities		
United Kingdom Corporation tax at 30% (2005 - 30%) based on the profit for the year.	6,962	4,486
Adjustment in respect of prior years	-	9
	6,962	4,495
Deferred tax		
- timing differences, origination and reversal (note 15)	(32)	(435)
- adjustment in respect of prior years	-	(8)
	6,930	4,052

(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.

Profit on ordinary activities before tax	23,068	13,446
Tax at 30% thereon	6,920	4,034
Effects of:		
Expenses not deductible for tax purposes	10	9
Capital allowances less than depreciation	32	9
	6,962	4,052

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

11. DEBT SECURITIES
GROUP AND COMPANY

	2006 US$000	2005 US$000
Issued by other than public bodies		
Investment securities		
- other debt securities	45,643	56,351
	45,643	56,351
Due within one year	11,912	20,719
Due one year and over	33,731	35,632
	45,643	56,351
Unamortised net discount on investment securities		90

DEBT SECURITIES	US$000
As at 1st April 2004	49,464
Acquisitions	11,903
Maturities	(7,166)
Amortised discount / premium	20
Exchange rate movement	2,130
At 31 March 2005	56,351

	2006	------------- 2005	-------------
	Market value US$000	Carrying value US$000	Market value US$000
DEBT SECURITIES			
- listed other than on a recognised UK exchange	36,032	46,959	48,426
- unlisted	9,611	9,392	9,392
	45,643	56,351	57,818

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

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

12. INVESTMENTS IN GROUP UNDERTAKINGS

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. PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Equipment fixtures and fittings 2006 US$000	Equipment fixtures and fittings 2005 US$000
COST		
At 1 April	2,486	2,207
Additions	578	318
Disposals	-	(101)
Exchange rate movement	(194)	62
At 31 March	2,870	2,486
DEPRECIATION		
At 1 April	1,901	1,629
Charge for the year	424	322
Disposals	-	(101)
Exchange rate movement	(157)	51
At 31 March	2,168	1,901
NET BOOK VALUE		
At 31 March	702	585

14. OTHER ASSETS

GROUP AND COMPANY

	2006 US$000	2005 US$000
Trade receivables	82	80
Staff loans	184	189
Amounts due from shareholders	60	65
	326	334

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

15. DEFERRED TAX ASSET AND ANALYSIS

Movement on deferred taxation balance in the year	Group and Company 2006 US$000	Group and Company 2005 US$000
At 31 March	799	356
Impact of implementation of IAS 39	(963)	-
At 1 April	(164)	356
Credit to income statement	32	443
Credit to equity re available for sale movement	361	-
Amortisation of deferred tax re IFRS implementation	(24)	-
At 31 March 2006	205	799
Analysis of deferred tax balance		
Short-term timing differences -	143	-
General provision for bad and doubtful debts	-	769
Capital allowances in excess of depreciation	62	30
As at 31 March and credited to income statement	205	799

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 2006.

16. PREPAYMENTS AND ACCRUED INCOME
GROUP AND COMPANY

	2006 US$000	2005 US$000
Prepayments	288	528
	288	528

17. OTHER LIABILITIES
GROUP AND COMPANY

	2006 US$000	2005 US$000
Corporation tax	3,443	2,376
Other liabilities	1,522	2,525
	4,965	4,901

18. SUBORDINATED DEBT LIABILITIES
GROUP AND COMPANY

	2006 US$000	2005 US$000
Dated loan capital	56,375	60,448
	56,375	60,448

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.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2006

19. CALLED UP SHARE CAPITAL

	2006 US$000	2005 US$000
AUTHORISED		
160,000,000 (2005 - 105,000,000) ordinary shares of US$1 each	160,000	105,000
ALLOTTED, CALLED UP AND FULLY PAID:		
115,000,000 (2005 - 105,000,000) ordinary shares of US$1 each	115,000	105,000

During the year, the company increased its authorised share capital by US$55,000,000 and issued 10,000,000 ordinary shares of US$1each at par for a consideration of US$10,000,000.

20. MOVEMENTS IN SHAREHOLDERS' FUNDS AND RESERVES

GROUP AND COMPANY	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
Other recognised gains and losses	-	-	(842)	(842)
Interim dividend paid	-	(10,000)	-	(10,000)
New share capital	10,000	-	-	10,000
Net additions	10,000	6,138	(842)	15,296
As at 31 March 2006	115,000	17,607	185	132,792

	Issued share capital US$000	Retained earnings Company US$000	Retained earnings Subsidiaries US$000	Retained earnings 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 under UK GAAP	105,000	1,290	-	1,290	106,290
2005 final dividend recognised in 2006 under IFRS	-	10,000	-	10,000	10,000
As at 31 March 2005 under IFRS	105,000	11,290	-	11,290	116,290

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

21. 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 2006 US$million	Year ended 31 March 2005 US$million
Europe	612	558
Middle East	522	359
Far East	250	94
Africa	5	8
South America	49	-
	1,438	1,019

22. INTEREST RATE GAP SENSITIVITY ANALYSIS

The following table provides the interest rate profile of the Group and 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 2006 GROUP AND COMPANY	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	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
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	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 ended 31 March 2006

23. NET CURRENCY POSITION ANALYSIS AND GEOGRAPHICAL CONCENTRATIONS

The following analysis gives details of the assets and liabilities of the Group and Company as at 31 March 2006 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 2006 GROUP AND COMPANY	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	1,009,878	368,060	59,875	515	1,438,328
Net assets / (liabilities)	(16,467)	(469)	(1,804)	18,740	
Off-balance sheet items					
Foreign exchange contracts	19,039			(18,563)	
Currency position at 31 March 2005	2,572	(469)	(1,804)	177	

The following table incorporates credit risk and geographic concentrations of assets, liabilities and off balance sheet items.

GROUP AND COMPANY 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 ended 31 March 2006

24. 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.

GROUP AND COMPANY	Book value 2006 US$000	Fair value 2006 US$000	Book value 2005 US$000	Fair value 2005 US$000
ASSETS				
Cash and balances at central banks	1,917	1,917	2,142	2,142
Loans and advances to banks	1,060,725	1,060,725	711,509	711,509
Loans and advances to customers	327,827	327,827	246,995	246,995
Debt securities	45,643	45,643	56,351	56,351
Derivative assets	695	695	-	74
Other financial assets	819	819	862	862
	1,437,626	1,437,626	1,017,859	1,017,933
LIABILITIES				
Deposits by banks	1,041,065	1,041,065	647,908	647,908
Deposits by customers	202,206	202,206	189,696	189,696
Derivative liabilities	925	925	-	2,082
Other financial liabilities	4,965	4,965	4,901	4,901
Subordinated debt liabilities	56,375	56,375	60,448	60,448
	1,305,536	1,305,536	902,953	905,035

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

GROUP AND COMPANY	Notional principal amount 31 March 2006 US$000	Fair value 2006 US$000	Notional principal amount 31 March 2005 US$000	Fair value 2005 US$000
INTEREST RATE DERIVATIVES				
Interest rate swaps	31,000	(925)	32,890	(1,596)
FOREIGN EXCHANGE DERIVATIVES				
Forward foreign exchange contracts	9,174	75	2,016	74
Foreign currency swaps	10,000	620	10,000	(486)
	50,174	(230)	44,906	(2,008)

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

25. MATURITY ANALYSIS

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

GROUP AND COMPANY As at 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 are repayable on demand or short notice and are classified as cash and cash equivalents for the purposes of the cash flow statement.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

25. MATURITY ANALYSIS - continued

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

GROUP AND COMPANY As at 31 March 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	No fixed maturity US$000	Total US$000
ASSETS						
Cash and balances at Central banks	2,142	-	-	-	-	2,142
Loans and advances to banks	574,550	122,882	14,077	-	-	711,509
Loans and advances to customers	22,095	76,166	149,261	2,061	(2,588)	246,995
Debt securities	7,494	10,829	38,028	-	-	56,351
Other assets	-	-	-	-	1,718	1,718
Prepayments and accrued income	-	-	-	-	528	528
TOTAL ASSETS	606,281	209,877	201,366	2,061	(342)	1,019,243
LIABILITIES						
Due to other banks	593,617	54,291	-	-	-	647,908
Customer accounts	147,966	41,730	-	-	-	189,696
Other liabilities	-	-	-	-	4,901	4,901
Accruals and deferred income	-	-	-	-	-	-
Subordinated debt liabilities	-	-	-	60,448	-	60,448
TOTAL LIABILITIES	741,583	96,021	-	60,448	4,901	902,953
NET LIQUIDITY GAP	(135,302)	113,856	201,366	(58,387)	(5,243)	116,290

Of the above loans and advances to banks, US$451million were repayable on demand or short notice, and are classified as cash and cash equivalents for the purposes of the cash flow statement.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

26. MEMORANDUM ITEM, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

GROUP AND COMPANY	As at 31 March 2006 US$000	As at 31 March 2005 US$000
CONTINGENT LIABILITIES		
Guarantees	79,983	3,912
Import LC's Issued/confirmed	83,144	107,882
	163,127	111,794
COMMITMENTS		
Credit lines and other commitments to lend		
- less than one year	31,179	65,081
- over one year	72,051	95,077
	266,357	271,952

	Notional principal amount 2006 US$000	Net replacement cost 2006 US$000	Notional principal amount 2005 US$000	Net replacement cost 2005 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	9,174	75	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	31,000	-	32,890	-
- less than one year	-	-	-	-
	50,174	75	44,906	74

All derivatives entered into are with banks.

Net replacement cost is defined as the cost of replacing all transactions with a positive value.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2006

27. 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 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 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 inadequate or failed internal processes, systems and personnel or from events external to the company. The Operational Risk 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.

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 marked to market through the income statement.

28. OPERATING LEASE COMMITMENTS

		2006 US$000	2005 US$000
Annual commitment under a non-cancellable operating lease for premises at 6 Lothbury.	Expiring after 5 years	631,620	-

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

29. 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%.

30. RELATED PARTIES

The Group 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 Bank's client services is discounting term LC's. A large number of discounts are LC's originally issued by the Company's shareholders. The Company's two subsidiaries are related parties; however, they were dormant throughout the year.
The totals outstanding at the year end were:

		Year ended 31 March 2006 US$000	Year ended 31 March 2005 US$000
Deposits	Bank Mellat	449,021	260,258
	Bank Tejarat	293,866	187,592
Bills discounted	Bank Mellat	26,620	20,787
	Bank Tejarat	28,009	8,745

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 related party expense was in respect of premises rental (see note 28). The remuneration of key management of the group and company is disclosed in note 6.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

31. FRS 13 COMPARATIVES

Information on risk management is given in note 27 for the current year. The Company has taken advantage of the exemption in IFRS 1 not to restate prior year comparatives. The information below is based on the UK GAAP requirements within FRS 13. Figures differ from the comparative balance sheet as they are prepared using UK GAAP.

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	589,424	57,717	66,510	-	-	-	713,651
Loans and advances to customers	222,670	24,230	95	-	-	-	246,995
Debt securities	10,037	37,596	6,124	2,594	-	-	56,351
Tangible fixed assets	-	-	-	-	-	585	585
Other assets	80	11	47	70	-	925	1,133
Prepayments and accrued income	-	-	-	-	-	528	528
TOTAL ASSETS	822,211	119,554	72,776	2,664	-	2,038	1,019,243
LIABILITIES							
Deposits by banks	643,617	788	3,503	-	-	-	647,908
Customer accounts	147,757	31,321	10,618	-	-	-	189,696
Subordinated liabilities	-	60,448	-	-	-	-	60,448
Other liabilities	-	-	-	-	-	4,901	4,901
Shareholders' funds	-	-	-	-	-	116,290	116,290
TOTAL LIABILITIES	791,374	92,557	14,121	-	-	121,191	1,019,243
Interest rate sensitivity gap	30,837	26,997	58,655	2,664	-	(119,153)	
Cumulative gap	30,837	57,834	116,489	119,153	119,153	-	

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

31. FRS 13 COMPARATIVES - continued

NET CURRENCY POSITION ANALYSIS

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	518,071	132,770	60,573	2,237	713,651
Loans and advances to customers	196,550	35,669	4,306	10,470	246,995
Debt securities	16,171	40,181	-	-	56,352
Tangible fixed assets	-	-	585	-	585
Other assets	758	105	270	-	1,133
Prepayments and accrued income	27	35	370	95	527
TOTAL ASSETS	731,577	208,760	66,104	12,802	1,019,243
LIABILITIES					
Deposits by banks	488,370	125,875	33,663	-	647,908
Customer accounts	137,344	21,193	31,159	-	189,696
Subordinated debt liabilities	-	60,448	-	-	60,448
Other liabilities	1,764	1,025	2,108	4	4,901
Shareholders' funds	116,290	-	-	-	116,290
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	

HEDGING

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 2006

32. TRANSITION TO IFRS

RECONCILIATION OF GROUP BALANCE SHEET AT 1 APRIL 2004 (DATE OF TRANSITION TO IFRS)

	Footnote	UK GAAP 1/4/04 US$000	Balance sheet reclass'n US$000	Other impacts of IFRS US$000	IFRS 1/4/04 US$000
ASSETS					
Cash and balances at Central banks		671	-	-	671
Loans and advances to banks		800,129	-	-	800,129
Loans and advances to customers		183,166	-	-	183,166
Debt securities		47,123	-	-	47,123
Property, plant and equipment		578	-	-	578
Deferred tax asset	1	-	356		356
Derivative assets		-	-	-	-
Other assets	1	2,133	(356)	-	1,777
Prepayments and accrued income		5,326	-	-	5,326
TOTAL ASSETS		1,039,126	-	-	1,039,126
LIABILITIES					
Due to other banks		665,317	-	-	665,317
Customer accounts		200,461	-	-	200,461
Derivative liabilities		-	-	-	-
Other liabilities	2	12,173	-	(5,000)	7,173
Accruals and deferred income		2,478	-	-	2,478
Subordinated debt liabilities		56,801	-	-	56,801
		937,230	-	(5,000)	932,230
Called up share capital		100,000	-	-	100,000
Retained earnings		1,896	-	5,000	6,896
TOTAL SHAREHOLDERS' EQUITY		101,896	-	5,000	106,896
TOTAL EQUITY AND LIABILITIES		1,039,126	-	-	1,039,126

Footnote

1. Deferred tax assets are now separately disclosed on the face of the balance sheet
2. IAS 10 requires that dividends are only accrued once they are approved and no longer at the discretion of the company. The adjustment relates to the reversal of the previously accrued final dividend in relation to 2004 that was not approved until after the financial year end.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

32. TRANSITION TO IFRS - CONTINUED

RECONCILIATION OF GROUP BALANCE SHEET AT 1 APRIL 2005 (DATE OF ADOPTION OF IAS 32 AND IAS 39)

	Footnote	IFRS (excluding IAS 32 and IAS 39) 01/04/05 US$000	Balance sheet reclass'n US$000	Fair Value adjustment US$000	Effective interest rate US$000	Impairment US$000	IFRS (including IAS 32 and IAS 39) 01/04/05 US$000
ASSETS							
Cash and balances at Central banks		2,142	-	-	-	-	2,142
Loans and advances to banks	1	707,989	3,481	-	-	-	711,470
Loans and advances to customers	1,3,4	245,755	1,240	-	(1,418)	2,515	248,092
Debt securities	1,2	53,810	2,541	1,467	-	-	57,818
Property, plant and equipment		585	-	-	-	-	585
Deferred tax asset	2,4	799	-	(194)	-	(769)	(164)
Derivative assets	1,2	-	113	117	-	-	230
Other assets		334	-	-	-	-	334
Prepayments and accrued income	1	7,829	(7,301)	-	-	-	528
TOTAL ASSETS		1,019,243	74	1,390	(1,418)	1,746	1,021,035
LIABILITIES							
Due to other banks	1	646,071	1,837	-	-	-	647,908
Customer accounts	1	188,036	1,660	-	-	-	189,696
Derivative liabilities	1,2	-	250	938	-	-	1,188
Other liabilities	1,3	4,901	(176)	-	(426)	-	4,299
Accruals and deferred income	1	3,625	(3,625)	-	-	-	-
Subordinated debt liabilities	1	60,320	128	-	-	-	60,448
		902,953	74	938	(426)	-	903,539
Called up share capital		105,000	-	-	-	-	105,000
Available for sale reserve	2,3	-	-	1,027	-	-	1,027
Retained earnings	2,3,4	11,290	-	(575)	(992)	1,746	11,469
TOTAL SHAREHOLDERS' EQUITY		116,290	-	452	(992)	1,746	117,496
TOTAL EQUITY AND LIABILITIES		1,019,243	-	1,390	(1,418)	1,746	1,021,035

Explanations for above table

1. Accrued interest receivable and payable on loans and deposits has been reclassified and included within the corresponding carrying values of assets and liabilities.
2. Under IAS 39 available for sale debt securities and derivative assets and liabilities are measured at fair value on balance sheet.
3. Under IAS 39 a loan arrangement fee which is effectively part of the loan yield is deferred and amortised in line with the effective interest rate method.
4. The Company previously maintained a general loan provision which does not meet the incurred loss impairment rules of IAS 39.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2006

32. TRANSITION TO IFRS - continued

RECONCILIATION OF PROFIT FOR THE YEAR ENDED 31 MARCH 2005

There were no changes to the income statement for the year ended 31 March 2005 as a result of adopting IFRS.

RECONCILIATION OF UK GAAP SHAREHOLDERS' EQUITY TO IFRS SHAREHOLDERS' EQUITY AT 31 MARCH 2005

	US$000
Reserves at 31 March 2005 under UK GAAP	1,290
2005 final dividend recognised in 2006 under IFRS	10,000
Reserves at 31 March 2005 under IFRS	11,290

COMPANY TRANSITION TO IFRS

Adjustments to the company only balance sheet, income statement and reserves are the same as the adjustments disclosed above for the group.

33. POST BALANCE SHEET EVENTS

The company's two dormant subsidiaries were struck off after the year end.
A final dividend of US$15,000,000 was approved by the shareholders on 21 June 2006.

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