



Persia

International Bank Plc

Report & **Accounts**
2002/03



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF GOD

Board of Directors

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

Company Secretary

J.M. Bottomley

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London SE1 9AE

CMS Cameron McKenna

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160 Aldersgate Street
London EC1A 4DD

Richards Butler

International Law Firm
15 St Botolph Street
London EC3A 7EE

Principal Bankers

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London EC3R 8BQ

HSBC Bank plc

Poultry & Princes Street
London EC2P 2BX

Barclays Bank plc

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London EC3P 3AH

Auditors

Deloitte & Touche

London

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Chairman's Statement

The major event during the financial year 2003 was the transfer of business to Persia International Bank Plc (the "Company") from the London branches of Bank Mellat, Iran and Bank Tejarat, Iran (see note 2). The transfer took place following the close of business on 26 April 2002, and thus the results for this financial year reflect eleven months of trading as a combined business.

The pre-tax profit for the year was US\$2,180,774; this is considerably less than our budget, principally because of an exceptional charge in respect of high setting up and associated costs, arising from the complexity of combining the two London Branch businesses. At the same time, interest rates for US\$, the currency of the Bank's capital, declined, and the market in which we operate had become very competitive.

The Board is not recommending the payment of a dividend.

The combining of two businesses inevitably creates tensions, as different cultures, policies, systems and staff are brought together and reconciled. Persia International has not been able to escape these tensions. Such amalgamations also tend to lead to some over-staffing, and some posts have been made redundant, and we have had to recruit some new staff with new skills, to meet regulatory and new business requirements. We have also had to invest some \$0.5m to up-grading our computer systems, in order to increase our efficiency, and to provide for the new business which we plan to develop.

It is a tribute to the determination of everyone involved to make the new Bank work, and work effectively, that we have emerged from those initial stresses soundly based, and well-equipped to develop and expand.

The Bank is well capitalised, with tier 1 capital of US\$100m, and tier 2 capital of EUR46.5m, the latter in the form of Floating Rate Notes redeemable in 2043, which are listed on the Luxembourg Stock Exchange. Our Weighted Risk Asset ratio is high at 35%, and liquidity is strong.

Our efficiency ratio (administrative and selling costs, excluding exceptional items, as a percentage of operating income) is now close to 50%, and we aim to reduce it further, although some of the new businesses which we are developing will require investment, which may delay the achievement of that target.

The Future

With the Company now established on a solid base, strongly capitalised and with up-to date skills, it is time to look forward. The Board has now set itself the task of building on this base, and generating an acceptable return for the shareholders. This means diversifying the sources of income, increasing the proportion of higher yielding assets without undue risk, and further developing fee – earning activities.

Much of our existing business is, naturally, derived from Iran and Iranian customers, and the main element is trade finance, in which we are strong. With the oil price relatively high and Iran's hard currency reserves robust, we intend, to the extent that our regulatory limits permit, to capitalise on our existing connections there and to develop new ones. This process has already started, and it is beginning to bear fruit.

It is also our objective to promote our shareholder banks in the UK and Europe, and to do everything we can to support them, and their customers, in their international activities.

We have started, on a small scale, to enter the field of project finance, where we see opportunities both in Iran and elsewhere in the Persian Gulf. Initially, we are marketing ourselves as participants in projects led by others, until we can build up the necessary expertise to play a leading role. This has involved visits to project leaders in Europe and the UK, who could be interested in our Iranian connections.

However, if we are to become very active in this field, we shall need to find sources of longer-term deposits. In due course, we plan to market the Bank direct to customers in the UK.

As part of the diversification of our business, we have been acquiring assets in the secondary markets, and intend to expand this activity, but on a selective basis, with the objective of getting close to the issuers, where these are non-banks. We are also establishing relationships with banks which are active in the primary markets, in order to increase the supply and variety of initial offerings available to us.

In short, the Bank aims to become the most customer-recommended Iranian bank operating in the London market. To this end, we are currently preparing our first four year strategic plan, which is designed to move us towards this target.

The results reported in these accounts and the establishment of the Bank over the past year would not have been possible without the hard work and co-operation of our staff in difficult circumstances, and the Board wishes to thank them for their dedication and commitment during this first trading period.

Likewise, the Board is very grateful for the support of our two shareholder Banks, in particular, for the steady stream of business which both Banks have directed, and continue to direct, to us from their Iranian and other branch networks, and for the deposits which they place with us.

Conditions in London and internationally are expected to remain very competitive, but the Board faces the future with confidence.

S Manouchehri
Chairman

25 June 2003

Director's Report

The directors present their report and the audited financial statements of Persia International Bank Plc, (the "Company" or the "Bank") and its subsidiaries (together the "Group") for the year ended 31 March 2003. The comparative figures are for the period from 16 May 2001 to 31 March 2002.

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 year 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 10. The profit attributable for the financial year amounted to US\$1,212,000; (2002: \$8,000, which was prior to the commencement of trading operations). The directors do not propose the payment of a dividend for the year (2002 - \$nil).

Directors

The directors who held office during the year were:

	<i>Appointed</i>
Chairman (Non-executive Director) Mr. S. Manouchehri	13 November 2001
Vice Chairman (Non-executive Director) Mr. S. A. Milani Hosseini	13 November 2001
Chief Executive Officer Mr. M. R. Meskarian	13 November 2001
Executive Director Mr. S. A. Tarassoli	16 May 2001
Executive Director Mr. Z. Ashtari	13 November 2001
Non-executive Director Mr. D. R. Curtis	13 November 2001
Non-executive Director Mr. G. Penny	13 November 2001

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 2003 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 to the Financial Statements.

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.

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 2003 represents 27 days' (2002: nil) 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 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.

Deloitte & Touche have informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

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

M Meskarian

Chief Executive Officer

25 June 2003

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 Company 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report To The Members Of Persia International Bank Plc

We have audited the consolidated financial statements of Persia International Bank Plc for the year ended 31 March 2003, which comprise the profit and loss account, the cash flow statement, the balance sheets and the related notes 1 to 31. The financial statements have been prepared in accordance with 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 is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 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 and Touche
Chartered Accountants and Registered Auditors
London

25 June 2003

Consolidated Profit and Loss Account

For the year ended 31 March 2003

	Note	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
INTEREST RECEIVABLE			
Interest receivable and similar income arising from debt securities		1,132	-
Other interest receivable and similar income	3	21,413	724
		<hr/>	<hr/>
		22,545	724
Interest payable	4	(15,657)	(671)
		<hr/>	<hr/>
NET INTEREST INCOME		6,888	53
Fees and commissions receivable		3,287	-
Fees and commissions payable		(914)	-
Other operating income	5	1,345	-
		<hr/>	<hr/>
OPERATING INCOME		10,606	53
Administrative expenses (including exceptional items)	6	(7,967)	(42)
Depreciation and amortisation		(69)	-
Provisions for bad and doubtful debts	9	(389)	-
		<hr/>	<hr/>
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	10	2,181	11
Tax on profit on ordinary activities	11	(969)	(3)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION RETAINED FOR THE YEAR/PERIOD	21	1,212	8
		<hr/>	<hr/>

All activities derive from continuing operations.

There are no recognised gains or losses in either the current year or prior period, other than the profit on ordinary activities after tax retained for the year/period. Accordingly, no statement of total recognised gains and losses is shown.

Consolidated and Company Balance Sheets

As at 31 March 2003

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	Note	Group 2003 US\$000	Company 2003 US\$000	Group 2002 US\$000	Company 2002 US\$000
ASSETS					
Cash and balances at banks		1,768	1,689	150,575	150,575
Loans and advances to banks	25	1,096,441	1,096,441	-	-
Loans and advances to customers	25	36,903	36,903	-	-
Debt securities	12	34,028	34,028	-	-
Shares in Group undertakings	13	-	-	-	-
Tangible fixed assets	14	236	236	-	-
Other assets	15	1,902	1,902	-	-
Prepayments and accrued income	16	5,631	5,631	149	149
TOTAL ASSETS		1,176,909	1,176,830	150,724	150,724
LIABILITIES					
Deposits by banks	25	893,396	893,396	-	-
Customer accounts	25	126,617	126,617	-	-
Other liabilities	17	2,659	2,596	45	45
Accruals and deferred income	18	2,323	2,323	671	671
Subordinated debt liabilities	19	50,694	50,694	50,000	50,000
		1,075,689	1,075,626	50,716	50,716
SHARE CAPITAL AND RESERVES					
Called up share capital	20	100,000	100,000	100,000	100,000
Profit and loss account	21	1,220	1,204	8	8
EQUITY SHAREHOLDERS' FUNDS	21	101,220	101,204	100,008	100,008
TOTAL LIABILITIES		1,176,909	1,176,830	150,724	150,724
MEMORANDUM ITEMS					
Contingent liabilities:					
Guarantees	27	11,767	11,767	-	-
Import LC's issued/confirmed		157,429	157,429	-	-
Commitments:					
Other commitments	27	96,489	96,489	-	-

These financial statements were approved by the Board of Directors on 25 June 2003.

Signed on behalf of the Board of Directors

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	Note	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Net cash inflow from operating activities	(i)	180,331	575
Interest paid on subordinated liabilities		(2,233)	-
Net cash inflow from returns on investments and servicing of finance		178,098	575
Taxation		-	-
UK corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of investment securities		(34,028)	-
Purchase of tangible fixed assets		(305)	-
Net cash outflow from capital expenditure and financial investment activities		(34,333)	-
Financing			
Issue of ordinary shares		-	100,000
Issue of subordinated debt		50,694	50,000
Repayment of subordinated debt		(50,000)	-
Net cash inflow from financing		694	150,000
Increase in cash	(ii)	144,459	150,575

Notes to the Cash Flow Statement

For the year ended 31 March 2003

(i) Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Operating profit	2,181	11
Increase in prepayments and accrued income	(5,482)	(149)
Increase in accruals and deferred income	1,652	671
Provision for bad and doubtful debt	389	-
Depreciation and amortisation	69	-
Interest on subordinated loan added back	1,562	-
	<hr/>	<hr/>
Net cash inflow from trading activities	371	533
Movement in loans and advances to banks and customers	(840,467)	-
Movement in deposits by banks and customers	1,020,013	-
Movement in other assets	(1,902)	-
Movement in other liabilities	2,316	42
	<hr/>	<hr/>
Net cash inflow from operating activities	180,331	575
	<hr/>	<hr/>

(ii) Analysis of the Balances of cash as shown in the balance sheet

	At 31 March 2002 US\$000	Cash Flow	At 31 March 2003 US\$000
Cash and balances at banks	150,575	(148,807)	1,768
Loans and advances to banks repayable on demand	-	293,266	293,266
	<hr/>	<hr/>	<hr/>
	150,575	144,459	295,034
	<hr/>	<hr/>	<hr/>

Notes to the Accounts

For the year ended 31 March 2003

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 13. 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 \$1,196,571 (2002: \$7,658)

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

Subsidiary undertakings

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

Deferred taxation

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 contributions 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

Financial instruments in the non-trading book, including loans and investment securities, are measured at accrued 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

Assets and liabilities denominated in foreign currencies are translated into US dollars at the exchange rates ruling at the balance sheet date. Other translation differences are recognised in the profit and loss account.

2. MATERIAL EVENTS – TRANSFER OF UK BRANCH BUSINESS OF BANK TEJARAT AND BANK MELLAT

These accounts have been prepared under the Group Reconstruction principles, as set out in Financial Reporting Standard No 6 (Acquisitions and Mergers), in relation to the transfer of substantially all the UK businesses of Bank Tejarat and Bank Mellat, London branches to Persia International Bank Plc after the close of business on 26 April 2002.

In accordance with FRS 6, the assets and liabilities of the two branches were transferred at their carrying amounts as at close of business on 26 April 2002. Comparatives have not been re-stated as if the acquired businesses had been part of the Group at the beginning of the year because in substance there has been an acquisition of trade and assets (rather than an acquisition of shares).

The transfer of assets and liabilities was carried out via two intermediary companies, Tejco Limited and Mellco Limited, who were 100% owned by Bank Tejarat and Bank Mellat Head Offices respectively. On 27 April 2002, Tejco and Mellco acquired substantially all of the business of the London branches of Bank Tejarat and Bank Mellat. The transfer of business was at net asset value, financed by interest free loans from Bank Tejarat and Bank Mellat Head Office. The consideration paid was a premium to net asset value of \$667 and \$1,000 respectively. On the same date, Persia International Bank Plc acquired the two companies through a share for share exchange (6 shares of \$1 were issued to Bank Mellat in exchange for the entire issued share capital of Mellco, 4 ordinary shares of \$1 were issued to Bank Tejarat in exchange for the entire issued share capital of Tejco). On 29 April 2002, the businesses transferred to Tejco and Mellco were hived up into Persia International Bank Plc. The consideration for the transfer of business from Tejco to PIB was net asset value plus a premium of \$14,000, whilst the consideration for the transfer of business from Mellco to PIB was net asset value plus a premium of \$20,000.

Notes to the Accounts

For the year ended 31 March 2003

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Interest receivable from banks	17,672	724
Interest receivable from customers	2,562	-
Interest receivable from parent companies	935	-
Other interest income	244	-
	<u>21,413</u>	<u>724</u>

4. INTEREST PAYABLE

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Interest payable to banks	4,860	-
Interest payable to customers	2,916	-
Interest payable on deposits from parent companies	6,195	-
Interest payable on subordinated debt	1,686	671
	<u>15,657</u>	<u>671</u>

5. OTHER OPERATING INCOME

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Foreign exchange income	842	-
Other banking charges	503	-
	<u>1,345</u>	<u>-</u>

6. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Wages and salaries	3,009	-
Social security costs	290	-
Other pension costs	226	-
Other administrative expenses	3,368	42
Exceptional costs	1,074	-
	<u>7,967</u>	<u>42</u>

The exceptional costs identified above are in respect of fees and other expenses incurred on the transfer of business from Bank Tejarat and Bank Mellat London branches.

7. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Emoluments	468	-

Of the above emoluments, \$131,733 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.

8. 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 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Banking operations	32	-
Trade finance	17	-
Administration	7	-
	56	-

9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	General US\$000	Year ended 31 March 2003 Specific US\$000	Total US\$000
Group and Company			
Provision brought forward	-	-	-
Amounts transferred on 29 April 2002	-	2,210	2,210
Charge for year	389	-	389
Amounts written off	-	(2,067)	(2,067)
Exchange adjustments	-	(135)	(135)
	389	8	397

Notes to the Accounts

For the year ended 31 March 2003

10. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after the following:

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Income		
Income from listed investment securities	853	-
Expenses		
Auditors' remuneration		
- audit	81	5
- other services	-	-
Depreciation	69	-
	<u> </u>	<u> </u>

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
(i) Analysis of tax charge on ordinary activities		
United Kingdom Corporation tax at 30% (2002 - 30%) based on the profit for the year/period	969	3
	<u> </u>	<u> </u>
Deferred tax	-	-
	<u> </u>	<u> </u>
	969	3
	<u> </u>	<u> </u>

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

	Year ended 31 March 2003 US\$000	Period from 16 May 2001 to 31 March 2002 US\$000
Profit on ordinary activities before tax	2,181	11
	<u> </u>	<u> </u>
Tax at 30% thereon	654	3
Effects of:		
Expenses not deductible for tax purposes	239	-
Capital allowances in excess of depreciation	(41)	-
Movement in provisions	117	-
	<u> </u>	<u> </u>
	969	3
	<u> </u>	<u> </u>

12. DEBT SECURITIES

	2003 US\$000	2002 US\$000
Group and Company		
Issued by public bodies		
Investment securities		
- government securities	-	-
- other public sector securities	-	-
Issued by other issuers		
Investment securities		
- bank and building society certificates of deposit	-	-
- other debt securities	34,028	-
	<u>34,028</u>	<u>-</u>
Due within one year	-	-
Due one year and over	34,028	-
	<u>34,028</u>	<u>-</u>
Unamortised discounts and premiums on investment securities	279	-
	<u>279</u>	<u>-</u>

	Cost US\$000	Amortised discount/ premium US\$000	Carrying value US\$000
Investment securities			
At beginning of year	-	-	-
Acquisitions	34,060	32	34,028
Maturities	-	-	-
	<u>34,060</u>	<u>32</u>	<u>34,028</u>
At 31 March 2003	34,060	32	34,028

	2003		2002	
	Balance sheet US\$000	Market value US\$000	Balance sheet US\$000	Market value US\$000
Investment securities				
- listed on a recognised UK exchange	-	-	-	-
- listed other than on a recognised UK exchange	28,572	30,093	-	-
- unlisted	5,456	5,456	-	-
	<u>34,028</u>	<u>35,549</u>	<u>-</u>	<u>-</u>

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 2003

13. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represents:

Subsidiary	Country of Registration	% of Equity	Principal Business Activity
Mellco Limited	England and Wales	100%	Non-trading company
Tejco Limited	England and Wales	100%	Non-trading company

14. TANGIBLE FIXED ASSETS

Group and Company	Equipment fixtures and fittings 2003 US\$000	Equipment fixtures and fittings 2002 US\$000
Cost		
At 1 April 2002	-	-
Amounts transferred in on 29 April 2002	1,157	-
Additions	216	-
	<hr/>	<hr/>
At 31 March 2003	1,373	-
	<hr/>	<hr/>
Depreciation		
At 1 April 2002	-	-
Amounts transferred in on 29 April 2002	1,068	-
Charge for the year	69	-
	<hr/>	<hr/>
At 31 March 2003	1,137	-
	<hr/>	<hr/>
Net Book Value		
At 31 March 2003	236	-
At 31 March 2002	-	-

15. OTHER ASSETS

	Group 2003 US\$000	Company 2003 US\$000	Group and Company 2002 US\$000
Trade debtors	500	500	-
Staff loans	204	204	-
Amounts due from shareholders	1,198	1,198	-
Deferred tax asset	-	-	-
	<hr/>	<hr/>	<hr/>
	1,902	1,902	-
	<hr/>	<hr/>	<hr/>

A deferred tax asset has not been recognised in respect of timing differences relating to the general provision for bad and doubtful debts and capital allowances, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is \$304,209 (2002 Nil).

16. PREPAYMENTS AND ACCRUED INCOME

Group and Company	2003 US\$000	2002 US\$000
Prepayments	671	-
Accrued interest receivable	4,960	149
	<u>5,631</u>	<u>149</u>

17. OTHER LIABILITIES

	Group 2003 US\$000	Company 2003 US\$000	Group and Company 2002 US\$000
Corporation tax	969	935	3
Other liabilities	1,690	1,661	42
	<u>2,659</u>	<u>2,596</u>	<u>45</u>

18. ACCRUALS AND DEFERRED INCOME

Group and Company	2003 US\$000	2002 US\$000
Accrued interest payable	2,323	671
	<u>2,323</u>	<u>671</u>

19. SUBORDINATED DEBT LIABILITIES

Group and Company	2003 US\$000	2002 US\$000
Dated loan capital	50,694	50,000
	<u>50,694</u>	<u>50,000</u>

During the year, the Bank repaid subordinated loans from the Head Offices of Bank Tejarat (\$20m) and Bank Mellat (\$30m). New funding was acquired through the issue of Euro 46.5m subordinated floating rate notes which were subscribed for by Bank Mellat and Bank Tejarat in the ratio 60:40. 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.

Notes to the Accounts

For the year ended 31 March 2003

20. CALLED UP SHARE CAPITAL

	2003 US\$000	2002 US\$000
Authorised		
100,001,000 (2002 - 100,000,000) ordinary shares of \$1 each	100,001	100,000
Allotted, called up and fully paid:		
100,000,010 (2002 - 100,000,000) ordinary shares of \$1 each	100,000	100,000

During the year, the Company increased its authorised share capital by 1,000 ordinary shares of \$1 each, and issued 10 new ordinary shares of \$1 each in exchange for the entire issued share capital of its subsidiaries Tejco Limited (total issued share capital £1) and Mellco Limited (total issued share capital £1) - see note 2.

21. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS IN RESERVES

	Issued share capital US\$000	Profit and loss account US\$000	2003 Total US\$000
As at 1 April 2002	100,000	8	100,008
Issued share capital during the year (\$10)	-	-	-
Profit attributable to the members of the Company	-	1,212	1,212
As at 31 March 2003	100,000	1,220	101,220

22. SEGMENTAL INFORMATION

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

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

The following assets and liabilities of the Group are held in the non-trading book. They are analysed in time bands according to the earlier of the period to the next interest rate pricing date or the maturity date, taking into account the effects of derivatives whose effect is to alter the interest basis of an asset or liability.

As at 31 March 2003

	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	1,074,056	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 2003

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

As at 31 March 2002

	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	150,575	-	-	-	-	-	150,575
Prepayments and accrued income	-	-	-	-	-	149	149
Total assets	150,575	-	-	-	-	149	150,724
Liabilities							
Other liabilities	-	-	-	-	-	45	45
Accruals and deferred income	-	-	-	-	-	671	671
Subordinated liabilities	-	50,000	-	-	-	-	50,000
Shareholders' funds	-	-	-	-	-	100,008	100,008
Total liabilities	-	50,000	-	-	-	100,724	150,724
Off balance sheet items							
Interest rate sensitivity gap	150,575	(50,000)	-	-	-	(100,575)	-
Cumulative gap	150,575	100,575	100,575	100,575	100,575	-	-

24. NET CURRENCY POSITION ANALYSIS

The following analysis gives details of the assets and liabilities of the Group and Company as at 31 March 2003 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 2003

	US dollar US\$000	Euro US\$000	Sterling US\$000	Other Currencies US\$000	Total US\$000
Assets					
Loans and advances to banks	966,768	54,718	75,753	972	1,098,211
Loans and advances to customers	36,893	-	10	-	36,903
Debt securities	4,900	29,128	-	-	34,028
Tangible fixed assets	-	-	235	-	235
Other assets	128	-	1,773	-	1,901
Prepayments and accrued income	3,137	997	1,454	43	5,631
Total assets	1,011,826	84,843	79,225	1,015	1,176,909
Liabilities					
Deposits by banks	817,339	29,843	46,214	-	893,396
Customer accounts	91,845	4,092	30,680	-	126,617
Subordinated debt liabilities	-	50,694	-	-	50,694
Other liabilities	260	12	2,387	-	2,659
Accruals and deferred income	1,232	520	571	-	2,323
Shareholders' funds	100,000	-	1,220	-	101,220
Total liabilities	1,010,676	85,161	81,072	-	1,176,909
Net assets	1,150	(318)	(1,847)	1,015	-
Off balance sheet items	(686)	-	-	738	-
Foreign exchange contracts	-	-	-	-	-
Currency position at 31 March 2003	464	(318)	(1,847)	1,753	-

All operations are based in London and the reporting currency is US dollars. Accordingly a structural currency analysis has not been provided. The only difference between the above analysis for the Group and the net currency position analysis for the Company is due to \$78,902 of cash balances held within Tejco and Melco.

Notes to the Accounts

For the year ended 31 March 2003

24. NET CURRENCY POSITION ANALYSIS (continued)

As at 31 March 2003

	US dollar US\$000	Euro US\$000	Sterling US\$000	Other Currencies US\$000	Total US\$000
Assets					
Loans and advances to banks	150,575	-	-	-	150,575
Prepayments and accrued income	149	-	-	-	149
Total assets	150,724	-	-	-	150,724
Liabilities					
Other liabilities	-	-	45	-	45
Accruals and deferred income	671	-	-	-	671
Shareholders' funds	150,008	-	-	-	150,008
Total liabilities	150,679	-	45	-	150,724
Net assets	45	-	(45)	-	-
Off balance sheet items					
Currency position at 31 March 2002	45	-	(45)	-	-

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 2003 US\$000	Fair value 2003 US\$000	Book value 2002 US\$000	Fair value 2002 US\$000
Assets				
Loans and advances to banks	1,096,441	1,096,441	150,575	150,575
Loans and advances to customers	36,903	36,903	-	-
Debt securities	34,028	34,028	-	-
	<u>1,167,372</u>	<u>1,167,372</u>	<u>150,575</u>	<u>150,575</u>
Liabilities				
Deposits by banks	893,396	893,396	-	-
Deposits by customers	126,617	126,617	-	-
	<u>1,020,013</u>	<u>1,020,013</u>	<u>-</u>	<u>-</u>
Interest rate derivatives				
Interest rate swaps	23,439	(965)	-	-
Foreign exchange derivatives				
Forward foreign exchange contracts	686	(59)	-	-
	<u>24,125</u>	<u>(1,024)</u>	<u>-</u>	<u>-</u>

Notes to the Accounts

For the year ended 31 March 2003

26. MATURITY ANALYSIS

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

2003	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	1,040,386	47,531	10,501	-	(209)	1,098,209
Loans and advances to customers	20,004	7,237	9,781	-	(120)	36,902
Debt securities	-	-	23,785	10,313	(70)	34,028
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Of the above loans and advances to banks, \$293m are repayable on demand or short notice.

Liabilities						
Deposits by banks	128,697	764,699	-	-	-	893,396
Customer accounts	38,392	88,224	-	-	-	126,617
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

2002	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
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Assets						
Loans and advances to banks	150,575	-	-	-	-	150,575
Loans and advances to customers	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Of the above loans and advances to banks, all were repayable on demand or short notice.

Liabilities						
Deposits by banks	-	-	-	-	-	-
Customer accounts	-	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

2003	As at 31 March 2003 US\$000	As at 31 March 2002 US\$000
Assets		
Loans and advances to banks	890	-
Liabilities		
Deposits by banks	753,933	-

27. MEMORANDUM ITEM, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

Group and Company	As at 31 March 2003 US\$000	As at 31 March 2002 US\$000
Contingent Liabilities		
Guarantees	11,767	-
Import LC's issued/confirmed	157,429	-
	<hr/>	<hr/>
	169,196	-
Commitments		
Other commitments:		
Credit lines and other commitments to lend		
- less than one year	45,655	-
- over one year	50,834	-
	<hr/>	<hr/>
	265,685	-
	<hr/>	<hr/>

	Notional principal amount 2003 US\$000	Net replacement cost 2003 US\$000	Notional principal amount 2002 US\$000	Net replacement cost 2002 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	-	-	-	-
- less than one year	686	-	-	-
Interest rate contracts with financial institutions held for non-trading purposes				
- over five years	-	-	-	-
- five years or less but over one year	13,082	-	-	-
- less than one year	10,357	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	24,125	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

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.

Notes to the Accounts

For the year ended 31 March 2003

28. RISK MANAGEMENT

In transacting its normal business the Company is exposed to the following risks: liquidity risk, credit risk, operational risk and market risk. Overall responsibility for managing these risks is delegated by the Company's Board to its Assets 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 the senior management team 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. This 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 instrument, 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.

29. OPERATING LEASE COMMITMENTS

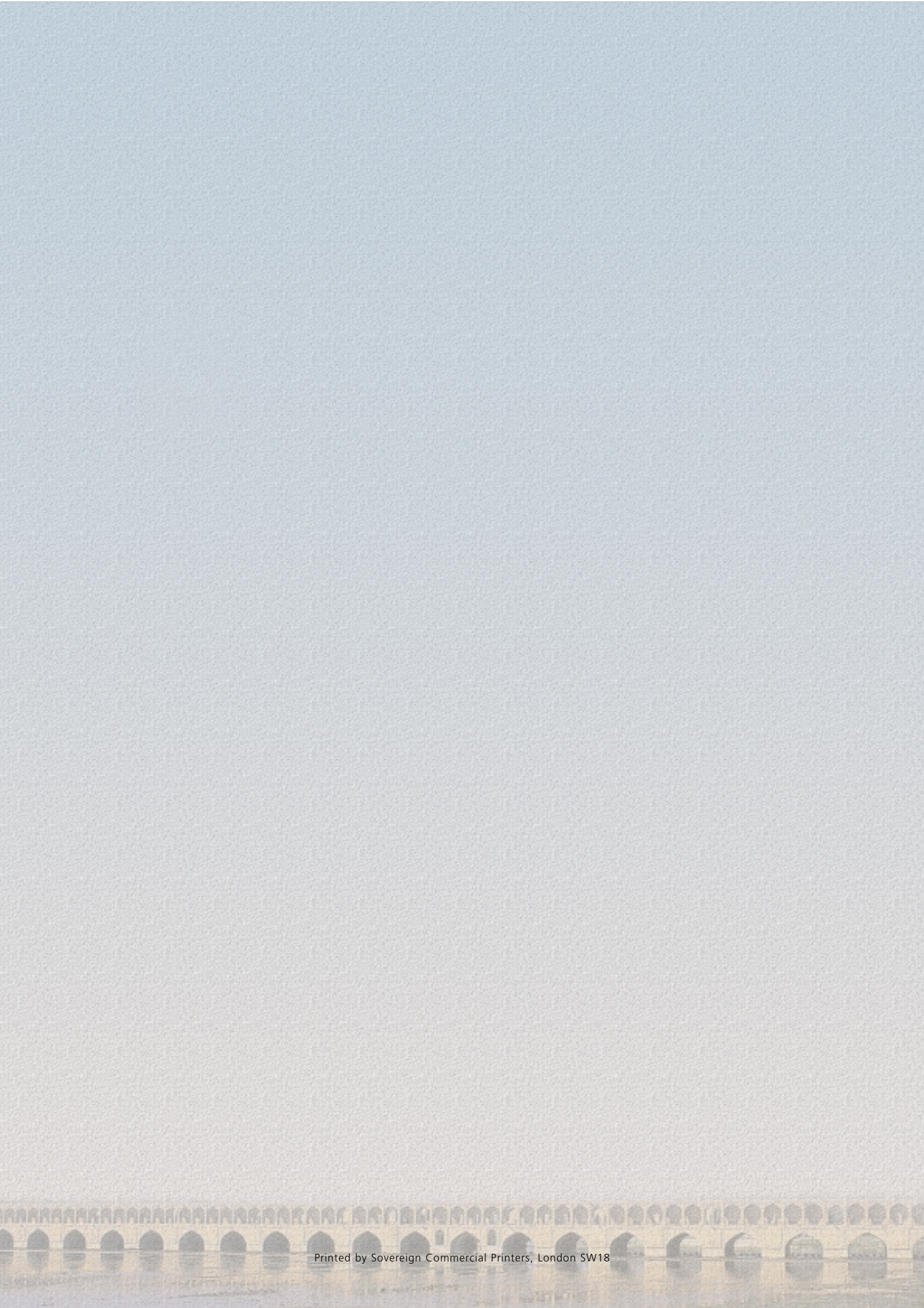
	2003 US\$000	2002 US\$000
Annual commitment under a non-cancellable operating lease for premises at 6 Lothbury	948	-

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 the 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.

31. RELATED PARTIES

Transactions during the year and balances due to or from these related parties as at 31 March 2003 have been separately analysed as appropriate in the notes to the accounts. All transactions with related parties are carried out on an arm's length basis.





Persia International Bank

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