Persia
International Bank Plc

Report & Accounts

2003/2004

Persia
International Bank Plc

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بسم الله الرحمن الرحیم

In the Name of God

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S. Manouchehri, Chairman
S. A. Milani Hosseini, Vice-Chairman
M. R. Meskarian, Chief Executive Officer
S. Tarassoli, 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

The financial year 2003/04 was the second year of operation for the Bank, it having commenced trading on 29 April 2002. I am very pleased with the Bank's rapid progress in such a short period and the pre-tax profit of US$8,094,000 for the year illustrates how successful it has been.

The Board is recommending a dividend of US$5million.

The Bank is well capitalised, with tier 1 capital of US$102million, and tier 2 capital of Euro46.5million. Our shareholders will subscribe for 5million new shares this year which will take our tier 1 capital to US$107million, further supporting our growth strategy.

The Future

With the Bank now firmly established, strongly capitalised and with up-to-date skills, we can continue to look forward. The Board will carry on building its core businesses and optimising the balance sheet composition and capital usage. Having already generated a return for the shareholders ahead of their expectations we aim to increase this significantly in the next few years. This underlines the following objectives :

- further diversification of our sources of income, both geographically and by industry
- increase the proportion of higher yielding assets without incurring undue risk
- continued expansion of our fee-earning activities.

Much of our existing business is, naturally, derived from Iran and Iranian customers, and the main element is trade finance, where we are very strong. The oil price looks set to stay relatively high and with Iran's hard currency reserves improving, we can, to the extent that our regulatory limits permit, capitalise on our existing connections there and develop new ones. This process was started last year and has gained some momentum, as evidenced in the results.

We intend to increase our marketing of the Bank in the UK, both direct to prospective customers and to establish ourselves in the inter-bank market. These are the next logical steps in the bank's development and last year's excellent result leads me to think we can advance our original plan.

We have prepared our first four year strategic plan which was challenging and reinforced our objectives above. This is a rolling plan and will be revised annually. We are already starting to consider the next revision following the success of last year.

The results reported in these accounts would not have been possible without the hard work and co-operation of our staff in sometimes difficult circumstances, and the Board wishes to thank them for keeping up their dedication and commitment which has been evidenced since the commencement of the Bank's business.

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 will remain very competitive, but the Board faces the future with confidence.

S Manouchehri
Chairman

June 2004

Financial Review of the Year

Results

Profit on ordinary activities before tax was US$8.1million compared with US$2.2million in 2002/03. This was only the Bank's second year of operations and the results exceeded what was a challenging budget.

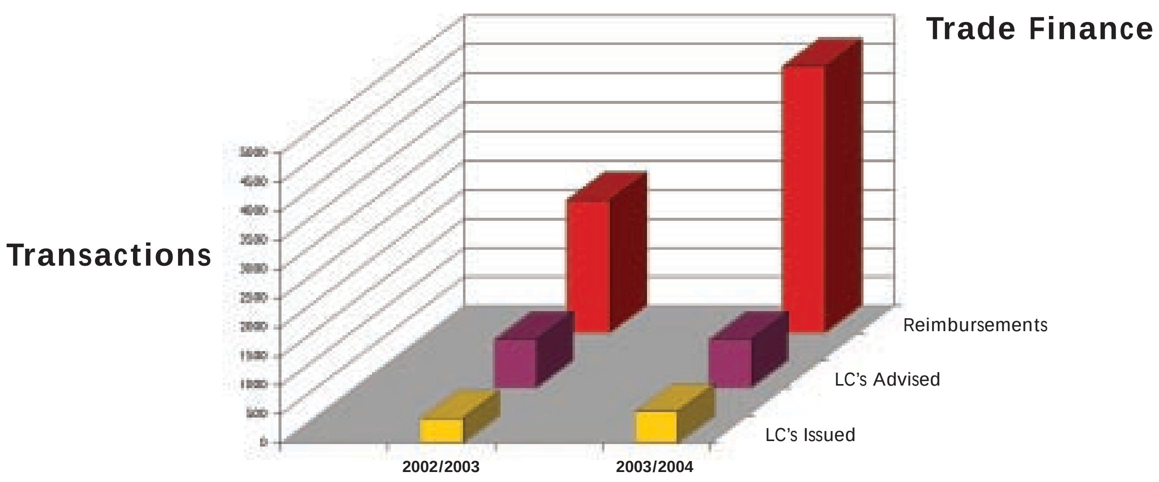
The operating profit in 2003/04 was adversely impacted by the weakness of the US dollar which increased the US dollar value of the Bank's overhead expenses. The average exchange rate was US$1.70 compared with US$1.52 the previous year, resulting in a 12% increase, equivalent to US$850,000, in expenses. The previous year's expenses included the significant set up costs related to merging the two London branches and establishing the new bank. The increased revenues reduced the cost income ratio to 49%.

Net interest income was up 12.5% despite lower market interest rates; this was largely due to the significantly increased customer lending. After a relatively quiet first year the bank made considerable progress in building its credit portfolios.

Fees and commissions were more than double those of the previous year and foreign exchange earnings also showed a healthy increase.

Trade Finance

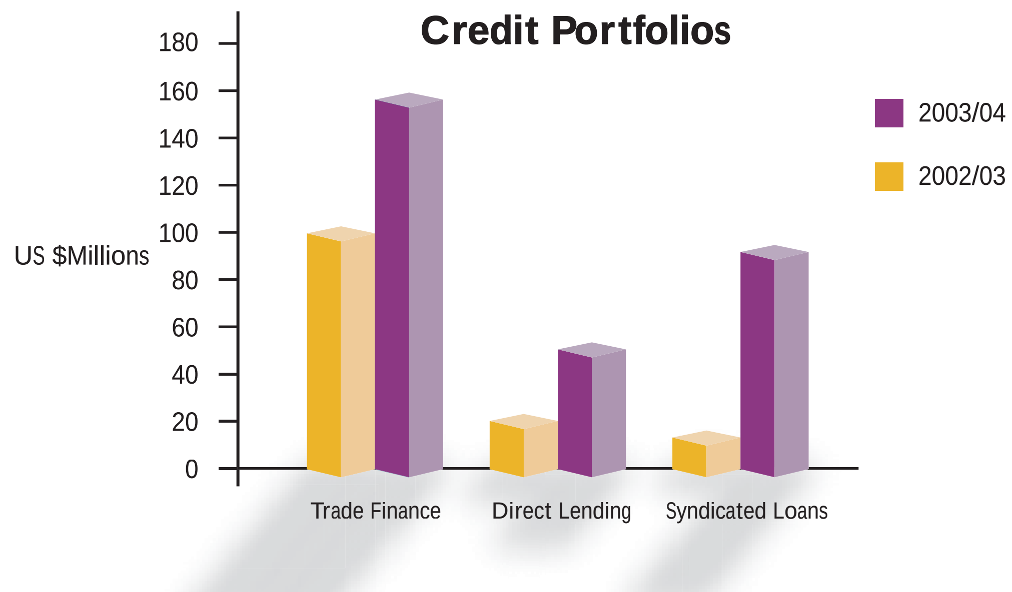
2003/04 was a very good year for the trade finance team. The business volumes climbed steadily during the first half of the year before levelling out in the fourth quarter. All the services in respect of letters of credit experienced strong demand. Letters of credit advised and negotiated were steady throughout. Reimbursement transaction numbers, where the biggest issuer is the Bank's majority shareholder Bank Mellat, grew significantly in the first half and remained high through to the end of the year. Fees from letters of credit issued were particularly good during the middle months of the year but credit limit constraints and market conditions resulted in a quiet fourth quarter.



The demand for short term financing was extremely strong and facilities doubled from the start of year levels. This was one of the two main contributors to the increased net interest income.

Lending

The loan portfolios increased by US$146million in the year to US$183million. One of the cornerstones of the Bank's strategy for its early years was to establish a quality loan portfolio. This has produced a significant continuing income stream which will continue to grow during the next few years and has also allowed the bank to diversify its geographical risk profile outside of its parent banks' home country of Iran.



The loans range from one year facilities through to eight years and so there is already a need for replacement business in addition to the further growth planned. The credit department was expanded during the year in order to build the commercial loan portfolios and also assist with the increasing number of trade finance facilities. The Bank's portfolios are currently split roughly 60% / 40% between (primary) market syndicated loans and term lending to relationship customers. The loans are entered into only after rigorous credit analysis and examination. So far there have been no problem loans and the P&L provision charge results from the policy decision to maintain a general provision. The specific provision charge relates to a few small pre-merger exposures.

Treasury

The Bank continued to obtain its funding from its parents, the Central Bank of Iran and its customers. Due to its very young age, the Bank has not yet tried to access the inter-bank market; however, this remains an objective and the strong results and capital base will support any approaches made.

The Bank does not invest its capital in a separately designated asset portfolio; the capital funds are included within the total funding pool. Interest rate risk is kept to an absolute minimum with the interest rate fixing periods for those assets not funded by capital being matched by the corresponding liability funding. All fixed rate assets are hedged using interest rate swaps to produce floating rate income streams.

Foreign exchange earnings all resulted from customer related business which was up over 50% compared to the previous year. The Bank does not take or hold any proprietary trading positions.

Customer Services

The Bank offers a comprehensive banking service both to its customers and to banks in Iran. This is a highly people intensive business where the requirements have been increased by the need to monitor for and prevent money laundering and other financial crimes. Transaction volumes increased through 2003/04 giving rise to correspondingly higher revenues. This reflects the Bank's policy of providing a high quality service to its customers.

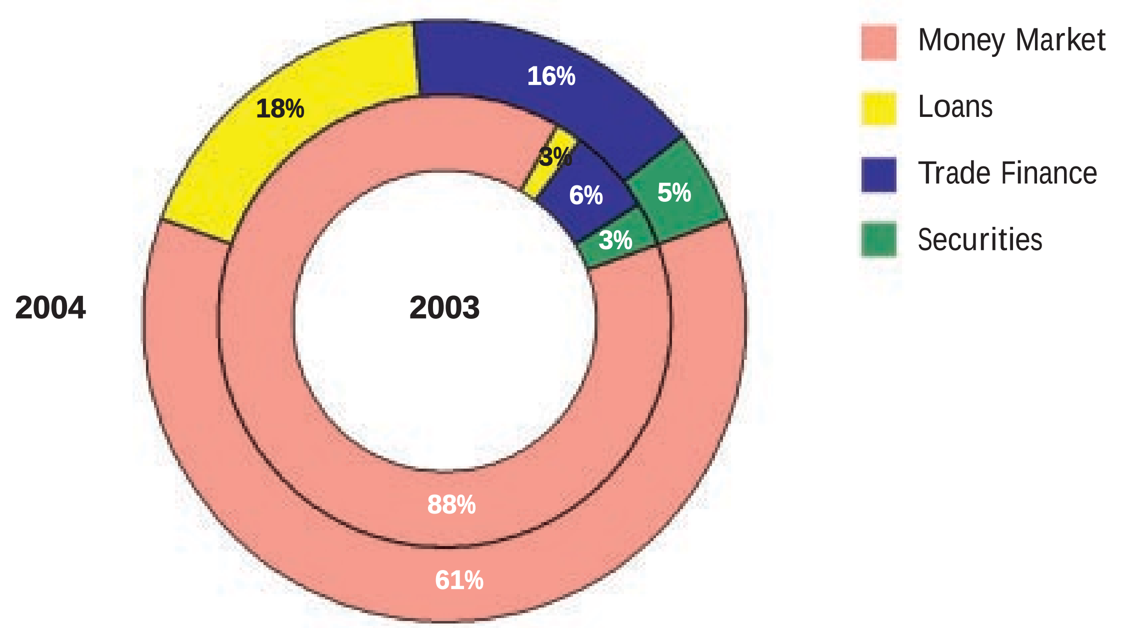
Capital Base

The capital base as at 31 March 2004 totalled US$158.7million. This includes the subordinated debt of Euro46.5million, which due to the strength of the Euro against the US dollar was equivalent to US$56.8million at the year end, a 12% appreciation.

The balance sheet total was lower than the previous year, down 12% or US$138million at US$1,039million. The Bank's asset profile moved more into line with its balance sheet strategy and the objective of employing its capital more efficiently. Money market placements with banks (not including trade finance facilities which were up US$75million) were lower by US$375million.

Financial Review of the Year

Balance Sheet Structure



Customer loans and debt securities were higher by US$159million. The Bank continued to maintain a strong liquidity ratio. Its capital adequacy ratio reduced from last year's 50% to 39% as at 31 March 2004, but this is still well in excess of the minimum requirements and will reduce further as capital usage is optimised.

The general loan loss reserve was increased to 2/3% of loans excluding all interbank exposures and any exposures less than one year to non-private Iranian banks. This produced a charge of US$753,000 to the P&L account. The general provision will be built up to 1% by 31 March 2005.

Directors' 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 2004.

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 two years of operations and the Directors are confident of continued steady progress.

Results and Dividends

The results for the year are set out in detail in the consolidated profit and loss account on page 11. The profit attributable to shareholders for the financial year amounted to US$5,676,000; (2003: $1,212,000). The directors propose to pay a dividend of US$5,000,000 for the year (2003 - $nil), leaving a balance of US$676,000 to be transferred to reserves.

Directors

The directors who held office during the year were:

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

Directors' Shareholdings and Interests in Contracts

None of the directors of the Company who held office at the end of the financial year had an interest in the share capital of the Company or any UK group company at any point during the year. No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Company. There have been no changes in directors' interests from 31 March 2004 to the date of this report.

Financial Instruments

With the objective of hedging exposures to interest rate risk and exchange rate risk the Company enters into derivative contracts such as forward foreign exchange contracts and interest rate swaps. All financial instruments, as at the balance sheet date, are held in the banking book. Details of the contracts open at the balance sheet date are provided in note 25 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 2004 represents 27 days' (2003: 27 days) average daily purchases of goods and services received from such creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Auditors

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1st August 2003 under the provisions of Section 26(5) of the Companies Act 1989. 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

28 June 2004

Statement of Directors' Responsibilities

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

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

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

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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 2004, which comprise the profit and loss account, the balance sheets, the cash flow statement, the notes to the cash flow statement 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 and other members of the Group is not disclosed.

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

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 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 LLP
Chartered Accountants and Registered Auditors
London

28 June 2004

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Note	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
INTEREST RECEIVABLE			
Interest receivable and similar income arising from debt securities		2,312	1,132
Other interest receivable and similar income	2	19,069	21,413
		21,381	22,545
Interest payable	3	(13,626)	(15,657)
NET INTEREST INCOME		7,755	6,888
Fees and commissions receivable		7,760	3,287
Fees and commissions payable		(151)	(914)
Other operating income	4	1,945	1,345
OPERATING INCOME		17,309	10,606
Administrative expenses (including exceptional items)	5	(8,134)	(7,967)
Depreciation and amortisation	13	(312)	(69)
Provisions for bad and doubtful debts	8	(769)	(389)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	9	8,094	2,181
Tax on profit on ordinary activities	10	(2,418)	(969)
PROFIT FOR THE FINANCIAL YEAR	21	5,676	1,212
Dividend	21	(5,000)	-
PROFIT RETAINED FOR THE FINANCIAL YEAR		676	1,212

All activities derive from continuing operations.

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

Consolidated and Company Balance Sheets

As at 31 March 2004

	Note	Group 2004 US$000	Company 2004 US$000	Group 2003 US$000	Company 2003 US$000
ASSETS					
Cash and balances at Central banks		671	671	1,768	1,689
Loans and advances to banks	26	800,129	800,129	1,096,441	1,096,441
Loans and advances to customers	26	183,166	183,166	36,903	36,903
Debt securities	11	47,123	47,123	34,028	34,028
Shares in Group undertakings	12	-	-	-	-
Tangible fixed assets	13	578	578	236	236
Other assets	14	2,133	2,133	1,902	1,902
Prepayments and accrued income	16	5,326	5,326	5,631	5,631
TOTAL ASSETS		1,039,126	1,039,126	1,176,909	1,176,830
LIABILITIES					
Deposits by banks	26	665,317	665,317	893,396	893,396
Customer accounts	26	200,461	200,461	126,617	126,617
Other liabilities	17	12,173	12,295	2,659	2,596
Accruals and deferred income	18	2,478	2,478	2,323	2,323
Subordinated debt liabilities	19	56,801	56,801	50,694	50,694
		937,230	937,352	1,075,689	1,075,626
SHARE CAPITAL AND RESERVES					
Called up share capital	20	100,000	100,000	100,000	100,000
Profit and loss account		1,896	1,774	1,220	1,204
EQUITY SHAREHOLDERS' FUNDS	21	101,896	101,774	101,220	101,204
TOTAL LIABILITIES		1,039,126	1,039,126	1,176,909	1,176,830
MEMORANDUM ITEMS					
Contingent liabilities:					
Guarantees	27	4,008	4,008	11,767	11,767
Import LC's issued/confirmed		141,029	141,029	157,429	157,429
Commitments:					
Other commitments	27	172,936	172,936	96,489	96,489

These financial statements were approved by the Board of Directors on 28 June 2004.

Signed on behalf of the Board of Directors

28 June 2004

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Note		Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Net cash inflow from operating activities	(i)		153,889	180,331
Returns on investments and servicing finance				
Interest paid on subordinated liabilities			(1,569)	(2,233)
Taxation				
UK corporation tax paid			(2,366)	-
Capital expenditure and financial investment				
Purchase of investment securities		(13,095)		(34,028)
Purchase of tangible fixed assets		(654)		(305)
Net cash outflow from capital expenditure and financial investment activities			(13,749)	(34,333)
Financing				
Issue of ordinary shares			-	-
Issue of subordinated debt			-	50,694
Repayment of subordinated debt			-	(50,000)
Net cash inflow from financing			-	694
Increase in cash	(ii)		136,205	144,459

Notes to the Cash Flow Statement

For the year ended 31 March 2004

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

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Operating profit	8,094	2,181
Decrease / (Increase) in prepayments and accrued income	305	(5,482)
Increase in accruals and deferred income	155	1,652
Provision for bad and doubtful debt	769	389
Depreciation and amortisation	312	69
Interest on subordinated loan added back	1,557	1,562
Net cash inflow from trading activities	11,192	371
Movement in loans and advances to banks and customers	286,582	(840,467)
Movement in deposits by banks and customers	(154,235)	1,020,013
Movement in other assets	125	(1,902)
Movement in other liabilities	4,118	2,316
Foreign exchange difference on subordinated debt	6,107	-
Net cash inflow from operating activities	153,889	180,331

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

	At 31 March 2003 US$000	Cash Flow	At 31 March 2004 US$000
Cash and balances at central banks	1,768	(1,097)	671
Loans and advances to banks repayable on demand	293,266	137,302	430,568
	295,034	136,205	431,239

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

	At 31 March 2003 US$000	Effect of foreign exchange differences	Cash Flow	At 31 March 2004 US$000
Subordinated liabilities	50,694	6,107	-	56,801

Notes to the Accounts

For the year ended 31 March 2004

1. **ACCOUNTING POLICIES**

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

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Persia International Bank Plc and its subsidiary undertakings Tejco Limited and Mellco Limited. Details of the subsidiary undertakings are given in note 12. The Company has taken advantage of the exemption available under section 230 of the Companies Act and therefore not presented the profit and loss account for the parent company. The parent company's profit after tax for the financial year amounted to $5,570,000 (2003: $1,196,571).

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 impairment in value.

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

Notes to the Accounts

For the year ended 31 March 2004

1. **ACCOUNTING POLICIES** *(continued)*

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

Derivatives and other financial instruments
The Group uses derivative financial instruments to reduce exposures to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative instruments for trading purposes. Financial instruments in the non-trading book, including loans and investment securities, are measured at 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
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or if appropriate at the forward contract rate.

2. **OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Interest receivable from banks	14,617	17,672
Interest receivable from customers	4,448	2,562
Interest receivable from parent companies	0	935
Other interest income	4	244
	19,069	21,413

Notes to the Accounts

For the year ended 31 March 2004

3. INTEREST PAYABLE

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Interest payable to banks	2,297	4,860
Interest payable to customers	2,484	2,916
Interest payable on deposits from parent companies	6,943	6,195
Interest payable on subordinated debt	1,902	1,686
	13,626	15,657

4. OTHER OPERATING INCOME

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Foreign exchange income	1,227	842
Other banking charges	718	503
	1,945	1,345

5. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Wages and salaries	4,116	3,009
Social security costs	386	290
Other pension costs	287	226
Other administrative expenses	3,345	3,368
Exceptional costs	-	1,074
	8,134	7,967

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.

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Notes to the Accounts

For the year ended 31 March 2004

6. DIRECTORS' EMOLUMENTS

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000 (as restated)
Emoluments	953	668

Of the above emoluments, $271,919 (2003: $181,733) 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. The comparative figures have been restated to correct a typographical error in the prior year.

7. INFORMATION REGARDING EMPLOYEES

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

	Year ended 31 March 2004 No.	Year ended 31 March 2003 No.
Banking operations	31	32
Trade finance	16	17
Administration	7	7
	54	56

8. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Year Ended 31 March 2004		
	General US$000	Specific US$000	Total US$000
Group and Company			
Provision brought forward	389	8	397
Charge for year	753	16	769
Amounts written off	-	-	-
Exchange adjustments	52	(2)	50
Provision carried forward	1,194	22	1,216

Notes to the Accounts

For the year ended 31 March 2004

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Profit on ordinary activities before taxation is after the following:		
Income		
Income from listed investment securities	1,349	853
Expenses		
Auditors' remuneration		
- audit	88	81
- other services	58	-
Depreciation	312	69

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
(i) Analysis of tax charge on ordinary activities		
United Kingdom Corporation tax at 30% (2003 - 30%) based on the profit for the year.	2,695	969
Adjustment in respect of prior years	79	-
	2,774	969
Deferred tax – timing differences, origination and reversal (note 15)	(356)	-
	2,418	969

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

	Year ended 31 March 2004 US$000	Year ended 31 March 2003 US$000
Profit on ordinary activities before tax	8,094	2,181
Tax at 30% thereon	2,428	654
Effects of:		
Expenses not deductible for tax purposes	8	239
Capital allowances less than (in excess of) depreciation	33	(41)
Movement in short term timing differences (general provision)	226	117
	2,695	969

Notes to the Accounts

For the year ended 31 March 2004

11. DEBT SECURITIES

Group and Company	2004 US$000	2003 US$000
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	47,123	34,028
	47,123	34,028

	2004 US$000	2003 US$000
Due within one year	11,775	-
Due one year and over	35,348	34,028
	47,123	34,028
Unamortised net discount on investment securities	90	279

Investment securities	US$000
At beginning of year	34,028
Acquisitions	14,475
Maturities	(5,000)
Amortised discount / premium	(101)
Exchange rate movement	3,721
At 31 March 2004	47,123

	2004		2003	
	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	36,163	38,222	28,572	30,093
- unlisted	10,960	10,960	5,456	5,456
	47,123	49,182	34,028	35,549

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 2004

12. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represents:

Subsidiary	Country of Registration	% of Equity	Principal Business Activity
Mellco Limited	England and Wales	100%	Dormant
Tejco Limited	England and Wales	100%	Dormant

13. TANGIBLE FIXED ASSETS

Group and Company

	Equipment fixtures and fittings 2004 US$000	Equipment fixtures and fittings 2003 US$000
COST		
At 1 April	1,373	-
Amounts transferred in on 29 April 2002	-	1,157
Additions	617	216
Exchange rate movement	217	-
At 31 March	2,207	1,373
DEPRECIATION		
At 1 April	1,137	-
Amounts transferred in on 29 April 2002	-	1,068
Charge for the year	312	69
Exchange rate movement	180	-
At 31 March	1,629	1,137
NET BOOK VALUE		
At 31 March	578	236

14. OTHER ASSETS

	Group and Company 2004 US$000	Group and Company 2003 US$000
Trade debtors	45	500
Staff loans	176	204
Amounts due from shareholders	1,556	1,198
Deferred tax asset (note 15)	356	-
	2,133	1,902

Notes to the Accounts

For the year ended 31 March 2004

15. DEFERRED TAX ASSET AND ANALYSIS

	Group and Company 2004	Group and Company 2003
Short term timing differences -		
General provision for bad & doubtful debts	358	-
Capital allowances in excess of depreciation	(2)	-
As at 31 March and credited to profit and loss account	356	-

In accordance with the provisions of FRS 19, 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 2004.

16. PREPAYMENTS AND ACCRUED INCOME

	Group and Company 2004	Group and Company 2003
Prepayments	272	671
Accrued interest receivable	5,054	4,960
	5,326	5,631

17. OTHER LIABILITIES

	Group 2004 US$000	Company 2004 US$000	Group 2003 US$000	Company 2003 US$000
Corporation tax	1,532	1,532	969	935
Proposed dividend	5,000	5,000	-	-
Other liabilities	5,641	5,763	1,690	1,661
	12,173	12,295	2,659	2,596

18. ACCRUALS AND DEFERRED INCOME

Group and Company

	2004 US$000	2003 US$000
Accrued interest payable	2,478	2,323
	2,478	2,323

Notes to the Accounts

For the year ended 31 March 2004

19. SUBORDINATED DEBT LIABILITIES

Group and Company	2004 US$000	2003 US$000
Dated loan capital	56,801	50,694
	56,801	50,694

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

20. CALLED UP SHARE CAPITAL

	2004 US$000	2003 US$000
Authorised		
100,001,000 (2003 - 100,001,000) ordinary shares of $1 each	100,001	100,001
Allotted, called up and fully paid:		
100,000,010 (2003 - 100,000,010) ordinary shares of $1 each	100,000	100,000

21. MOVEMENTS IN SHAREHOLDERS' FUNDS AND IN RESERVES

	Issue share capital US$000	Profit and Loss account Company US$000	Profit and Loss account Group US$000	2004 Total shareholders funds US$000
Profit attributable to the members		5,570	5,676	5,676
Dividend		(5,000)	(5,000)	(5,000)
Net additions		570	676	676
As at 1 April 2003	100,000	1,204	1,220	101,220
As at 31 March 2004	100,000	1,774	1,896	101,896

22. SEGMENTAL INFORMATION

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

Notes to the Accounts

For the year ended 31 March 2004

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 2004

	Not more than three months US$000	More than three months but not more than six months US$000	More than six months but not more than one year US$000	More than one year but not more than five years US$000	More than five years US$000	Non-interest bearing US$000	Total US$000
Assets							
Loans and advances to banks	683,425	102,042	15,333	-	-	-	800,800
Loans and advances to customers	158,124	25,042	-	-	-	-	183,166
Debt securities	16,395	30,728	-	-	-	-	47,123
Tangible fixed assets						578	578
Other assets	2	70	37	65	-	1,959	2,133
Prepayments and accrued income						5,326	5,326
Total assets	857,946	157,882	15,370	65	-	7,863	1,039,126
Liabilities							
Deposits by banks	629,077	11,240	25,000	-	-	-	665,317
Customer accounts	163,128	20,045	17,288	-	-	-	200,461
Subordinated liabilities	-	56,801	-	-	-	-	56,801
Other liabilities	-	-	-	-	-	12,173	12,173
Accruals and deferred income	-	-	-	-	-	2,478	2,478
Shareholders' funds	-	-	-	-	-	101,896	101,896
Total liabilities	792,205	88,086	42,288	-	-	116,547	1,039,126
Off balance sheet items							-
Interest rate sensitivity gap	65,741	69,796	(26,918)	65	-	(108,684)	-
Cumulative gap	65,741	135,537	108,619	108,684	108,684	-	-

Notes to the Accounts

For the year ended 31 March 2004

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

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	1,074,055	55,514	21,691	17,880	-	7,769	1,176,909
Liabilities							
Deposits by banks	893,396	-	-	-	-	-	893,396
Customer accounts	70,412	36,199	20,006	-	-	-	126,617
Subordinated liabilities	-	50,694	-	-	-	-	50,694
Other liabilities	-	-	-	-	-	2,659	2,659
Accruals and deferred income	-	-	-	-	-	2,323	2,323
Shareholders' funds	-	-	-	-	-	101,220	101,220
Total liabilities	963,808	86,893	20,006	-	-	106,202	1,176,909
Off balance sheet items	-	-	-	-	-	-	-
Interest rate sensitivity gap	110,247	(31,379)	1,685	17,880	-	(98,433)	-
Cumulative gap	110,247	78,868	80,553	98,433	98,433	-	-

Notes to the Accounts

For the year ended 31 March 2004

24. NET CURRENCY POSITION ANALYSIS

The following analysis gives details of the assets and liabilities of the Group and Company as at 31 March 2004 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 2004

	US dollar US$000	Euro US$000	Sterling US$000	Other Currencies US$000	Total US$000
Assets					
Loans and advances to banks	497,447	189,299	114,049	5	800,800
Loans and advances to customers	154,081	18,323	9	10,753	183,166
Debt securities	14,514	32,609	-	-	47,123
Tangible fixed assets	-	-	578	-	578
Other assets	799	-	1,334	-	2,133
Prepayments and accrued income	1,988	1,315	2,013	10	5,326
Total assets	668,829	241,546	117,983	10,768	1,039,126
Liabilities					
Deposits by banks	481,183	100,629	83,505	-	665,317
Customer accounts	86,161	83,853	30,447	-	200,461
Subordinated debt liabilities	-	56,801	-	-	56,801
Other liabilities	9,078	452	2,639	4	12,173
Accruals and deferred income	681	1,241	556	-	2,478
Shareholders' funds	101,896	-	-	-	101,896
Total liabilities	678,999	242,976	117,147	4	1,039,126
Net assets	(10,170)	(1,430)	836	10,764	
Off balance sheet items					
Foreign exchange contracts	10,000	-	-	(10,753)	
Currency position at 31 March 2004	(170)	(1,430)	836	11	

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 $122,000 of balances held within Tejco and Mellco.

Notes to the Accounts

For the year ended 31 March 2004

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	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					
Foreign exchange contracts	(686)	-	-	738	
Currency position at 31 March 2004	464	(318)	(1,847)	1,753	

Notes to the Accounts

For the year ended 31 March 2004

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 2004 US$000	Fair value 2004 US$000	Book value 2003 US$000	Fair value 2003 US$000
Assets				
Loans and advances to banks	800,129	800,129	1,096,441	1,096,441
Loans and advances to customers	183,166	183,166	36,903	36,903
Debt securities	47,123	48,811	34,028	34,028
	1,030,418	1,032,106	1,167,372	1,167,372
Liabilities				
Deposits by banks	665,317	665,317	893,396	893,396
Deposits by customers	200,461	200,461	126,617	126,617
	865,778	865,778	1,020,013	1,020,013

	Notional principal amount 31 March 2004 US$000	Fair value 2004 US$000	Book value 2003 US$000	Notional principal amount 31 March 2003 US$000
Interest rate derivatives				
Interest rate swaps	31,263	(1,990)	23,439	(965)
Foreign exchange derivatives				
Forward foreign exchange contracts	-	-	686	(59)
Foreign currency swaps	10,000	(893)	-	-
	41,263	(2,883)	24,125	(1,024)

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:

Unrecognised losses on hedges at 1 April 2003	1,024
Losses arising in previous year that were recognised in 2003/04	(249)
Losses arising before 1 April 2003 that were not recognised in 2003/04	775
Losses arising in 2003/04 that were not recognised in 2003/04	2,108
Unrecognised losses on hedges at 31 March 2004	2,883
Losses expected to be recognised in 2004/05	500

There were no unrecognised gains brought forward or carried forward.

Notes to the Accounts

For the year ended 31 March 2004

26 MATURITY ANALYSIS

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

2004	Not more than three months US$000	More than three months but not more than one year US$000	More than one year but not more than five years US$000	More than five years US$000	Provision for bad and doubtful debts US$000	Total US$000
Assets						
Loans and advances to banks	659,703	104,125	36,301	-	-	800,129
Loans and advances to customers	3,157	22,985	158,240	-	(1,216)	183,166
Debt securities	-	11,775	35,348	-	-	47,123

Of the above loans and advances to banks, $431m are repayable on demand or short notice. Included in the above are non-performing loans and advances to customers of $22,000 which have been fully provided.

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

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	1,040,308	47,531	10,501	-	(209)	1,098,131
Loans and advances to customers	20,004	7,237	9,781	-	(120)	36,902
Debt securities	-	-	23,785	10,313	(70)	34,028

Of the above loans and advances to banks, US$293million were repayable on demand or short notice.

Liabilities						
Deposits by banks	128,697	764,699	-	-	-	893,396
Customer accounts	38,392	88,225	-	-	-	126,617

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

	As at 31 March 2004 US$000	As at 31 March 2003 US$000
Assets		
Loans and advances to banks	-	890
Liabilities		
Deposits by banks	456,302	753,933

Notes to the Accounts

For the year ended 31 March 2004

27. MEMORANDUM ITEM, FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

Group and Company

	As at 31 March 2004 US$000	As at 31 March 2003 US$000
CONTINGENT LIABILITIES		
Guarantees	4,008	11,767
Import LC's issued/confirmed	141,029	157,429
	145,037	169,196
COMMITMENTS		
Other commitments:		
Credit lines and other commitments to lend		
- less than one year	107,009	45,655
- over one year	65,927	50,834
	317,973	265,685

	Notional principal amount 2004 US$000	Net replacement cost 2004 US$000	Notional principal amount 2003 US$000	Net replacement cost 2003 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		-	-
- 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	31,263	-	13,082	
- less than one year		-	10,357	
	41,263	-	24,125	

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 2004

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.

Notes to the Accounts

For the year ended 31 March 2004

28. RISK MANAGEMENT - continued

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

	2004 US$000	2003 US$000
Annual commitment under a non-cancellable operating lease for premises at 6 Lothbury	1,098	1,048

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.

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

31. RELATED PARTIES

Transactions during the year and balances due to or from these related parties as at 31 March 2004 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.