



MelliBankplc

Melli Bank PLC

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MelliBankplc





Management

Board of Directors

Dr. V. Seif
Chairman and Non-executive Director

Dr. A. Azizi
Managing Director

Mr. M. R. Tahouri
Executive Director

Mr. T. Armour
Non-executive Director

Mr. J. Sanders
Non-executive Director

Executive Management

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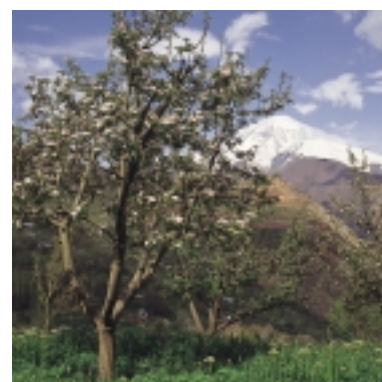
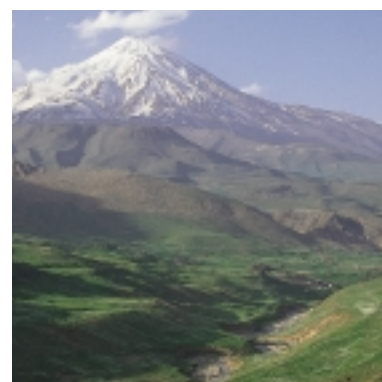
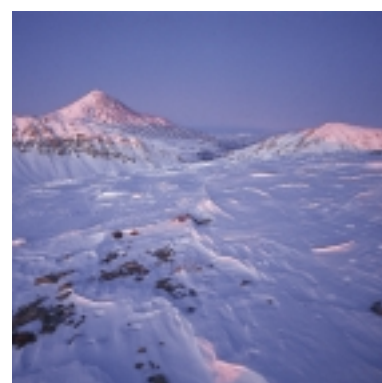
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Chairman's Statement

When Bank Melli Iran was considering its strategy for London, it became clear that the structure of the presence should be based upon a strong management team with sufficient resources to operate in a very competitive environment. The aim was to promote an independent bank capable of tapping the large potential offered by being part of Bank Melli Iran group to realise superior returns from the investment of the group in London. Melli Bank plc (the Bank) was established with these aims in November 2001 with the operations starting from the beginning of 2002 when it acquired the business of Bank Melli Iran London branches.

These branches had been operating in London since 1967 and there was already a sound foundation on which to build the business of the new entity. However there was a realisation that we needed to do more. Furthermore, the first year of operation for the Bank has witnessed difficult global economic conditions impacting international banking. Interest rates have dropped to exceptionally low levels and business activity has slowed down. The uncertainties of the political scene affecting the Middle East have also proved unhelpful.

I am pleased to say that management has met these challenges well. The executives have taken positive action to refocus strategy, attend to organisation, enhance systems and controls and counter as far as possible the effects of difficult conditions, in particular the lower than anticipated US dollar, Euro and Sterling interest rates.

Fortunately the economic conditions have been healthy in Iran and the outlook remains strong. During 2002, the officially fixed multiple foreign exchange rates were replaced by one rate for all purposes and banks are now allowed to make a market in currencies against Iranian Rial. Such developments with record positive balances on payment and capital accounts hold out the promise of increased international banking activity.

The Bank is in my view well placed to capitalise on such developments. Bank Melli Iran group management while encouraging the Bank to determine its business plan, investment, trading and risk policies, is committed to group wide support in realising the delivery of the Bank's objectives.

The Bank's achievements in 2002 have been due to the efforts of the management and the staff to whom I express my thanks. I look forward to 2003 with great confidence.

V. Seif

The Managing Director's Statement

It is my pleasure to report at the end of an eventful year for Melli Bank plc. Having obtained its licence in November 2001, the Bank acquired as from 1 January 2002, the business and assets and liabilities of Bank Melli Iran London branches which had operated in London since 1967.

From the start it was apparent to the management of the Bank that, to meet the challenges of a tough economic and regulatory environment, the strategic objectives needed to be reviewed. The result of this review was recognition of the Bank's many strengths and refocusing of its objectives. In particular, it became clear that the business opportunities in Iran offered the best market of untapped potential with the most advantageous risk return trade off. The Bank's main strategic objective has now been defined as provision of commercial banking products and services to Iranian banks and large Iranian corporate customers.

Although Iran is our niche market where we have a definite edge in assessing risk and ensuring performance, the management feels it is important to achieve geographic as well as product diversification. To this end the Bank started investing in geographically diversified high quality debt securities. This policy will be prudently pursued in 2003 to reduce reliance on money markets for investment of surplus funds.

At the same time it has been recognised that much work is required in terms of organisational, operational and other changes to manage a more diversified portfolio in order to maximise profits, while operating within prudent levels of risk. Of course such changes are an ongoing process, however much has been achieved in the first year of operation. In particular, the Bank's policies and procedures have been revised to accommodate changes in our business and business environment, while our capabilities to analyse, develop, process and market a more varied range of credit products have been greatly improved.

One important event for Iran and the Bank was the issuance of Euro bonds by Bank Markazi JII (Central Bank of Iran) in July 2002. The Bank took the opportunity to invest in these bonds and has obtained regulatory clearance to trade in them. This should enable the Bank to satisfy the demand for the bonds from our customers.

Much of the work done in 2002 has laid the foundation for growth of return on equity in the coming years. The Bank made a pre-tax profit of \$12,662,000 in 2002 which although somewhat exceeding predictions, was very much adversely impacted by low US dollar and Sterling interest rates which started at 1.7% and 4% and finished at 1.25% and 4% respectively. Such low rates not only cut into our margin from deposit operations but also resulted in much lower interest income from investment of US dollar capital funds.

During the year, the Bank established a representative office in Tehran to identify business opportunities and liaise with customers. This presence should also enable us to enhance the level of international banking services to the customers based in Iran.

The Bank had a busy year in documentary credits and fund transfer business areas and managed to maintain a high level of commission income despite a significant reduction in tariffs to retain existing and acquire new customers.

The achievements of the Bank in 2002 were the result of the support of the parent bank, Bank Melli Iran, and the hard work of the management and staff, to whom I wish to express my thanks and appreciation.

The outlook for 2003 is promising with the net interest margin improving as the Bank expands and diversifies its lending portfolio. The current global political uncertainties are bound to impact our business. However we hope to achieve our objective of delivering year on year growth in profitability to our shareholder.

A. Azizi

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the company is the provision of banking services.

Business review

The company was set up in 2001 and obtained its banking licence on 16 November 2001 to acquire the business and assets and liabilities of Bank Melli Iran London branches. The acquisition took effect from 1 January 2002. The Bank is a commercial bank based in London regulated by the Financial Services Authority under the Financial Services and Markets Act.

The activities of the Bank have achieved a substantial increase in commercial lending and investment in debt securities. The profit before taxation amounted to \$12,662,000 and the profit after taxation was \$9,112,000.

Proposed dividend

The directors do not propose payment of a dividend.

Directors and Directors' interest

Directors who held office during the year were as follows:

Chairman	Dr. V. Seif	
Managing Director	Dr. A. Azizi	
Executive Director	Mr. A. Sadeghifar	Resigned 11 January 2002
	Mr. M. Tahouri	
Non Executive Directors	Mr. M. Memarzadeh	Retired 26 June 2002
	Mr. J. Sanders	
	Mr. T. Armour	

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Political and charitable contributions

The Bank made no political and charitable contributions during the year.

By the order of the Board

Ahmad Azizi

Managing Director

Date: 3 March 2003

Statement of Directors' Responsibilities



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 profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors to the Members of Melli Bank plc

Annual Report - 2002

Profit and Loss Account

for the year ended 31 December 2002



We have audited the financial statements on pages 11 to 26.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the directors' report and, as described on page 9, the financial statements in accordance with the applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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.

Basis of audit opinion

We conducted our audit in accordance with 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 the company's affairs as at 31 December 2002 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

3 March 2003

	Note	2002		2001	
		\$'000	\$'000	\$'000	\$'000
Interest receivable					
Interest receivable, excluding those arising from debt securities		39,509		802	
Interest receivable and similar income arising from debt securities		631		-	
			40,140		802
Interest payable					
Interest payable			(26,973)		(213)
Net interest income			13,167		589
Fees and commissions receivable			6,356		-
Fees and commission payable			(205)		-
Dealing profits			1,148		-
Operating income			20,466		589
Administration expenses	2		(6,888)		-
Depreciation and amortisation	9		(258)		-
Provisions for bad and doubtful debts and off balance sheet credit exposures	8		(658)		-
Operating profit on ordinary activities before taxation			12,662		589
Tax on profit on ordinary activities	3		(3,550)		(177)
Retained profit on ordinary activities after taxation	16		9,112		412

All the company's income is derived from continuing operations.

There are no other recognised gains or losses for the period other than the profit and loss account.

Balance Sheet

at 31 December 2002

	Note	2002 \$'000	2001 \$'000
Assets			
Loans and advances to banks	5	1,481,726	300,733
Loans and advances to customers	6	274,292	-
Debt securities	7	63,426	-
Tangible fixed assets	9	11,106	-
Prepayments and accrued income		3,321	142
Total assets		1,833,871	300,875
Liabilities			
Deposits by banks	11	1,081,586	-
Customer accounts	12	436,451	-
Other liabilities	13	2,168	177
Accruals and deferred income		4,061	213
Subordinated liability to parent undertaking	14	75,000	75,000
Share capital	15	225,081	225,073
Profit and loss account	16	9,524	412
Shareholders' funds		234,605	225,485
Total liabilities		1,833,871	300,875
Memorandum items			
Contingent liabilities	17	35,246	-
Commitments	17	118,580	-
		153,826	-

These financial statements were approved by the Board of Directors on 28 February 2003 and were signed on its behalf by:

Dr. A. Azizi
Managing Director

Cash Flow Statement

for the year ended 31 December 2002



	Note	2002 \$'000	2001 \$'000
Net cash inflow/(outflow) from operating activities	20	246,633	(229,340)
Taxation		(2,246)	-
Inflow/(outflow) of capital resources from/(to) Head office		-	300,073
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(11,364)	-
Increase in cash in the period	21	233,023	70,733

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

These accounting standards have been prepared in accordance with the special provisions of Part VII of the Companies Act relating to banking companies.

As the company is a wholly owned subsidiary of Bank Melli Iran, the company has taken advantage of the exemption in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

(a) Interest receivable and payable

Interest receivable and payable is accrued over the period of the related loans and deposits.

(b) Fees and commissions receivable

Fees and commissions are taken to profit when received.

(c) Loans and advances and doubtful debts

Provisions for bad and doubtful debts are based on the year-end appraisal of loans and advances. Specific provisions are made for doubtful debts as and when considered appropriate by the Bank. No loan or advance is written off until all attempts to recover it have proved unsuccessful.

General provisions are maintained to cover potential losses which are considered to be present in the credit portfolio but have not been specifically identified.

(d) Debt securities

Securities are stated at cost less any provision for permanent impairment in value. The premium or discount arising on purchase is amortised or accreted to the profit and loss account over the remaining life of the security.

(e) Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold buildings	–	over the remaining period of the lease
Freehold improvements	–	12.5% per annum
Leasehold improvements	–	12.5% per annum
Fixtures and fittings	–	20% per annum
Motor vehicles	–	20% per annum

(f) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on transactions are included in the profit and loss account.

(g) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the balance sheet date, except otherwise required by FRS 19.

(h) Pensions and other post retirement benefits

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company in accordance with SSAP 24.

2. Administration expenses

	2002 \$'000	2001 \$'000
Staff costs		
Salaries and wages	3,797	–
Social security costs	347	–
Other pension costs	417	–
Auditor's remuneration		
Audit services	113	–
Non audit services	14	–
Other administration expenses	2,200	–
	<u>6,888</u>	<u>–</u>

The average number of employees employed by the Bank during the year was 59 (2001, Nil).

Notes (continued)

3. Taxation

(a) Analysis of charge for the year

	2002 \$'000	2001 \$'000
Current taxation:		
UK corporation tax on income for the period	3,975	177
Total current tax (Note 3(b))	<u>3,975</u>	<u>177</u>
Deferred taxation:		
Origination and reversal of timing differences	(132)	-
Deferred tax asset acquired on purchase of the branches	(229)	-
Adjustment in respect of prior years	(64)	-
Tax on profit on ordinary activities	<u>3,550</u>	<u>-</u>

(b) Factors affecting the tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2002 \$'000	2001 \$'000
Profit on ordinary activities before taxation	12,662	-
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	3,799	-
Effects of:		
Expenses not deductible for tax purposes	13	-
Capital allowances in excess of depreciation	(34)	-
Increase in bad debt provision not tax deductible	197	-
Tax charge for the period (Note 3(a))	<u>3,975</u>	<u>-</u>

Notes (continued)

4. Remuneration and interests of directors

	2002 \$'000	2001 \$'000
Directors' emoluments	534	-
Highest paid director's emoluments:		
Salary	142	-
Benefits:		
Arising from rent paid to Bank Melli Iran	40	-
Arising from use of company car	43	-
Arising from membership of medical scheme	3	-
UK income tax and national insurance	138	-
	<u>366</u>	<u>-</u>

Two directors were members of the Bank's pension scheme providing benefits based on final pensionable pay.

5. Loans and advances to banks

	2002 \$'000	2001 \$'000
Cash and balances at banks		
Repayable on demand	1,044,484	70,733
Remaining maturity:		
3 months or less	387,100	230,000
1 year or less but over 3 months	50,142	-
	<u>1,481,726</u>	<u>300,733</u>
Of which due from Group undertakings	<u>100,824</u>	<u>70,320</u>

6. Loans and advances to customers

	2002 \$'000	2001 \$'000
Repayable on demand or at short notice	18,138	-
Remaining maturity:		
3 months or less	99,587	-
1 year or less but over 3 months	110,585	-
5 years or less but over 1 year	43,105	-
over 5 years	3,206	-
Specific debt provisions	(30)	-
General debt provision	(299)	-
	<u>274,292</u>	<u>-</u>

7. Debt securities

	Balance sheet 2002 \$'000	Market value 2002 \$'000
Investment securities – listed		
– non financial corporation	2,100	2,105
Investment securities – unlisted		
Issued by public bodies:		
– government bonds transferred from the branches, 1 January 2002	1,400	1,977
Additions during 2002	52,275	53,418
Issued by other issuers:		
– banks and building societies	2,475	2,481
– other debt securities	5,176	5,298
	<u>63,426</u>	<u>65,279</u>
Securities due within one year	1,026	1,029
Securities due one year or over	62,400	64,250
	<u>(111)</u>	
Unamortised net discount on investment securities		
Movement in debt securities are analysed as follows:		
Cost		
Transfer from the branches	2,000	
Additions during the year	62,123	
	<u>64,123</u>	
Provision		
Transfer from the branches	(600)	
Additions during the year (general provisions)	(97)	
	<u>(697)</u>	
Net book value	<u>63,426</u>	

8. General and specific debt provisions

	2002			2001		
	Specific \$'000	General \$'000	Total \$'000	Specific \$'000	General \$'000	Total \$'000
At start of year	–	–	–	–	–	–
Transfer from the branches (Credit)/charge against profits	630	–	630	–	–	–
	–	658	658	–	–	–
	<u>630</u>	<u>658</u>	<u>1,288</u>	<u>–</u>	<u>–</u>	<u>–</u>
At end of year	630	658	1,288	–	–	–
Allocated against:						
Loans and advances to:						
Customers	30	299	329	–	–	–
Debt securities	600	97	697	–	–	–
Contingent liabilities	–	262	262	–	–	–
	<u>630</u>	<u>658</u>	<u>1,288</u>	<u>–</u>	<u>–</u>	<u>–</u>

9. Tangible fixed assets

	Leasehold building \$'000	Freehold improvements \$'000	Leasehold improvements \$'000	Fixtures, fittings, and equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 31 December 2001	–	–	–	–	–	–
Transfer from the branches, 1 January 2002	–	28	533	2,071	113	2,745
Additions	10,880	–	2	140	55	11,077
Disposals	–	–	–	–	(113)	(113)
	<u>10,880</u>	<u>28</u>	<u>535</u>	<u>2,211</u>	<u>55</u>	<u>13,709</u>
At 31 December 2002	10,880	28	535	2,211	55	13,709
Depreciation						
At 31 December 2001	–	–	–	–	–	–
Transfer from the branches, 1 January 2002	–	28	528	1,812	90	2,458
Charge for year	108	–	4	112	34	258
On disposals	–	–	–	–	(113)	(113)
	<u>108</u>	<u>28</u>	<u>532</u>	<u>1,924</u>	<u>11</u>	<u>2,603</u>
At 31 December 2002	108	28	532	1,924	11	2,603
Net book value						
At 31 December 2002	10,772	–	3	287	44	11,106
Net book value						
At 31 December 2001	–	–	–	–	–	–

10. Deferred tax

	2002 \$'000	2001 \$'000
Accelerated capital allowances	162	-
General provision for bad debts and disallowable revaluation of sterling capital	199	-
Adjustment in respect of prior years	64	-
	<u>425</u>	<u>-</u>

11. Deposits by banks

	2002 \$'000	2001 \$'000
Repayable on demand	740,728	-
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	274,958	-
1 year or less but over 3 months	65,900	-
	<u>1,081,586</u>	<u>-</u>
Amounts include: due to Group undertaking	<u>925,702</u>	<u>-</u>

12. Customer accounts

	2002 \$'000	2001 \$'000
Repayable on demand	185,449	-
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	218,546	-
1 year or less but over 3 months	32,456	-
	<u>436,451</u>	<u>-</u>

Of the above amount \$935,000 is in respect of customer accounts of Bank Melli Iran London branches which had not been novated at 31 December 2002.

13. Other liabilities

	2002 \$'000	2001 \$'000
Corporation Tax	1,906	-
General provision against contingent liabilities	262	-
	<u>2,168</u>	<u>-</u>

14. Subordinated loan

On 15 November 2001 Melli Bank plc entered into a subordinated loan agreement with its parent company Bank Melli Iran of \$75,000,000. The interest on the loan is based on US dollar Libor plus a margin and is repayable in full on 15 November 2050 or at five years notice from the loan note holder.

15. Called up share capital

	2002 \$'000	2001 \$'000
Authorised		
50,000 Ordinary shares of £1 each	81	73
225,000,000 Ordinary shares of \$1 each	225,000	225,000
	<u>225,081</u>	<u>225,073</u>
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	81	73
225,000,000 Ordinary shares of \$1 each	225,000	225,000
	<u>225,081</u>	<u>225,073</u>

16. Profit and loss account

	2002 \$'000	2001 \$'000
Balance brought forward	412	-
Retained profit for the year	9,112	412
	<u>9,524</u>	<u>412</u>
Balance carried forward		
	<u>9,524</u>	<u>412</u>

17. Contingent liabilities and commitments

Included in the contingent liabilities is \$21,015,422 (2001:\$nil) in respect of acceptances and letters of credit issued or confirmed by the Bank. Of this amount, letters of credit amounting to \$7,564,679 (2001:\$nil) have been issued by the branches of the parent company.

Other contingent liabilities in existence at 31 December 2002 amounted to \$14,231,203 (2001:\$nil) in respect of letters of guarantee issued by the Bank.

Undrawn commitments at 31 December 2002 amounted to \$118,580,041 (2001:£nil).

18. Pension scheme

The company operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 August 2000. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The most recent actuarial valuation at 1 August 2000 showed that the market value of the scheme's assets was \$16,215,000 (US\$ equivalent calculated at the end of 2002 £/US\$ rate of exchange) and that the actuarial value of those assets represented 112% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company will remain at 19% of the pensionable pay. The pension charge for the year was \$417,000.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The FRS 17 valuation at 31 December 2002 was carried out using employee data at 1 August 2001 updated by material changes up to valuation date at 31 December 2002.

The major assumptions used in valuation

	2002	2001
Rate of increase in salaries	4.0%	4.0%
Rate of increase in pensions in payment	3.3%	3.3%
Increase in deferred payment before retirement	2.3%	2.6%
Discount rate	5.5%	5.8%
Inflation assumption	2.3%	2.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Notes (continued)

	Long term rate of return 31 Dec 2002 %	Value at 31 Dec 2002 \$'000	Long term rate of return 31 Dec 2001 %	Value at 1 Jan 2002 \$'000
Cash accumulation policy:				
Equities		6,810		8,015
Bonds		4,994		2,628
Property		2,724		1,840
Cash		605		703
	7.5%	15,133	7.5%	13,186
Trustees' bank account	-	-	5.3%	100
Secured pensions in payment	5.5%	3,172	5.8%	2,453
		<u>18,305</u>		<u>15,739</u>
Total market value of scheme assets		18,305		15,739
Present value of scheme liabilities		(18,870)		(15,943)
		<u>(565)</u>		<u>(204)</u>
Deficit in the scheme – Pension liability		(565)		(204)
Related deferred tax asset		169		61
		<u>(396)</u>		<u>(143)</u>
Net pension liability		(396)		(143)

The amount of this net pension liability would have a consequential effect on reserves.

Movement in the deficit during the year

	Value at 31 Dec 2002 \$'000
Deficit at the beginning of the period	(204)
Movement in year:	
Current service cost	(676)
Employer's contributions	435
Other finance income	209
Actuarial loss	(306)
Difference on translation of pension liability transferred from the branches	(23)
	<u>(565)</u>
Deficit in the scheme at the end of year	(565)

19. Role of financial instruments

Melli Bank plc holds financial instruments for the purpose of financing its operations and managing investments, liquidity, interest rate and currency risks. Such instruments are made up of cash products. The exposures arising from the banks' financial instruments are held in the non-trading book. These exposures include interest rate risk, liquidity risk and foreign currency risk.

Interest rate risk: 31 December 2002

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS:							
Loans and advances to banks	1,430,828	50,141	-	-	-	757	1,481,726
Loans and advances to customers	117,542	43,834	66,704	42,981	3,191	40	274,292
Debt securities	-	-	1,026	13,965	48,435	-	63,426
Other assets	-	-	-	-	-	14,427	14,427
Total assets	1,548,370	93,975	67,730	56,946	51,626	15,224	1,833,871
LIABILITIES:							
Deposits by banks	1,013,435	39,083	26,817	-	-	2,251	1,081,586
Customer accounts	376,724	12,675	19,782	-	-	27,270	436,451
Other liabilities	-	-	-	-	-	6,229	6,229
Loan capital and shareholders' funds	-	75,000	-	-	-	234,605	309,605
Total liabilities	1,390,159	126,758	46,599	-	-	270,355	1,833,871
Interest sensitivity gap	158,211	(32,783)	21,131	56,946	51,626	(255,131)	-
Cumulative gap	158,211	125,428	146,559	203,505	255,131	-	-

Interest rate risk: 31 December 2001

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS:							
Loans and advances to Banks	300,733	-	-	-	-	-	300,733
Other assets	-	-	-	-	-	142	142
Total assets	300,733	-	-	-	-	142	300,875
LIABILITIES:							
Other liabilities	-	-	-	-	-	177	177
Accruals and deferred income	-	-	-	-	-	213	213
Loan capital and shareholders' funds	-	75,000	-	-	-	225,485	300,485
Total liabilities	-	75,000	-	-	-	225,875	300,785
Interest sensitivity gap	300,733	(75,000)	-	-	-	(225,733)	-
Cumulative gap	300,733	225,733	225,733	225,733	225,733	-	-

Liquidity risk

Melli Bank's policy has been to cover, at the minimum, the liabilities falling due within a month. Lending with maturity over one year is matched by the Bank's capital and subordinated loan funds.

Foreign currency risk

Melli Bank's currency exposures arise from monetary assets and liabilities held in the non-trading book. The main operating currencies are US dollar and sterling. Material currency exposures resulting from operations as at 31 December 2002 were as follows.

Net positions in currencies other than US dollar:	\$'000
Euro	(84)
Sterling	99

Managing risks

The treasury function has the responsibility for managing any resultant liquidity, interest rate and foreign exchange risks.

20. Reconciliation of operating profit to net cash flow from operating activities

	2002 \$'000	2001 \$'000
Operating profit	12,662	589
(Increase)/ decrease in accrued income and prepayments	(2,754)	(142)
Increase / (decrease) in accruals and deferred income	3,848	213
Depreciation	258	-
Net cash flow from trading activities	14,014	660
Net (increase) in loans and advances to banks and customers	(481,534)	(230,000)
Net increase in deposits by banks and customer accounts	777,309	-
Net increase in debt securities	(63,426)	-
Net increase/ (decrease) in other liabilities	262	-
Revaluation of Sterling capital	8	-
Net cash inflow/(outflow) from operating activities	246,633	229,340

21. Analysis of the balances of cash as shown in the balance sheet

	Note	At beginning of year \$'000	Cash flow \$'000	At end of year \$'000
Loans and advances to other banks				
Repayable on demand	5	70,733	973,751	1,044,484
Deposits by banks repayable on demand	11	-	740,728	740,728
Total		70,733	233,023	303,756

22. Related party disclosures

Included in directors' emoluments are consultancy fees paid to a non-executive Board member amounting to \$16,000 (2001, \$nil).

23. Acquisition of Bank Melli Iran London branches' business

On 1 January 2002, the assets and liabilities of Bank Melli Iran London branches were transferred to Melli Bank plc. The consideration payable by the Bank to Bank Melli Iran, Tehran, equalled the aggregate value of the assets of the branches amounting to \$2,575,168,000 (calculated at the US\$ exchange rate against Sterling at 31 December 2001) and was satisfied by assumption of the liabilities of the branches.

24. Ultimate parent undertaking

The company is a subsidiary undertaking of Bank Melli Iran, Ferdowsi Avenue, Tehran, Iran. The Bank's results are consolidated in the accounts of Bank Melli Iran. The consolidated accounts of this company are available to the public and may be obtained from the company's head office at Bank Melli Iran, Head Office, Ferdowsi Avenue, Tehran, Iran.

Summary Information**Who are we?**

A wholly owned subsidiary of Bank Melli Iran (BMI) which is in turn owned by the Iranian State, BMI has capital of \$1.3bn and assets of more than \$52.5bn (Translation from Iranian Rials at IRR 1,755 = US\$1). BMI is the leading commercial and international banking enterprise in Iran with 3,375 branches and international offices employing 41,000 staff.

Established as a UK bank under the regulation of the FSA and operating in an open and transparent manner with our business counterparties, Melli Bank plc prepares its financial statements in accordance with the applicable United Kingdom law and accounting standards.

An internationally facing relationship-led bank with strong treasury placing capabilities and traditional trade related and payment businesses. We are also active in international loan syndications and the Eurobond market

Capitalisation*

Initially capitalised at \$300m (US\$225m share capital plus \$75m long dated subordinated loan), with post tax earnings for the first full year of operation at \$9m, the capital base of Melli Bank plc is now \$310m which compares well with total balance sheet footings of \$1,834m.

Our risk weighted capital ratio is in excess of 50% underlining the strong bias towards retention of highest quality, liquid, treasury counterparty business and bond investments.

Netting agreements obtained from our largest state-owned depositor allow us to offset contingent and other trade commitments, effectively securing term liability management and augmenting the capital resources by a further US\$225m.

*Note: figures under this heading extracted from financial and management accounts at 31 December 2002.

Liquidity

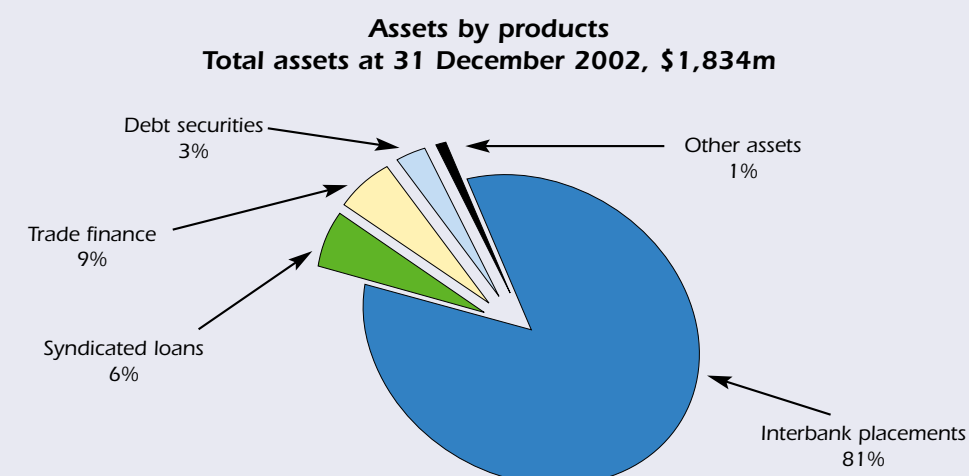
Managed closely by the Asset and Liability Committee with a current policy of matching maturing liabilities within the one month time band.

The strategic intention of Melli Bank plc is to maintain its asset mix with a prudent percentage in liquid bank relationship placements.

Stability of the liability base is ensured by netting arrangements and the option to negotiate longer deposit terms with core depositors if necessary, albeit that behavioural placing profiles are very favourable.

Asset Quality

Over more than 30 years of business in London as the branches of Bank Melli Iran (the fore-runner of Melli Bank plc) our credit risk experience has been exemplary, thanks largely to the faultless payment record of the core Iranian trade related business in honouring letters of credit and other obligations.



Summary information (continued)

Business Strategy

- Building on first class links in Iran to generate end to end business in corporate lending and trade finance with companies in Iran and throughout the region.
- Focus on core strengths to develop Treasury business and selective diversification into high quality debt securities.
- Consolidation of income generation and capital growth by careful cost control and robust credit and risk management

