BANK SADERAT PLC
Reg No: 1126618

Annual Report & Financial Statements

For the year ended 31st December 2009

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Registered No: 1126618

BOARD OF DIRECTORS AND MANAGEMENT

Directors

Dr H. Borhani
Chairman

S. Iranzad
Managing Director

Dr D. J. Reid
Non-Executive Director

R. J. Speedy
Non-Executive Director
(Appointed 1st January 2009)

Management

S. Iranzad
Managing Director

C. R. Wakefield
Assistant Managing Director

J. M. Alabaster
Manager, Documentary Credits

M. Baninajar
Operations Manager

M. Hassani
Manager, Loans and Trade Finance

R. G. Wetton
Financial Controller and
Company Secretary

CHAIRMAN'S STATEMENT

At the time of my Statement in last year's Report and Accounts I commented upon the rapid and severe recession that had affected all developed nations. Several global financial institutions had either failed or been rescued by their Governments, property prices had slumped, consumer confidence had evaporated, and unemployment was rising.

So swift and severe was the downturn that there was universal concern that recession would turn into a depression accompanied by deflation. In an effort to combat the deep recession, the developed economies reduced interest rates to levels seldom or never seen before, in order to stimulate demand. In addition, the advanced economies introduced "quantitative easing", effectively increasing the volume of funds in the banking system. It was hoped that the combination of low interest rates and quantitative easing would stimulate demand over time.

The sums injected into some economies have been vast. In the United States there has been more than USD 1 trillion of economic stimulus, whilst in the UK some GBP 200 billion of stimulus has been injected.

Nevertheless, despite the stimuli, most advanced economies entered recession in 2009. Whilst the majority of these economies have emerged from recession, recovery has been patchy at best. Indeed, in the fourth quarter of 2009, the economies of such countries as Italy and Greece, having emerged from recession three months previously, contracted once more. As a result, Euro Zone GDP rose by only 0.1%.

One notable exception to the above gloomy picture is that of China which has overtaken Germany to become the world's leading exporter, and is likely to overtake Japan this year to become the world's second biggest economy. Whilst the developed world struggled with recession in 2009, China grew more than 8%. Its potential cannot be underestimated.

It is extremely difficult to predict the economic outturn for 2010. It is quite clear that any recovery will be slow and far from smooth. Attention has recently turned to countries with high levels of debt. As I write my Statement, the EU is seeking ways to resolve the debt crisis that currently envelops Greece and threatens to spread to other EU members. Confidence is low, and there is a real risk of a “double dip” affecting a number of developed economies.

The UK was the last major economy to emerge from recession, growing by only 0.3% in Q4 2009. The UK Base Rate fell in February 2009 to its lowest level in history, has remained there to date, and is unlikely to increase in the near future. In addition to the quantitative easing referred to above, the Government in 2008/9 committed extraordinary amounts of money to protect its banking system and, indeed, to rescue certain banks of world renown. The UK continues to run a significant budget deficit and the UK Government is currently grappling with the problem which is rendered more complicated due to the proximity of the next General Election.

The Bank’s main business, of course, is related to the Islamic Republic of Iran, whose economy cannot be immune from world events. Nevertheless, it is notable that Iran’s real GDP grew in 2009 and is forecast to continue to grow over the coming years.

It is also pleasing to report that the inflation rate, which stood at 24% in January 2009, has reduced to 12.2% as of January 2010. The Government of Iran is targeting single digit inflation by the end of the next Iranian year.

Iran continues to maintain a healthy current account surplus (USD 24bn at March 2009), whilst external debt is USD 20bn, less than 10% of its GDP

Turning to the results of Bank Saderat PLC for the year under review, I am pleased to report that the Bank is able to report strong results against the backdrop of the recessionary environment of 2009. In large part, this is due to the Bank’s continuing focus on its core strengths in financing trade to and from Iran and in providing loans, on a selective basis, to important Iranian corporate clients. The Bank’s balance sheet is entirely free from any of the financial instruments that severely weakened many banks.

The post-tax profit achieved in the year to December 2009 was EUR 16,388,846, a reduction of 18.8% on the figure achieved in 2008, but nevertheless a very creditable result in the prevailing economic environment. The post-tax return on equity reduced to 10.1% compared with 12.4% in 2008.

The Directors were able to pay dividends totalling EUR 20.9m in 2009 (comprising a final dividend of EUR 14.9m for 2008 and an interim dividend of EUR 6.0m for 2009), and a further dividend of EUR 9m is to be proposed at the forthcoming Annual General Meeting.

The Bank continues to exercise tight control over its mainly Sterling expenses, which are expressed in Euros for the purpose of the annual accounts. I am pleased to report that, in Sterling terms, the Bank's expenses reduced by 6.7% in 2009 as compared with 2008.

A provision of EUR 138.8k was raised during the year under review against a doubtful debt, however the Bank was also able to write back EUR 94k of provisions relating to impaired loans. At the end of 2009, provisions against impaired loans totalled EUR 4k.

There has been no change to the core business of the Bank, which remains the financing of trade to and from Iran, and the provision of commercial loans to selected corporate borrowers, with the commercial assets of the Bank being predominantly Iranian risk. The Bank is determined to maintain its conservative approach to lending, with most of its commercial loans being fully secured.

The crisis that engulfed a number of banks revealed serious deficiencies in liquidity management across the banking industry. In an effort to prevent similar problems in future, the FSA has introduced Individual Liquidity Adequacy Standards (ILAS), together with enhanced liquidity reporting. Under the ILAS regime, banks are required to carry out an Individual Liquidity Adequacy Assessment (ILAA) of the type and quality of liquidity resources held against the sources of liquidity risk that could occur under relevant stress scenarios. Bank Saderat PLC has completed its ILAA and anticipates that the strong liquidity levels held throughout the banking crisis will continue to be maintained going forward.

Also during 2009, in accordance with the Payment Services Directive, which derived from European legislation covering relationships between banks and their customers, the FSA introduced changes to the Conduct of Business Regime. In compliance with the Banking Conduct of Business Sourcebook, and in common with all other FSA regulated banks, BSPLC prepared and issued to all customers a leaflet containing its terms and conditions. BSPLC continues to support wholeheartedly the initiative to treat customers fairly.

I referred in my Statement last year to unsubstantiated allegations that had been made by the US authorities – namely, that the Bank Saderat Group had been used as a conduit of funds to Hezbollah. The Bank Saderat Group refutes these allegations and has requested the US authorities to produce any evidence they may have to justify their allegations. No such evidence has yet been provided.

I remain, as always, entirely confident in the anti-money laundering and counter terrorist financing systems and controls employed by the Bank. Specialist consultants have updated the Bank's Manual for Preventing Financial Crime, and have provided comprehensive training for all members of staff. All staff are required to follow the Bank's best practice procedures which comply with the risk based approach required by the Regulator.

I have no hesitation in repeating that Bank Saderat PLC, a UK Bank, complies fully with FSA regulations, with anti-money laundering and counter terrorist financing regulations, with international banking practices and standards, and with the laws of England and Wales.

I take this opportunity to thank those members of the international banking community that have continued to offer support in recent years. The Bank will make every effort to reciprocate this goodwill in years to come.

Despite the challenging and difficult business and political environment, I have been fortunate enough to enjoy the support of the management and staff of the Bank, whose dedication to the continuing success of the Bank remains unwavering. I am most grateful to them for their continuing contribution to the Bank's success.

Dr H Borhani
Chairman.

REPORT OF THE DIRECTORS
for the year ended 31st December 2009

The directors present their annual report together with the audited financial statements for the year ended 31st December 2009.

Activities of the Bank
The principal activity of the Bank is the business of banking. This is more fully described in the Chairman's statement on pages 4 to 8 and in the list of banking services on page 39.

Business review
The directors of the Bank consider that the key management issues essential to the successful development of the Bank's business are the maintenance of a healthy liquidity position and a strong capital base, and to optimise the volume of business undertaken. The directors also apply constant effort to the improvement of profitability and quality of new business whenever possible and the management of non-performing loans. It is also an objective to maximise gains from trading foreign exchange without holding large open currency positions, which serves to boost profits without significant use of capital, and to control administrative expenses through close monitoring of the cost to income ratio and strict budgetary control.

These matters are explained in more detail in the Chairman's statement on pages 4 to 8, whilst performance measurement statistics are provided on page 38.

Share capital

The Bank's issued share capital at 31st December 2009 was 162,392,300 ordinary shares of € 1 each, fully paid.

REPORT OF THE DIRECTORS (continued)

Results and dividend
The results for the year are set out in the profit and loss account on page 16.

Profit on ordinary activities after taxation for the year ended 31st December 2009 was € **16,388,846** (2008: € 20,190,354). The directors proposed and paid dividends in the year ended 31st December 2009 of 12.865 cents per ordinary share totalling € 20,891,770 (2008: € 21,656,753).

A further dividend of € 9,004,652 (5.545 cents per share) is to be proposed at the Bank's Annual General meeting to be held on 11th March 2010.

Future developments
Future developments are described in the Chairman's statement.

Risk management
The principal risks facing the Bank are liquidity risk, interest rate risk, credit risk and foreign exchange risk. The measurement and management of these risks is explained in note 17. Strategic risk, including political risk and economic risk, is dealt with in the Chairman's statement on pages 4 to 8. Operational risk, including the risk of non-compliance with regulatory and legal requirements, is managed by strict adherence to detailed and comprehensive procedures together with high-level managerial oversight of the Bank's operations.

Basel II, Pillar 3 Disclosure

Financial institutions within the scope of Basel II are required to disclose information about their risk exposures and the risk assessment processes they have used. These disclosures are in addition to those required in the Annual Report and Financial Statements by FRS 29, and form Pillar 3 of the Basel II framework.

REPORT OF THE DIRECTORS (continued)

Basel II is implemented in the European Union (EU) via the Capital Requirements Directive (CRD) which brings together the EU Banking Consolidation Directive and the EU Capital Adequacy Directive.

The CRD consists of three "pillars". Pillar 1 sets out the minimum capital requirements banks are required to meet for credit, market and operational risk. Under Pillar 2, banks and their supervisors at the Financial Services Authority (FSA) assess whether additional capital is required to cover risks not covered in Pillar 1.

Pillar 3 compliments the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) with the aim of developing a set of disclosure requirements which enable market participants to assess information on a bank's risks, capital and risk management procedures.

In the second section of this report (pages 40 to 55) which has not been audited, Bank Saderat PLC explains the risks inherent in its business and the structure and procedures that its Board of Directors have established to manage those risks. It also explains the Bank's capital structure and how capital adequacy is managed. This information is also available on the Bank's website at www.saderat-plc.com

Suppliers' policy statement

Our policy is to pay all suppliers' invoices within 30 days of invoice date, or as otherwise agreed. The Bank paid trade creditors during the year ended 31st December 2009 at an average of 7.3 days (2008: 9.4 days)

Directors

The membership of the Board is shown on page 3. Mr R. J. Speedy was appointed as a Non-Executive Director of the Bank on 1st January 2009. The directors had no interest in the capital of the parent company.

The following directors had a beneficial interest in the Bank's ordinary shares:

	No. of Shares	
	31st December 2009	1st January 2009
Dr H. Borhani	1	1
S. Iranzad	1	1

No other director had an interest in the Bank's ordinary shares during the year.

REPORT OF THE DIRECTORS (continued)

Charitable and political donations

The Bank made charitable donations during the year of € Nil (2008: € 124). No donations were made to political parties. (2008: £nil)

Auditors

The directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

A resolution to re-appoint Grant Thornton UK LLP as auditors for 2010, will be proposed at the Annual General Meeting.

By order of the Board

R. G. Wetton
Secretary
London, 11th March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 UK 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 adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Directors' Responsibilities (continued)

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK SADERAT PLC

We have audited the financial statements of Bank Saderat PLC for the year ended 31st December 2009 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement, the reconciliation of movement and in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities set out on pages 13 and 14 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and United Kingdom Accounting Standards. Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London, England
11th March 2010

PROFIT AND LOSS ACCOUNT
for the year ended 31st December 2009

	Notes	31.12.2009 €	31.12.2008 €
Interest receivable:			
- interest receivable and similar income arising from debt securities		148,963	1,050,447
- other interest receivable and similar income		42,954,078	64,118,134
Interest income		43,103,041	65,168,581
Less: interest payable		(15,129,710)	(31,754,053)
Net interest income		**27,973,331**	**33,414,528**
Fees and commissions receivable		1,114,400	1,312,258
Less: fees and commissions payable		(3,023)	(17,368)
Dealing profits	2	137,813	350,576
Other operating income/(expense)	3	(41,022)	(514,425)
Operating income		**29,181,499**	**34,545,569**
Administrative expenses	4	(5,800,651)	(6,014,869)
Depreciation of fixed assets	14	(497,355)	(510,794)
Provision against impaired debt	15	(138,841)	-
Recovery of impairment losses	13	94,737	321,574
Profit on ordinary activities before taxation	6	**22,839,390**	**28,341,480**
Tax on profit on ordinary activities	8	(6,450,544)	(8,151,126)
Profit on ordinary activities after taxation for the financial year		**16,388,846**	**20,190,354**

The statement of accounting policies and the notes on pages 20 to 37 form part of these financial statements.

The profit for the year above arises solely from continuing operations.

BALANCE SHEET
as at 31st December 2009

	Notes	31.12.2009	31.12.2008
		€	€
Assets			
Cash and balances at banks	9	5,230,855	15,736,241
Loans and advances to banks	10	415,406,002	403,831,307
Loans and advances to customers	11	211,680,003	230,253,583
Debt securities	12	720,564	78,122
Tangible fixed assets	14	13,916,864	14,404,122
Other assets	15	1,366,631	1,991,340
Prepayments and accrued income		400,113	143,769
Total Assets		**648,721,033**	**666,438,484**

	Notes	31.12.2009	31.12.2008
		€	€
Liabilities			
Deposits by banks	18	387,248,443	392,312,667
Customer accounts	19	19,188,637	26,029,983
Derivative liabilities	26	-	1,948,206
Other liabilities	20	6,691,426	8,845,050
Subordinated loan	21	60,290,490	57,609,721
Called up share capital	22	162,392,300	162,392,300
General Banking risk reserve	24	2,521,239	2,409,134
Profit and loss account	23	10,388,499	14,891,423
Equity shareholders' funds	23	175,302,038	179,692,857
Total Liabilities		**648,721,033**	**666,438,484**
Commitments	25	66,571,206	49,327,757
Contingent liabilities	25	1,510,107	2,203,353

The financial statements on pages 16 to 37 were approved by the Board of Directors on 11th March 2010 and signed on its behalf by:

Dr H. Borhani

S. Iranzad

The statement of accounting policies and the notes on pages 20 to 37 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st December 2009

	Notes	31.12.2009 €	31.12.2008 €
Profit for the financial year		16,388,846	20,190,354
Available-for-sale investments			
- valuation gains/(losses) taken to equity		-	9,565
- current tax on gains in the period	27	-	(3,035)
Total recognised gains and losses relating to the year		**16,388,846**	**20,196,884**

CASH FLOW STATEMENT
for the year ended 31st December 2009

	Notes	31.12.2009 €	31.12.2008 €
Net cash inflow from operating activities	28(b)	6,763,575	21,182,108
Taxation			
Corporation tax paid		(3,010,323)	(8,006,935)
Capital expenditure			
Purchase of tangible fixed assets		(10,097)	(43,127)
Net cash outflow from capital expenditure		(10,097)	(43,127)
Equity dividends paid		(20,891,770)	(21,656,753)
Decrease in cash	28(a)	**(17,148,615)**	**(8,524,707)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st December 2009

1 Accounting policies
(a) (i) Basis of accounting

The financial statements have been prepared under the historical cost convention except for the measurement at fair value of debt securities and derivative assets and liabilities, and in accordance with applicable United Kingdom accounting standards and the provisions relating to banking companies in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

(a) (ii) Functional and presentation currency

The functional currency of the Bank and the presentation currency of these financial statements is the Euro.

(b) Revenue recognition

(i) Interest receivable

Interest receivable from financial assets classified as loans and advances or debt securities is calculated using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

When a receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues to unwind the discount as interest income.

(ii) Rendering of services and commissions

Fees that are an integral part of generating an involvement with a resulting financial instrument, together with the related direct costs, are included in the measurement of the effective interest rate. When the financial instrument is measured at fair value, with the change in fair value recognised in the profit and loss account, the fees are recognised as revenue when the instrument is initially recognised.

If it is probable that a specific lending arrangement will be entered into, the commitment fee received, together with the related direct costs, is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making the loan, the fee is recognised as revenue on expiry.

If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Fees earned for services provided are recognised as revenue over the period that the service is provided.

Syndication fees received for arranging a loan and retaining no part of the loan (or retaining a part at the same effective interest rate for comparable risk as other participants) are recognised as revenue when the syndication has been completed.

(c) Depreciation of tangible fixed assets

Freehold land is not depreciated. Depreciation of tangible fixed assets is provided for on a straight-line basis in order to write off the cost of the assets over their expected useful lives as follows:

Freehold property	2% p.a.
Refurbishment costs	12.5% p.a.
Office equipment and furniture	20% p.a.
Motor vehicles	25% p.a.
Computer equipment	25% p.a.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(d) Impairment of financial assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit and loss account.

(e) Foreign exchange

(i) Transactions in currencies other than the Euro are translated into Euros at the middle market spot exchange rate ruling at the date of the transaction.

(ii) Monetary assets and liabilities denominated in other currencies are translated into Euros in the balance sheet at the middle market spot rates of exchange ruling at the close of business on the balance sheet date. Exchange differences are recognised in the profit and loss account.

(f) 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 recent 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.

(g) Derivative assets and liabilities

The Bank’s activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Bank uses derivative assets and liabilities (primarily foreign currency swaps) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Bank’s policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Bank’s risk management strategy. The Bank does not use derivative assets and liabilities for speculative purposes. Derivative assets and liabilities are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(h) Loans to customers and discounted amounts receivable

Loans to customers and discounted amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor, with no intention of trading the receivable. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(i) Debt securities

Investments in debt securities are recognised in the balance sheet from the date of purchase and are classified as available-for-sale and measured at subsequent reporting dates at fair value using quoted market prices where available. Unquoted investment securities are stated at cost. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity as an available-for-sale reserve except for foreign exchange gains and losses, interest recognised under the effective interest method and impairment losses which are taken to profit and loss account, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit and loss account for the period.

Impairment losses recognised in the profit and loss account for equity investments classified as available-for-sale are not subsequently reversed through the profit and loss account. Impairment losses recognised in the profit and loss account for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(j) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method (see (b) (i) above).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Dealing profits

	31.12.2009	31.12.2008
	€	€
Foreign exchange	**137,813**	**350,576**

Dealing profits arose from customer spot and forward foreign exchange contracts.

3 Other operating income/expense

	31.12.2009	31.12.2008
	€	€
Revaluation of FX forwards	(41,022)	(629,575)
Dividend income	-	115,150
	(41,022)	**(514,425)**

4 Administrative expenses

	31.12.2009	31.12.2008
	€	€
Salaries and wages	2,670,573	3,043,933
Social security costs	344,674	379,292
Defined contribution pension scheme costs	583,888	454,720
Staff costs	3,599,135	3,877,945
Other administrative expenses	2,201,516	2,136,924
	5,800,651	**6,014,869**

The average number of persons employed by the Bank, including the Executive Director, was 54 (2008: 56), of whom 4 (2008: 4) were employed outside the UK.

5 Directors' emoluments and transactions with directors

	31.12.2009	31.12.2008
	€	€
Directors' salaries and fees	261,150	236,058
Performance bonus	24,319	25,519
Pension contribution	115,249	132,467
	400,718	**394,044**

Number of directors in Money Purchase Pension Scheme is 1 (2008: 1).

The aggregate emoluments of the highest paid director, excluding pension contributions, were €202,102 (2008: €184,683). The amount paid into pension scheme for the highest paid director was €115,249 (2008: €132,467).

Transactions with directors

At 31st December 2009 €2,397 (2008: €5,237) was outstanding in respect of loans to the Managing Director. There were no amounts (2008: €nil) outstanding in respect of loans to other directors of the Bank. No interest arrears or provisions were outstanding at 31st December 2009 (2008: €nil).

6 Profit on ordinary activities before taxation

	31.12.2009	31.12.2008
Is stated after charging:	€	€
Auditors' remuneration:		
Fees payable to the Bank's auditor for the audit of the annual financial statements	77,181	72,274
All other services:	29,360	31,439

All other services referred to above includes a review of the Bank's Interim Financial Report for the half-year ended 30th June 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 Pension costs

With effect from 31st January 2002, the Bank's defined benefit pension scheme, the Iran Overseas Investment Bank PLC Retirement Benefits Scheme (the "Scheme"), was closed and all active members became deferred pensioners.

As at 31st December 2009 the assets of the scheme were nil having been used to settle the liabilities in respect of individual members' benefits by the purchase of deferred annuities from Legal & General Assurance Company, or by the payment of individual transfer values to another pension scheme or personal pension plan.

As the scheme has been terminated, an indemnity has been given by the Bank to each trustee against any possible action by a scheme member and the Bank has become the sole corporate trustee of the scheme.

The costs of providing pension benefits to staff under the defined contribution scheme are charged to the profit and loss account monthly.

8 Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities:

	31.12.2009	31.12.2008
	€	€
United Kingdom corporation tax based on the profits for the year at 28% (2008: 28.5%)	(6,528,177)	(7,702,056)
Adjustment to tax charge in respect of prior periods	(2,026)	(251,679)
	(6,530,203)	**(7,953,735)**
Deferred tax:		
Timing differences, origination and reversal	72,168	(421,656)
Adjustment in respect of prior years	7,491	243,324
Change in rate of Corporation Tax from 28.5% to 28%	-	(19,059)
Deferred taxation (note 27)	79,659	(197,391)
Corporation tax charge for the year	**(6,450,544)**	**(8,151,126)**

Factors affecting tax charge for the current year
The tax assessed for the year was higher (2008: higher) than that resulting from applying the standard rate of corporation tax in the UK of 28% (2008: 28.5%).

The differences are explained below:	31.12.2009	31.12.2008
	€	€
Profit on ordinary activities before tax	22,839,390	28,341,480
Tax at 28% (2008: 28.5%) thereon:	(6,395,029)	(8,076,528)
Effects of:		
Expenses not deductible for tax purposes	(60,980)	(62,124)
Depreciation in excess of Capital allowances	(40,779)	(25,078)
Profit on revaluation of banking reserve	(31,389)	205,821
Profit on revaluation of Sterling assets	-	223,039
Dividend Income	-	32,815
Adjustment to tax charge in respect of prior years	(2,026)	(251,679)
	(6,530,203)	**(7,953,735)**

9 Cash and balances with banks

	31.12.2009	31.12.2008
	€	€
Amounts include:		
Balances held with group companies	1,192,945	745,030

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Loans and advances to banks

	31.12.2009	31.12.2008
	€	€
Repayable on demand	7,407,141	14,050,370
Other loans and advances		
Remaining maturity:		
- three months or less but over one day	269,066,159	202,924,282
- one year or less but over three months	138,936,357	162,317,068
- five years or less but over one year	-	24,545,455
Less allowance for losses on loans and advances to banks (note 13)	(3,655)	(5,868)
	415,406,002	**403,831,307**

Non performing loans and advances to banks of € 3,655 were fully provided for at 31st December 2009 (2008: € 5,868).

Amounts above include:		
Due from group companies	41,230,167	34,563,552

Loans and advances to banks consisted of loans arising from trade finance activity and money market lending. These were as follows:

	31.12.2009	31.12.2008
	€	€
Trade finance related loans	134,627,215	198,326,888
Money market loans	280,778,787	205,504,419
	415,406,002	**403,831,307**

11 Loans and advances to customers

	31.12.2009	31.12.2008
	€	€
Repayable on demand	-	-
Remaining maturity:		
- three months or less	15,144,152	9,858,360
- one year or less but over three months	56,767,186	22,219,201
- five years or less but over one year	138,347,520	196,685,565
- over five years	1,421,146	1,671,147
Less allowance for losses on loans and advances to customers (note 13)	(1)	(180,690)
	211,680,003	**230,253,583**

Non performing loans and advances to customers:		
- before impairment allowances	1	180,690
- after impairment allowances	-	-

12 Debt securities

	31.12.2009	31.12.2008
	Fair value	Fair value
	€	€
Bank certificates of deposit due within one year	720,564	78,122
	720,564	**78,122**

The securities detailed above do not include any amounts relating to government securities, subordinated securities or amounts due from group or other associated undertakings.

At 1st January 2008 The Bank held debt securities of € 95,858,643, these matured during the first quarter of 2008, giving rise to the comparative income shown on the Profit and Loss account.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Impairment provisions against loans and advances

	2009	2008
	€	€
At 1st January	**186,558**	**606,648**
Exchange adjustments	(1,599)	(17,758)
Written off against loans	(86,566)	(80,759)
Recoveries	(94,737)	(321,574)
At 31st December	**3,656**	**186,558**
Loans and advances		
- to banks (note 10)	3,655	5,868
- to customers (note 11)	1	180,690
	3,656	**186,558**

14 Tangible Fixed assets

	Freehold property	Motor Vehicles	Office equipment, furniture, fixtures and fittings	Total
	€	€	€	€
Cost				
At 1st January 2009	15,569,129	173,845	3,954,871	19,697,845
Additions	-	-	10,097	10,097
Write off of fully depreciated, obsolete, tangible fixed assets	-	-	(40,507)	(40,507)
At 31st December 2009	**15,569,129**	**173,845**	**3,924,461**	**19,667,435**
Depreciation				
At 1st January 2009	2,003,788	168,378	3,121,558	5,293,724
Charge for the year	100,701	4,684	391,969	497,354
Write off of fully depreciated, obsolete, tangible fixed assets	-	-	(40,507)	(40,507)
At 31st December 2009	**2,104,489**	**173,062**	**3,473,020**	**5,750,571**
Net book value at 31st December 2009	**13,464,640**	**783**	**451,441**	**13,916,864**
Net book value at 31st December 2008	**13,565,341**	**5,467**	**833,314**	**14,404,122**

Freehold property is occupied for own use.
Office refurbishment costs are included in Office equipment, furniture, fixtures and fittings.

15 Other assets

	31.12.2009	31.12.2008
	€	€
Other debtors	1,366,631	1,991,340
	1,366,631	**1,991,340**

Other debtors includes € 1,917,676 of funds blocked in the United States of America (2008: € 1,979,373). A provision of € 668,110 (2008: € 529,271) has been raised against this debt.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Segmental analysis

Analysis of geographical segments

The Bank does not specifically match deposit liabilities against assets and therefore, allocation of net assets by geographic region is not meaningful. The directors believe that it is more meaningful to analyse total assets by reference to region of ultimate risk and to similarly analyse operating income. These analyses are shown in the table below:

		2009		2008	
		€ '000	€ '000	€ '000	€ '000
		Assets at 31.12.09	Operating income	Assets at 31.12.08	Operating income
Region:	Europe	304,483	4,065	240,894	7,330
	Middle East	344,010	24,710	414,796	24,051
	Other	228	406	10,748	3,165
Total assets / Operating income		**648,721**	**29,181**	**666,438**	**34,546**
Deposit accounts and other liabilities		(473,419)		(486,746)	
Net assets		**175,302**		**179,692**	

17 Risk management

The core business of the Bank includes the provision of trade and project finance, term lending in Euros and other major currencies, foreign exchange and money market transactions and commercial banking services. These activities expose it to a variety of risks, the most significant being: market risk, liquidity risk and credit risk.

Market risk is the potential adverse change in the Bank's net assets or income arising from movements in interest rates, foreign exchange rates or other market prices. Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due owing to insufficient financial resources. Credit risk is the risk of financial loss as counterparties and borrowers are unable to meet their obligations as they fall due.

Risk management framework

The full Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Sub-committees of the Board have been established to manage the various risks including the Executive Board of Directors, the Audit Committee, the Risk Monitoring Committee, the Assets and Liabilities Committee and the Credit Committee. The Executive Board of Directors and the Risk Monitoring Committee have both executive and non-executive members; the Audit Committee has only non-executive members; and the Assets and Liabilities Committee and the Credit Committee have only executive members. These committees report regularly to the full Board of Directors.
The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank uses financial derivative instruments to manage currency risk on funding positions and interest rate risk on fixed rate debt securities where appropriate.

Types of derivatives and their uses

Currency derivatives

The Bank uses cross currency swaps to eliminate currency risk on long or short lending positions against funding. In order to reflect the true economic impact to the Bank of the hedge, internal swaps are entered into with Treasury in addition to the currency swap with the customer. The customer swaps are revalued daily against spot and forward rates and any change is recognised immediately in the profit and loss account.

There were no currency swap contracts outstanding as at 31st December 2009.

Interest rate derivatives

The Bank uses interest rate swaps to eliminate interest rate risk on fixed rate debt securities.

There were no interest rate swap contracts outstanding at 31st December 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Risks to which the Bank is subject

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations from its financial liabilities as they become due.

Investments, including debt securities, are held primarily for liquidity purposes.

Management of liquidity risk

The Board of Directors has set liquidity limits for the Bank based upon a percentage of net liabilities maturing up to one month. A limit has also been agreed with the regulator, the Financial Services Authority (FSA), whereby call deposits and liabilities maturing within one month will be at the least, fully matched by maturing assets. In order to protect the Bank from adverse conditions in a volatile market, the Bank's liquidity policy states that cash, or immediately liquefiable assets, to a value of £20 million will be held at all times in the form of UK Treasury Bills, Gilts, Sterling or Euro denominated Certificates of Deposit, Certificates of Tax Deposit, marketable Floating Rate Notes or overnight deposits with top quality banks. Any Certificates of Deposit must have a residual maturity of twelve months or less, issued by investment grade banks and be capable of immediate sale in the London market. FRNs must have a residual maturity, or put option, of five years or less (unless specifically approved by the Managing Director).

Should the Bank experience either a material decrease in its deposit levels or a failure of assets being repaid on due date, additional liquefiable assets shall be purchased, dependant upon the prevailing circumstances.

The daily liquidity position is monitored and reported on, both to Senior Management and, currently, to the FSA. In monitoring liquidity, negotiable assets, including CDs and bonds held for investment purposes are treated as representing a cash inflow within the sight to 8 day period but are discounted to reflect the possibility of the Bank being unable to realise book value should a liquidity crisis occur. Discounts applied to negotiable assets at 31st December 2009 were Zone A banks denominated in Zone A currency with a remaining maturity up to six months, 5%; Zone B Governments and Central Banks denominated in Zone A currency with a remaining maturity of up to one year, 20%.

The maturity profile of deposits is reported monthly to the Assets and Liabilities Committee, which is chaired by the Managing Director. Proceedings at the Assets and Liabilities Committee are reported to the Executive Board and full Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Exposure to liquidity risk

Residual contractual maturities of assets and liabilities

In € '000s	**Sight to Eight days**	**Eight days to one month**	**One month to one year**	**Over one year and undated**	**Total**
31st December 2009					
Assets					
Cash, loans and advances to banks and customers	159,814	110,390	270,898	91,215	632,317
Debt securities	-	-		720	720
Tangible fixed assets	-	-	-	13,917	13,917
Other assets	-	-	-	1,367	1,367
Prepayments and accrued income	-	-	-	400	400
Total maturing assets	159,814	110,390	270,898	107,619	648,721
Liabilities					
Deposits by banks/customer accounts	61,124	15,536	329,777	-	406,437
Other liabilities	-	-	2,855	3,836	6,691
Shareholders' funds	-	-	-	175,302	175,302
Subordinated loan	-	-	60,290	-	60,290
Total maturing liabilities	61,124	15,536	392,922	179,138	648,721
Net liquidity surplus/(deficit) per	98,690	94,854	(122,024)	(71,520)	-
Cumulative surplus/(deficit)	98,690	193,544	71,520	-	

In € '000s	**Sight to Eight days**	**Eight days to one month**	**One month to one year**	**Over one year and undated**	**Total**
31st December 2008					
Assets					
Cash, loans and advances to banks and customers	240,490	9,605	276,564	123,162	649,821
Debt securities	-	-		78	78
Tangible fixed assets	-	-	-	14,404	14,404
Other assets	-	-	-	1,991	1,991
Prepayments and accrued income	-	-	-	144	144
Total maturing assets	240,490	9,605	276,564	139,779	666,438
Liabilities					
Deposits by banks/customer accounts	89,142	10,060	316,968	2,172	418,342
Derivative liabilities	1,948	-	-	-	1,948
Other liabilities	-	-	3,134	5,711	8,845
Shareholders' funds	-	-	-	179,693	179,693
Subordinated loan	-	-		57,610	57,610
Total maturing liabilities	91,090	10,060	320,102	245,186	666,438
Net liquidity surplus/(deficit) per	149,400	(455)	(43,538)	(105,407)	-
Cumulative surplus/(deficit)	149,400	148,945	105,407	-	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit risk

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial loss. Credit risk arises principally from the Bank's lending book and from discounting of letters of credit, also to a lesser extent, from its holdings of investment securities and from the settlement of derivative contracts. The Board of Directors agrees limits for lending based upon country of exposure, industrial sector and individual bank or customer. A report of full credit exposures against limits by country is included in the monthly management accounts and circulated to all Directors and Senior Managers. A report of credit exposures against limits by industrial sector is presented monthly to the Assets and Liabilities Committee. Any excesses of exposures against limits are reported immediately to the Managing Director and subsequently, to the Executive Board and Full Board of Directors. The Bank's objective is to maximise credit exposure within the predefined limits whilst containing credit risk to an acceptable level by taking collateral in the form of security or guarantees.

Concentrations of credit risk

The table below shows the Bank's geographic concentrations of credit risk as at 31st December 2009:

	Iran	**Germany**	**United Kingdom**	**Other**	**Total**
	€ '000	€ '000	€ '000	€ '000	€ '000
Cash and balances at banks	1,293	389	3,070	479	5,231
Loans and advances to banks	101,856	97,950	101,814	113,786	415,406
Loans and advances to customers	211,680	-	-	-	211,680
Debt securities	721	-	-	-	721
	315,550	98,339	104,885	114,265	633,038
At 31st December 2008					
Cash and balances at banks	10,844	731	2,686	1,476	15,736
Loans and advances to banks	193,931	66,950	79,501	63,449	403,831
Loans and advances to customers	199,355	-	20,151	10,748	230,254
Debt securities	78	-		-	78
Derivative assets	-	-	19,800	(19,800)	-
	404,208	67,681	122,138	55,873	649,899

The concentrations of credit risk shown above specifically exclude tangible fixed assets, other assets and prepayments as these items do not have a credit risk.

Non-bank credit exposures by industrial sector.

	at 31st December 2009			**at 31st December 2008**		
	Outstanding	**Limit**	**Capacity**	**Outstanding**	**Limit**	**Capacity**
€000						
Automotive	9,000	48,000	39,000	18,000	48,000	30,000
Transport	21,000	73,000	52,000	31,000	73,000	42,000
Shipping	2,000	73,000	71,000	7,000	73,000	66,000
Utilities	12,000	73,000	61,000	25,000	73,000	48,000
Metals	2,000	48,000	46,000	3,000	48,000	45,000
Construction	40,000	73,000	33,000	56,000	73,000	17,000
Food	1,000	48,000	47,000	2,000	48,000	46,000
Oil/gas/petroleum	65,000	146,000	81,000	54,000	146,000	92,000
Investment companies	60,000	97,000	37,000	35,000	97,000	62,000
	212,000	679,000	467,000	231,000	679,000	448,000

Collateral management

The Bank reduces credit risk by taking collateral where management considers the amount of an exposure or the covenant to be such that additional security is prudent. This collateral may take the form of listed shares, to a value in excess of the exposure, other securities or guarantees. Where listed shares or other securities are taken as collateral, the open market value of the collateral compared to the credit exposure is regularly monitored by management. Where a guarantee is in place, the underlying ability of the guarantor to meet their obligations is regularly assessed by management.

The Board of Directors has agreed to three tranches of loans backed by Tehran Stock Exchange share collateral of between 150 and 200% of the drawn loans. Tranche A has a maximum amount of the equivalent of Euro 110 million, tranche B has a maximum of the equivalent of Euro 55 million and has a convertibility guarantee from Bank Saderat Iran that, should the Bank encounter difficulty in exchanging the Iranian Rials generated by the realisation of the share collateral, then Bank Saderat Iran will convert the Rials into readily convertible currency. Tranche B applies to loans for up to three years original maturity agreed during the year commencing 1st January 2009. Tranche C has a maximum loan amount of the equivalent of Euro 37 million. Tranches A and C do not have a convertibility guarantee.

At 31st December 2009, loans and advances to customers amounting to € 123 million were secured by Tehran Stock Exchange listed shares and € 89 million of loans and advances to customers were secured by guarantees, mortgages or other forms of collateral. (2008: € 125 million and € 102 million, respectively). Where collateral is provided by a third party, the third party becomes subject to the same annual credit review as the primary borrower. The Bank has the right to call on its security in the event of customer default on principal or interest repayments.

The following table identifies the level of cover afforded by the security held for the € 123 million of loans and advances to customers which are collateralised by shares of companies listed on the Tehran stock exchange,

€ Millions	200% cover and greater	150 to 199% cover	125 to 149% cover	Total
Tranche A	36	37	0	73
Tranche B	23	24	0	47
Tranche C	3	0	0	3
	62	61	0	123

The internal credit rating system

The Bank has developed an internal credit rating system which is used to determine whether or not the Credit Committee may approve a loan or advance, or whether higher level approval should be sought from either the Executive Board or full Board of Directors. The system is also used in conducting annual reviews of borrowers to assess their on-going credit standing and to consider whether a loan or advance should be placed on a "watch list" due to a deteriorating assessment of the borrower. The system is based upon a points scoring method with points awarded against various criteria from an analysis of accounts provided by borrowers. The sum of the points awarded determines the classification of each borrower from A (the highest rating) to D (the lowest). It is likely that any D rated borrowers would be in default resulting in the raising of a provision against the debt.

At 31st December 2009 € 119,970,000 (60.4%) of loans were classified as A or B, € 58,235,000 (29.3%) were classified C, € 473,000 (0.2%) classified D and € 19,979,000 (10.1%) were unclassified which is the amount of the Iran Railway Loan which, being a wholly-owned Government entity, does not produce accounts in a format that allows the application of the Bank's internal credit rating system.

The Bank does not apply the internal credit rating system to cash, loans to banks, debt securities, derivatives or financial guarantees.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement through the default of the borrower and the inability to realise adequate collateral, for whatever reason. When a loan or advance is deemed to be impaired, the Bank raises a provision for the amount which is determined to be unrecoverable and reduces the amount of the loan or advance on the balance sheet by the amount of the provision.

At 31st December 2009, loans and advances to banks amounting to € 3,655 (2008: € 5,868) were deemed to be in default and had a 100% provision raised against them and loans and advances to customers amounting to € 1 (2008: € 180,690) were also deemed to be in default and had a 100% provision raised against them . Impaired loans and advances represented 0.001% of total loans and advances at 31st December 2009 (2008: 0.03%).

					Collateral		
2009	**Total**	**Neither Past Due nor Impaired**	**Past Due but not Impaired**	**Impaired**	**Secured by TSE Shares**	**Secured by guarantee**	**Other forms of collateral**
Cash	5,231	5,231	-	-	-	-	-
Loans and advances to Banks	415,406	415,402	-	4	-	-	-
Loans and advances to customers	211,680	202,572	9,108	-	122,909	45,466	43,305
Debt Securities	721	721	-	-	-	-	
	633,038	623,926	9,108	4		211,680	

As at 31st December 2009, € 7.96 million of principal was overdue. Of this amount € 0.5 million is subject to a guarantee by the parent company. The remaining € 7.5 million is awaiting payment. € 1.15 million (2008: € 1.08 million) of interest was past due at the end of the year.

	Less than one month		More than one month and less than three months		
	€ 000s		€ 000s	€ 000s	€ 000s
By Industry Sector € 000s	**Past Due Principal**	**Past Due Interest**	**Past Due Principal**	**Past Due Interest**	**Total**
Transport	-	-	473	-	473
Investment Companies	1,500	285	1,818	816	4,419
Construction	1,388	51	2,777	-	4,216
Oil/Gas/Petroleum	-	-	-	-	-
	2,888	336	5,068	816	9,108

The past due amount are secured as follows:

	By Shares Listed on the TSE (Tehran Stock Exchange)		By Guarantee	Total
	150 to 199% cover	**200% cover and greater**		
Transport	-	-	473	473
Investment Companies	1,818	-	-	1,818
Construction	-	4,216	2,601	6,817
Oil/Gas/Petroleum	-		-	-
	1,818	4,216	3,074	9,108

The Directors are of the opinion that should it be deemed necessary to realise the security, in all the above instances sufficient funds would be realised to repay the amounts outstanding.

Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates and is measured by analysing assets and liabilities into time bands according to their maturity or next interest repricing date, whichever is the earlier. This risk is then managed by entering into financial derivatives where appropriate, to alter the interest basis of an asset or liability and by matching, as much as is possible, the time bands in which assets and liabilities mature or are repriced.

Interest rate gaps are managed by the Treasurer within limits established by the Board of Directors and are monitored by the Assets and Liabilities Committee.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Interest rate gap sensitivity analysis

The following interest rate gaps appeared at 31st December 2009.

As at 31st December 2009

	Less than three months €'000	More than three months but less than six months €'000	More than six months but less than one year €'000	Total €'000
Assets				
Cash, loans and advances to banks and customers	458,219	108,654	65,444	632,317
Debt securities	-	-	720	720
Tangible fixed assets	-	-	13,917	13,917
Other assets	-	-	1,367	1,367
Prepayments and accrued income	-	-	400	400
Total assets	**458,219**	**108,654**	**81,848**	**648,721**
Liabilities				
Deposits by banks & customer accounts	401,714	1,330	3,393	406,437
Other liabilities	-	-	6,691	6,691
Shareholders' funds	-	-	175,302	175,302
Subordinated loan	-	60,290	-	60,290
Total liabilities	**401,714**	**61,620**	**185,387**	**648,721**
Interest rate sensitivity gap	**56,505**	**47,034**	**(103,539)**	**-**

The Bank does not have interest rate gaps in excess of one year since all interest earning assets and interest bearing liabilities, with the exception of the debt securities, have their interest rates re-set within one year. Non-interest earning assets and non-interest bearing liabilities are included in the "More than six months but less than one year" time band as they either contribute to the funding of, or are funded by assets and liabilities which, themselves are repriced within this period.

The effect of a 2% movement in interest rates across all currencies and all dates at 31st December 2009 was € 7,183,888 (31st December 2008: € 2,794,454). This calculation assumes that all interest rate gaps were closed in the market by taking deposits or placing amounts at interest rates 2% above or below the actual rate applied to each gap in each currency.

As at 31st December 2008

	Less than three months €'000	More than three Months but less than six months €'000	More than six months but less than one year €'000	Total €'000
Assets				
Cash, loans and advances to banks and customers	414,000	100,814	135,007	649,821
Debt securities	-	-	78	78
Tangible fixed assets	-	-	14,404	14,404
Other assets	-	-	1,991	1,991
Prepayments and accrued income	-	-	144	144
Total assets	**414,000**	**100,814**	**151,624**	**666,438**
Liabilities				
Deposits by banks & Customer accounts	407,722	92	10,528	418,342
Derivative liabilities	1,948	-	-	1,948
Other liabilities	-	-	8,845	8,845
Accruals and deferred income	-	-	179,693	179,693
Shareholders' funds	-	57,610	-	57,610
Subordinated loan				
Total liabilities	**409,670**	**57,702**	**199,066**	**666,438**
Interest rate sensitivity gap	**4,330**	**43,112**	**(47,442)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Currency risk

Currency risk is the risk that the Bank will suffer loss as a result of movements in foreign exchange rates.

The Bank seeks to mitigate its foreign exchange risk by entering into currency swaps where appropriate. The exposure to currency risk is measured and monitored daily considering the position in terms of net exposure after the mitigating effect of the currency swaps. The Bank's risk-based foreign exchange policy precludes the holding of any significant net open positions however, from time-to-time, a relatively small foreign exchange position may be entered into for strategic reasons.

Net currency position analysis

The following analysis gives details of the Bank's assets and liabilities as at 31st December 2009 in Euros, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched or unmatched and the extent to which they are hedged by off-balance sheet instruments.

As at 31st December 2009

	US Dollar	United Arab Emirates Dirhams	Euros	Other Currencies	Sterling	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Assets						
Cash, loans and advances to banks	806	10,285	400,653	336	8,557	420,637
Loans and advances to customers	28,840	3,315	169,102	-	10,423	211,680
Debt securities	-	-	-	721	-	721
Tangible fixed assets	-	-	13,916	-	-	13,916
Other assets	1,250	-	-	82	35	1,367
Prepayments and accrued income	-	-	-	-	400	400
Total assets	**30,896**	**13,600**	**583,671**	**1,139**	**19,415**	**648,721**
Liabilities						
Deposits by banks	24,362	11,692	341,032	185	9,977	387,248
Customer accounts	8,482	32	5,191	3	5,481	19,189
Derivative liabilities	-	-	-	-	-	-
Other liabilities	923	23	1,459	-	4,287	6,691
Shareholders' funds	-	-	175,302	-	-	175,302
Subordinated loan	-	-	60,290	-	-	60,290
Total liabilities	**33,768**	**11,747**	**583,273**	**188**	**19,746**	**648,721**
Net position	**(2,872)**	**1,853**	**399**	**951**	**(331)**	**-**
Off-balance sheet items						
Undrawn commitments	3,115	-	63,456	-	-	66,571
Guarantees and other obligations	-	-	1,510	-	-	1,510

As at 31st December 2008

	US Dollar	United Arab Emirates Dirhams	Euros	Other Currencies	Sterling	Total
	-	-	-	-	-	-
Assets						
Cash, loans and advances to banks	12,231	32,551	308,015	441	66,329	419,566
Loans and advances to customers	53,758	7,640	147,538	-	21,318	230,254
Debt securities	-	-	-	78	-	78
Tangible fixed assets	-	-	14,404	-	-	14,404
Other assets	1,782	-	(0)	-	209	1,990
Prepayments and accrued income	-	-	-	-	144	144
Total assets	**67,771**	**40,191**	**469,957**	**519**	**88,000**	**666,438**
Liabilities						
Deposits by banks	58,370	12,153	301,665	411	19,713	392,313
Customer accounts	14,272	327	6,832	4	4,595	26,030
Derivative liabilities	-	(19,800)	21,748	-	-	1,948
Other liabilities	1,880	21,987	(19,035)	-	4,014	8,845
Shareholders' funds	-	-	177,284	-	2,409	179,693
Subordinated loan	-	-	-	-	57,609	57,609
Total liabilities	**74,522**	**14,667**	**488,495**	**415**	**88,340**	**666,438**
Net position	**(6,751)**	**25,524**	**(18,537)**	**104**	**(340)**	**-**
Off-balance sheet items						
Undrawn commitments	-	-	49,328	-	-	49,328
Guarantees and other obligations	-	-	2,134	-	69	2,203

Sensitivity to movements in exchange rates.

As the value of the United Arab Emirate Dirham is pegged to the US$, any movement in the exchange rate would have an immaterial impact on the profit or loss on revaluation of currency positions at 31st December 2009. There has been no change from the previous year in the method and assumptions used to assess the Bank's sensitivity to exchange rate movements and the Directors do not consider that any further sensitivity analysis would be meaningful.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital management

The Bank seeks to maximise its capital base within the requirement to provide its shareholder with a return by way of dividend that compensates the shareholder for the cost of funding its investment in the share capital of the Bank at a level that is commensurate with its peers in the market and adequately reflects the risk to the shareholder. The Bank's regulator, the Financial Services Authority also sets and monitors, a minimum capital requirement based upon a prescribed ratio of capital to total risk-weighted assets.

The Banks capital for regulatory purposes is analysed into two tiers:

Tier 1 capital which includes ordinary share capital and retained earnings and tier 2 capital which includes qualifying subordinated debt, the general reserve and the available for sale reserve.

The regulatory capital of the bank at 31st December was:

	€'000	
	2009	**2008**
Ordinary share capital	162,392	162,392
General banking reserve	2,521	2,409
Retained earnings	10,388	14,891
Tier 1 capital	175,303	179,692
Shareholder's subordinated loan	60,290	57,610
Tier 2 capital	60,290	57,610
Total regulatory capital base	235,593	237,302

The regulatory capital base is stated before the declaration of a final dividend payable from the earnings of the year.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital and qualifying subordinated debt may not exceed 50 per cent of tier 1 capital.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

18 Deposits by banks

	31.12.2009	**31.12.2008**
	€	€
Repayable on demand	40,988,854	32,829,346
With agreed maturity dates or periods of notice		
Remaining maturity:		
- three months or less	346,259,589	359,483,321
- one year or less but over three months	-	-
- five years or less but over one year	-	-
	387,248,443	**392,312,667**

Amounts above include:

Due to group companies	11,101,324	25,098,996

19 Customer accounts

	31.12.2009	**31.12.2008**
	€	€
Repayable on demand	311,022	5,623,633
With agreed maturity dates or periods of notice		
Remaining maturity:		
- three months or less	15,051,286	18,412,011
- one year or less but over three months	3,826,329	1,994,339
	19,188,637	**26,029,983**

20 Other liabilities due within one year

	31.12.2009	**31.12.2008**
	€	€
Current taxation	2,778,375	2,772,933
Deferred taxation (note 27)	217,717	138,058
UK income tax and social security payable	77,108	84,287
Other liabilities and accrued expenses	3,618,227	5,849,772
	6,691,426	**8,845,050**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 Subordinated floating rate notes due 2022

Following resolutions of the Boards of Directors of the Bank as issuer and of Bank Saderat Iran as noteholder, the denomination of the loan stock was converted into € 60,290,490 (2008: £55,000,000) on 28th September 2009.

The loan stock is made up of three tranches constituting the "Subordinated Floating Rate Notes due 2022". The first tranche of € 13,154,289 (originally £12,000,000) was issued on the Luxembourg Stock Exchange in June 1998 and the second of € 7,673,335 (originally £7,000,000) was issued on the Luxembourg Stock Exchange in August 2000. Both were converted into "Subordinated Floating Rate Notes due 2022" on 19th December 2002. The third tranche of € 39,462,866 (originally £36,000,000) was issued on the Luxembourg Stock Exchange on 18th September 2002.

The rate of interest is 1 year LIBOR plus 3% per annum (previously, 5 year LIBOR plus 0.25% per annum), reset semi-annually and paid semi-annually in arrears. During the year ended 31st December 2009, € 2,905,740 interest on the subordinated loan was charged to the Profit and Loss Account (2008: £4,322,271).

Claims in respect of the loan stock are subordinated to the claims of all other creditors.

It was reported in the Bank's 2008 Report and Accounts that due to the imposition of EC sanctions on the Bank, the listing of the Subordinated Loan Notes had been suspended by the Luxembourg Stock Exchange on the 11th January 2009. On 15th May 2009, the Luxembourg Stock Exchange informed the Bank that the listing was reinstated, following clarification by the Banking and Securities Commission in Luxembourg.

22 Called up share capital

	31.12.2009 €	31.12.2008 €
Authorised		
100,000,000 Ordinary shares of £1 each	111,856,823	104,744,946
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
	311,856,823	304,744,946
Issued, allotted and fully paid		
162,392,300 ordinary shares of €1 each (2008: 162,392,300)	162,392,300	162,392,300
	162,392,300	162,392,300

23 Reconciliation of movements in shareholders’ funds and reserves

	Called up share capital €	Profit and loss account €	Reserves €	Total €
As at 31st December 2008	162,392,300	14,891,423	2,409,134	179,692,857
Profit for the year after taxation		16,388,846		16,388,846
	162,392,300	31,280,269	2,409,134	196,081,702
2008 final dividend paid	-	(14,891,374)	-	(14,891,374)
2009 interim dividend paid	-	(6,000,396)	-	(6,000,396)
Exchange rate fluctuation on general reserve	-	-	112,105	112,105
As at 31st December 2009	**162,392,300**	**10,388,499**	**2,521,239**	**175,302,037**

Under UK GAAP, dividends are deducted from earnings during the year in which they are paid and not from the earnings to which the dividend relates.

A further dividend of € 9,004,652 (5.545 cents per share) is to be proposed at the Bank's Annual General meeting to be held on 11th March 2010.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 General banking risk reserve

	€
As at 31st December 2008	2,409,134
Exchange difference	112,105
As at 31st December 2009	2,521,239

The general banking risk reserve is to maintain the regulatory capital base to support the business of the Bank and is not available for distribution.

25 Other commitments and contingent liabilities

The Bank had commitments and contingent liabilities in respect of guarantees, loan commitments, letters of credit, trade finance facilities and foreign exchange contracts not included in the balance sheet:

	31.12.2009 €	31.12.2008 €
Commitments		
Undrawn commitments	66,571,206	49,327,757
Contingencies		
Guarantees and other obligations	1,510,107	2,203,353

A contingent liability has arisen after the balance sheet date relating to a civil action in the United States of America being brought against the Bank and other defendants. Whilst papers have not yet been served on the Bank, the Directors consider this action to be completely without merit and will vigorously defend the Bank's position. No amounts have been provided in these accounts in respect of this civil action.

26 Derivative financial instruments

At 31st December 2009	**Contract or underlying principal amount** €	**31.12.2009 Assets** €	**31.12.2009 Liabilities** €
Derivatives not hedge accounted	-	-	-

At 31st December 2008	**Contract or underlying principal amount** €	**31.12.2008 Assets** €	**31.12.2008 Liabilities** €
Derivatives not hedge accounted			
Foreign currency swaps	19,800,000	-	1,948,206
Current		-	1,948,206

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 Deferred taxation

	31.12.2009	31.12.2008
	€	€
As at 1st January	138,058	(79,907)
Reversal in respect of prior years	-	23,609
(Credit)/Debit to available for sale reserve (note 25)	-	(3,035)
(Credit)/Debit to profit and loss account (note 8)	79,659	197,391
As at 31st December	**217,717**	**138,058**

Deferred tax has arisen as a result of the excess of capital allowances over depreciation.

28 Cash flow statement

(a) Analysis of the balances of cash as shown in the balance sheet

	31.12.2009	Cash flow	31.12.2008
	€	€	€
Cash and balances at banks	5,230,855	(10,505,386)	15,736,241
Loans and advances to banks repayable on demand	7,407,141	(6,643,229)	14,050,370
	12,637,996	**(17,148,615)**	**29,786,611**

(b) Net cash flow from operating activities	31.12.2009	31.12.2008
	€	€
Profit before taxation	22,839,390	28,341,480
Depreciation of tangible fixed assets	497,355	510,794
(Decrease) in fair value of derivative contracts	(41,022)	(629,575)
(Increase) in interest receivable and prepaid expenses	(256,344)	(46,454)
Effect of foreign exchange rate changes on provisions	(1,599)	(17,758)
Effect of foreign exchange rate changes on subordinated loan	2,680,769	(17,271,151)
Recovery of provisions	(94,737)	(321,574)
(Decrease) in deposits	(11,905,570)	(131,805,619)
(Decrease) in derivative liabilities	(1,948,206)	(3,614,616)
(Decrease) in other liabilities	(2,153,624)	(1,581,959)
(Increase)/Decrease in debt securities	(642,442)	95,780,521
(Increase)/Decrease in loans and advances	(6,998,885)	43,260,078
Decrease in investments	-	679,139
Decrease in derivative assets	-	6,043,676
Decrease in other assets	4,788,490	1,855,125
Net cash flow from operating activities	**6,763,575**	**21,182,108**

29 Related party transactions

FRS 8 requires that the effect of transactions with related parties is disclosed in the financial statements. Related parties include directors, their close families, companies owned or controlled by them and companies of which they can influence the financial and operating policies. However, banks are obliged by law to observe a strict duty of confidentiality in respect of their customers' affairs and where disclosure of transactions concerning related parties would be in conflict with that duty, no disclosure can be made. Where disclosure is not in conflict with the company's duty of confidentiality, transactions of a similar nature are disclosed on an aggregate basis.

30 Immediate and ultimate parent undertaking and controlling party

The Bank's immediate and ultimate parent undertaking is Bank Saderat Iran, a company incorporated in Iran. Bank Saderat Iran is the only group into which the company is consolidated. Copies of the Group Financial Statements may be obtained from: The Manager, Foreign Department, Bank Saderat Iran, Sepehr Tower, PO Box 15745-631, Somayeh Avenue, Tehran, Iran. The Bank's ultimate controlling party is Bank Markazi Jomhouri Islami Iran.

TEN YEAR PERFORMANCE
for the ten years ended 31st December 2009

Results

		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Operating profit	€ m	5.6	4.8	9.7	12.2	15.1	21.7	24.8	25.8	28.0	22.7
Impairment losses	€ m	(0.5)	(1.0)	(1.7)	(0.1)	(0.4)	0.3	0.1	0.3	0.3	0.1
Profit before taxation	€ m	5.1	3.8	7.9	12.1	14.6	22.0	25.0	26.1	28.3	22.8
Share capital		80.9	77.8	161.0	162.6	166.3	168.0	156.4	162.4	162.4	162.4
Shareholders' funds	€ m	97.0	96.5	162.4	165.4	178.0	191.8	250.5	179.7	179.7	175.3
Current and deposit accounts	€ m	401.1	490.2	772.1	614.3	681.2	779.0	761.2	550.0	418.3	406.4
Total assets	€ m	540.1	620.9	1031.3	893.3	952.0	1068.9	1140.4	823.7	666.4	648.7
Earnings per share (pre-tax)	cent	6.4	4.9	4.9	7.4	8.8	13.1	16.0	16.1	17.5	14.1
Earnings per share (post-tax)	cent	4.3	3.1	3.7	5.1	6.1	9.3	11.2	11.2	12.4	10.1
Ratios											
Return on assets:											
Profit before taxation as a percentage of total assets	%	1.0	0.6	0.8	1.4	1.5	2.1	2.2	3.2	4.3	3.5
Profit after taxation as a percentage of total assets	%	0.0	0.4	0.6	0.9	1.1	1.5	1.5	2.2	3.0	2.5
Return on equity share capital:											
Profit before taxation as a percentage of share capital	%	6.4	4.8	4.9	7.2	8.9	13.3	15.1	15.8	17.5	14.1
Profit after taxation as a percentage of share capital	%	0.2	3.1	3.7	5.1	6.1	9.3	11.2	11.2	12.4	10.1
Return on shareholders' funds:											
Profit before taxation as a percentage of shareholders' funds.	%	5.3	4.0	4.9	7.3	8.2	11.5	10.0	14.4	15.8	13.0
Profit after taxation as a percentage of shareholders' funds.	%	0.2	2.5	3.7	5.0	5.7	8.1	7.0	10.0	11.2	9.3
Gearing:											
Current and deposit accounts as a multiplier of shareholders' funds	x	4.1	5.1	4.8	3.7	3.8	4.1	3.0	3.0	2.3	2.3
Capital cover ratio	%	378.0	321.3	315.0	359.1	313.1	310.0	274.1	348.1	340.0	319.8

BANKING SERVICES

International Trade Finance and Project Finance

The provision of import/export finance including the syndication of finance for larger trade and project facilities, forfaiting, supplier and buyer credits and related services, bid and performance bonds, letters of guarantee and acceptances.

Loans

Finance for public and private sector enterprises in sterling and major currencies including syndicated medium-term lending.

Foreign Exchange and Money Markets

A complete service in foreign exchange and deposit transactions in all major currencies.

Advisory and Information Services

A broad range of advisory services available on the operation and structure of contracts and finance relating to trade and projects on imports and exports: up-to-date market information made available.

Commercial Banking Services

Current accounts, deposit accounts; opening, advising, confirming and negotiating of documentary credits; payments, transfers and collections.

BANK SADERAT PLC

BASEL II PILLAR 3 DISCLOSURES

As At 31st December 2009

Bank Saderat PLC
Basel II Pillar 3 Disclosures
As at 31st December 2009

Introduction

Financial institutions within the scope of Basel II are required to disclose information about their risk exposures and the risk assessment processes they have used together with explanations of their risk objectives and risk management. These disclosures form Pillar 3 of the Basel II framework.

Basel II is implemented in the European Union (EU) via the Capital Requirements Directive (CRD). The CRD brings together two existing EU directives, the Banking Consolidation Directive and the Capital Adequacy Directive. The CRD directly affects banks and building societies and certain types of investment firms.

The CRD consists of three "pillars". Pillar 1 sets out the minimum capital requirements banks will be required to meet based on their credit, market and operational risk exposure. Under Pillar 2, banks and their supervisors at the Financial Services Authority (FSA) have to assess whether additional capital is required to cover risks not covered in Pillar 1.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) with the aim of developing a set of disclosure requirements which enable market participants to assess information on a bank's risks, capital and risk management procedures.

In the following pages, Bank Saderat PLC ("the Bank") explains the risks inherent in its business and the structure and procedures that its Board of Directors have established to manage those risks. It also explains the Bank's capital structure and how capital adequacy is managed.

The information contained in this disclosure has not been audited by the Bank's external auditors.

Activities of the Bank

The principal activity of the Bank is the business of banking including international trade finance and project finance, loans, foreign exchange and money market transactions, advisory and information services and commercial banking services.

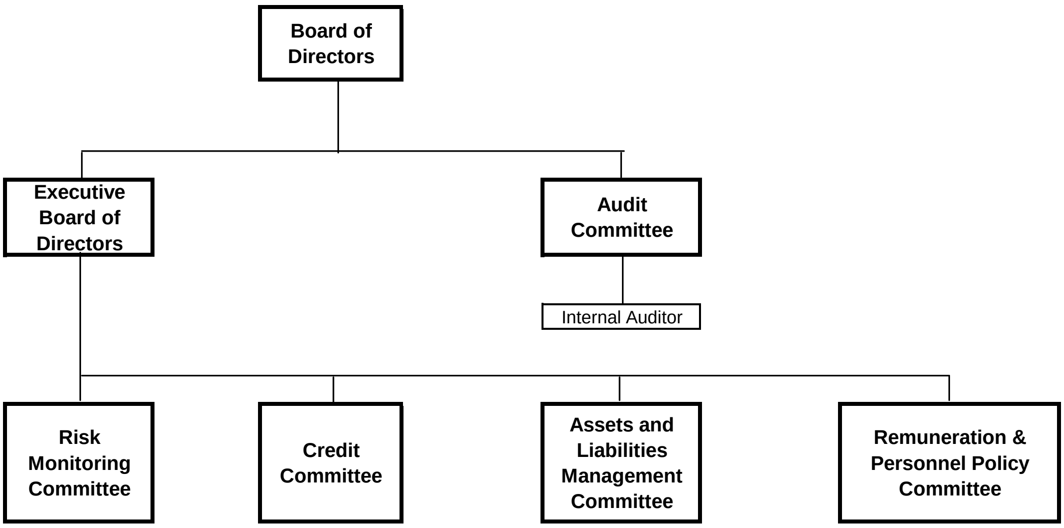
More detailed explanation of these activities is available on page 39 of the Bank's Annual Report and Financial Statements for the year ended 31st December 2009.

Risk management objectives

The objectives of the risk management regime within the Bank are firstly, to identify and measure all risks that the Bank is subject to and secondly, to ensure that control structures are in place to limit risks to levels that are commensurate with the level of capital held and thirdly, to identify, where appropriate, methods of mitigating risk.

Where the risk management process identifies a risk that is unacceptable to the Directors and cannot be mitigated satisfactorily, the risk is avoided if possible. If a risk cannot be avoided as it is inherent in the operations of the Bank, the Directors allocate capital to cover the risk.

Risk Management Structure



The principal risks facing the Bank are liquidity risk, interest rate risk, credit risk, foreign exchange risk and operational risk. Strategic risk, including political risk and economic risk, are considered to be types of operational risk. Operational risk also includes the risk of non-compliance with regulatory and legal requirements.

The Bank's risk management focuses on these major areas of risk.

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations from its financial liabilities as they become due.

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates and is measured by analysing assets and liabilities into time bands according to their maturity or next interest repricing date, whichever is the earlier. This risk is then managed by entering into financial derivatives where appropriate, to alter the interest basis of an asset or liability and by matching, as much as is possible, the time bands in which assets and liabilities mature or are repriced.

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial loss. Credit risk arises principally from the Bank's lending book and from discounting of letters of credit, also to a lesser extent, from its holdings of investment securities and from the settlement of derivative contracts. Over the past twenty years discounting letters of credit issued by Iranian banks to finance trade between Iran and the rest of the world, the Bank, and its predecessors in London, Bank Saderat Iran London Branch and Iran Overseas Investment Bank PLC, have not suffered a loss due to non-payment of a discounted letter of credit.

Foreign exchange risk arises from the change in value expressed in reporting currency, of assets and liabilities held in currencies other than the reporting currency, due to fluctuations in spot or forward exchange rates. The Bank does not, generally, take speculative positions in currencies and any net open positions arise in the ordinary course of business. If an anomalous market situation is detected, the Bank may take a speculative position but this will require the prior approval of the Managing Director and, if necessary, the FSA.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Authority flows from the Board of Directors and the above diagram shows the risk management structure. The main elements of risk governance are as follows:

The Board of Directors

This is the primary governing body of the Bank. It approves the level of risk which the Bank is exposed to and the framework for reporting and managing those risks. The Board comprises the non-executive Chairman, the two UK based independent non-executive Directors and the Managing Director. The Board of Directors meets four times a year.

The Board of Directors delegates authority for many of the ongoing operational decisions to:

The Executive Board of Directors

The Executive Board of Directors comprises the two UK based independent non-executive Directors and the Managing Director.

The Risk Monitoring Committee, the Credit Committee, the Assets and Liabilities Management Committee and the Remuneration and Personnel Policy Committee report to the Executive Board of Directors. The Executive Board meets monthly, unless a full Board meeting is being held.

The Audit Committee

The Audit Committee comprises the non-executive Chairman and the two UK based independent non-executive Directors. It is chaired by an independent non-executive Director. It may be attended by the Managing Director, the Treasurer, the Assistant Managing Director, the Financial Controller, the Internal Auditor and the External Auditor. The Committee meets four times a year and reports directly to the Board of Directors. There is an opportunity at each meeting for members to discuss any matter without members of the executive being present.

The Committee is responsible for the assessment of the effectiveness of controls that are in place to mitigate risk and determines the risks to be assessed. It also oversees the Internal Audit function, receives internal audit reports and is responsible for approving the detailed audit plan and timetable.

The Risk Monitoring Committee

The Risk Monitoring Committee comprises the two UK based independent non-executive Directors, the Managing Director, the Assistant Managing Director, the Treasurer, the Manager of loans and trade finance and the Financial Controller. It reports to the Executive Board of Directors.

The Risk Monitoring Committee is charged with the responsibility of advising the Executive or full Board of Directors, as appropriate, on the nature and relative scale of the risks confronting the Bank, the appropriateness of the controls intended to manage those risks and whether the residual risk is within the parameters approved by the Board.

The Risk Monitoring Committee oversees the production of a Risk Register whereby each department of the Bank analyses the risks to which it is subject, the mitigants and how the residual risk is managed. These departmental Risk Registers are then consolidated into a Bank Risk Register. The Risk Committee also ensures that contingency plans are in place to achieve business continuity in the event of serious disruption to business operations.

The Remuneration and Personnel Policy Committee

The Remuneration and Personnel Policy Committee comprises the two UK based independent Non-executive Directors, the Managing Director, the Assistant Managing Director and up to two departmental managers. It is charged with the responsibility of advising the Board of Directors on matters related to remuneration, including the Bank's bonus and salary review policy. It also considers matters related to employment legislation, terms and conditions of employment, the staff handbook, disciplinary matters, staff complaints and the appeals process.

The Credit Committee

The Credit Committee comprises the Managing Director, the Assistant Managing Director, the Manager, Loans and Trade Finance, the Financial Controller, the Manager, Documentary Credits and the Operations Manager. Meetings are held as and when necessary. The Committee reports to the Executive Board of Directors.

The Committee has authority to authorise aggregate exposures to any one counterparty or group of closely connected counterparties, where applicable, for up to five years in an amount not exceeding the discretionary powers of the Managing Director (laid down by the Board of Directors), providing the Internal Credit Rating of the potential borrower is A or B and is for a term not exceeding five years and is for an amount not exceeding € 10 million.

Where aggregate exposures exceed the authority of the Credit Committee or the Internal Credit Rating is C, the transaction must be referred to the Executive Board or, if the potential borrower is internally rated D, to the full Board of Directors for approval.

The committee meets when called to discuss a proposed credit or a review of existing credits.

The Internal Credit Rating System

The Board of Directors has approved an in-house developed internal credit rating system which is used to determine whether or not the Credit Committee may approve a loan or advance, or whether higher level approval should be sought from either the Executive Board or full Board of Directors. The system is also used in conducting annual reviews of borrowers to assess their on-going credit standing and to consider whether a loan or advance should be placed on a "watch list" due to a deteriorating assessment of the borrower. The system is based upon a points scoring method with points awarded against various criteria from an analysis of accounts provided by borrowers. The sum of the points awarded determines the classification of each borrower from A (the highest rating) to D (the lowest). It is likely that any D rated borrowers would be in default resulting in the raising of a provision against the debt.

The Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee comprises the Managing Director, The Assistant Managing Director, The Treasurer, The Manager, Loans and Trade Finance and the Financial Controller. It meets once a month and reports to the Executive Board of Directors.

The Assets and Liabilities Committee monitors best practice management of the Bank's financial resources. Through its responsibility for the management of the Bank's resources, the committee seeks to maximise revenues whilst operating within the Bank's policy guidelines and the applicable regulatory framework.

The committee receives financial and statistical reports presented by the Treasurer, the Manager of Loans and Trade Finance and the Financial Controller related to exposures, liquidity, capital adequacy and limit utilisation.

Capital Adequacy

The Bank maintains a policy of ensuring that there is continually, an excess of capital over and above the minimum regulatory requirement to support the level of business through the Assets and Liabilities Committee, reporting to the Executive Board, and through them, to the full Board of Directors.

If the annual budget indicates insufficient capital to support the projected balance sheet growth, the Directors would approach the Shareholder with a request to increase the share capital or conversely, reduce the projected growth accordingly.

The Bank's capital resources comprise share capital and retained earnings (Tier 1 Capital) together with subordinated loan notes and a general banking risk reserve (Tier 2 Capital). The Bank does not hold any Tier 3 Capital.

Capital Adequacy (continued)

At 31st December 2009, Tier 1 Capital comprised:

	€ 000s
Share Capital	
162,392,300 Ordinary shares of €1 each	162,392
total share capital	162,392
General Banking Risk Reserve	2,521
Retained Earnings	10,388
Total Tier 1 Capital	**175,302**

and Tier 2 Capital comprised:

Shareholder's subordinated term loan notes	60,290
Total Tier 2 Capital	**60,290**
Total Capital	**235,592**

Interim dividends of €20,891,770 were paid during 2009 and payment of a further dividend of € 9,004,652 related to the earnings of 2009 will be proposed at the Annual General Meeting of the Bank to be held on 11th March 2010. After payment of the dividend, the total Capital base will be €226,587,876.

The majority of Tier 1 Capital is issued and fully paid-up ordinary shares of €1 each. Audited retained earnings to 31st December 2009 are also included in Tier 1 capital.

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. Capital instruments must satisfy the criteria contained in GENPRU 2.2.159 R in order for them to be included in Tier 2 capital, one being that the claims of these creditors must rank behind those of all unsubordinated creditors.

Tier 2 capital comprises:

- Shareholders subordinated term loan notes maturing in 2022. The notes are repayable on notice of five years and one day. No notice has currently been given.
- A general banking risk reserve to maintain the regulatory capital base, which is not available for distribution.

Capital Requirement

The Bank's capital requirement at 31st December 2009, under the Basel II convention was:-

	€'000
Pillar 1 Credit risk capital requirement	46,519
Pillar 1 Foreign Exchange risk requirement	224
Pillar 1 Operational risk requirement	5,034
Total Pillar 1 Capital	**51,777**
Pillar 2 Additional Credit risk capital requirement	7,280
Pillar 2 Concentration risk requirement	5,910
Pillar 2 Residual risk requirement	1,526
Pillar 2 Market risk requirement	7,184
Total Pillar 2 Capital	**21,900**
Total Capital Requirement	**73,677**
Total Capital held at 31.12.09 under Basel II	**235,592**
Total Capital held after payment of proposed dividend	**226,588**
Capital cover under Basel II at 31.12.09	**319.76%**
Capital cover after payment of proposed dividend	**307.54%**

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial conditions or results. The Bank does not have a trading book, however any currency risk arising from the Bank's commercial banking and lending activities in the banking book is treated as though it was a trading book item and managed accordingly.

It is the objective of the Bank to manage and control market risk exposures in order to optimise risk and return.

Market risk is reported to the Asset and Liability committee, which in turn reports to the Executive Board of Directors and through them, to the full Board of Directors.

Interest Rate Risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates.

The Bank is exposed to interest rate risk in the banking book due to mismatches between the repricing dates of assets and liabilities. This risk is monitored by the Assets and Liabilities Management Committee, reporting to the Executive Board of Directors and through them, to the full Board of Directors.

When appropriate, the Bank will enter into interest rate swaps to mitigate interest rate risk.

Pillar 2 Capital

Residual interest rate mismatches at 31st December 2009 exist in Euros, Sterling, US Dollars and United Arab Emirates Dirhams for periods up to one year. Consolidated interest rate mismatches at 31st December 2009 were:

	Less than three months €'000	More than three months but less than six months €'000	More than six months but less than one year €'000	Total €'000
Assets				
Cash, loans and advances to banks	458,219	108,654	65,444	632,317
Debt securities	-	-	720	720
Tangible fixed assets	-	-	13,917	13,917
Other assets	-	-	1,367	1,367
Prepayments and accrued income	-	-	400	400
Total assets	**458,219**	**108,654**	**81,848**	**648,721**
Liabilities				
Deposits by banks & customer accounts	401,714	1,330	3,393	406,437
Other liabilities	-	-	6,691	6,691
Shareholders' funds	-	-	175,302	175,302
Subordinated loan	-	60,290	-	60,290
Total liabilities	**401,714**	**61,620**	**185,387**	**648,721**
Interest rate sensitivity gap	**56,505**	**47,034**	**(103,539)**	**-**

The Bank does not have interest rate gaps in excess of one year since all interest earning assets and interest bearing liabilities, with the exception of the debt securities, have their interest rates re-set within one year. Non-interest earning assets and non-interest bearing liabilities are included in the "More than six months but less than one year" time band as they either contribute to the funding of, or are funded by assets and liabilities which, themselves are repriced within this period.

The effect of a 2% movement in interest rates across all currencies and all dates at 31st December 2009 was € 7,183,888 (31st December 2008: € 2,794,454). This calculation assumes that all interest rate gaps were closed in the market by taking deposits or placing amounts at interest rates 2% above or below the actual rate applied to each gap in each currency.

The Bank's exposure to interest rate risk is not expected to change significantly during the course of 2010.

Foreign Exchange Risk

Foreign exchange risk arises from the change in value expressed in reporting currency, of assets and liabilities held in currencies other than the reporting currency, due to fluctuations in spot or forward exchange rates.

The Bank seeks to mitigate its foreign exchange risk by entering into currency swaps where appropriate. The exposure is measured and monitored daily considering the position in terms of net exposure after the mitigating effect of the currency swaps. The Bank's risk-based foreign exchange policy precludes the holding of any significant net open positions however, from time to time, a relatively small foreign exchange position may be entered into for strategic reasons.

The foreign exchange position risk requirement in Pillar 1 is calculated by:

- calculating the net open position in each currency
- converting each such net position into base currency equivalent at spot rates of exchange
- calculating the total of all net short positions and the total of all net long positions
- selecting the larger of the two totals
- multiplying by 8% in accordance with BIPRU 3.1.5R.

The Bank's foreign exchange position risk requirement at 31st December 2009 was **€ 223,863**

	US Dollar	**United Arab Emirates Dirhams**	**Euros**	**Other Currencies**	**Sterling**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Assets						
Cash, loans and advances to banks	806	10,285	400,653	336	8,557	420,637
Loans and advances to customers	28,840	3,315	169,102	-	10,423	211,680
Debt securities	-	-	-	721	-	721
Tangible fixed assets	-	-	13,916	-	-	13,916
Other assets	1,250	-	-	82	35	1,367
Prepayments and accrued income	-	-	-	-	400	400
Total assets	**30,896**	**13,600**	**583,671**	**1,139**	**19,415**	**648,721**
Liabilities						
Deposits by banks	24,362	11,692	341,032	185	9,977	387,248
Customer accounts	8,482	32	5,191	3	5,481	19,189
Other liabilities	923	23	1,459	-	4,287	6,691
Shareholders' funds	-	-	175,302	-	-	175,302
Subordinated loan	-	-	60,290	-	-	60,290
Total liabilities	**33,768**	**11,747**	**583,273**	**188**	**19,745**	**648,721**
Net position	**(2,872)**	**1,853**	**398**	**951**	**(330)**	**-**
Off-balance sheet items						
Foreign exchange contracts	-	-	-	-	-	-
Undrawn commitments	3,115	-	63,456	-	-	66,571
Guarantees and other obligations	-	-	1,510	-	-	1,510

Pillar 2 Capital

As foreign exchange positions are deemed to be insignificant and it is intended that they remain so for the foreseeable future, it is not considered necessary to hold additional capital to cover these positions, in excess of the position risk requirement included under Pillar 1.

Credit Risk

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial loss. Credit risk arises principally from the Bank's lending book and from discounting of letters of credit; also, to a lesser extent, from its holdings of investment securities and from the settlement of derivative contracts. The Bank uses the Simplified Method of calculating its credit risk capital requirement using the standard risk weighting table published in BIPRU 3.5.

Credit risk exposures at 31st December 2009

€ 000	Carrying Value	Weighted Under Basel II	8% of Basel II Weighted Asset
Cash	1,099	0	0
Lending to Bank Saderat Group companies	34,627	34,627	2,770
Lending to Other Banks	396,365	225,481	18,038
Lending to Other Non-Banks	203,789	207,433	16,595
Direct Credit Substitutes	1,510	1,510	121
Trade Related Contingents	1,510	1,510	121
Undrawn Commitments	95,646	95,646	7,652
Other Assets	16,207	16,207	1,297
	750,753	**582,414**	**46,593**

Under Basel II, the Pillar 1 capital required to support € 582,413,839 of weighted exposures at 31st December 2009 amounted to € 46,593,187.

Non-bank credit exposures by industrial sector at 31st December 2009.

€ 000	Outstanding	Limit	Capacity
Automotive	9,000	48,000	39,000
Transport	21,000	73,000	52,000
Shipping	2,000	73,000	71,000
Utilities	12,000	73,000	61,000
Metals	2,000	48,000	46,000
Construction	40,000	73,000	33,000
Food	1,000	48,000	47,000
Oil/gas/petroleum	65,000	146,000	81,000
Investment companies	60,000	97,000	37,000
	212,000	679,000	467,000

Pillar 2 Capital

From the various risks attributed to credit, one has been identified as high risk to the Bank - that of a fall in the price of shares quoted on the Tehran Stock Exchange which are held as security for loans. The mitigant for this risk is that the Bank normally demands 200% cover for secured lending.

Medium risks relate to the deterioration of a counterparty's financial position, an illiquid market in the Tehran Stock Exchange, the inability to convert Iranian Rials into hard currency, a beneficiary being insolvent at the time of discounting a bill of exchange and the incorrect handling of a documentary credit.

Low risks include the inability of Iranian banks to pay; the insolvency of the borrower; the inability to enforce security claims due to defective documentation and a series of risks relating to internal procedural failures.

The Bank believes that sufficient mitigants are in place to cover the high and low credit risks but considers it to be prudent to hold additional Pillar 2 capital of 1.25% of risk weighted assets to cover the medium risk in this category. At 31st December 2009, this amounted to € 7,280,189.

Concentration of credit risk

Concentration risk is a measure of the Bank's exposure to an individual counterparty, group of connected counterparties, industry sector or country. The Bank does not hold any significant concentrations of exposure to counterparties or industry sectors but does have a significantly concentrated exposure to Iran.

The table below shows the Bank's geographic concentrations of credit risk as at 31st December 2009.

€ 000	Iran	Germany	United Kingdom	Other	Total
Cash and balances at banks	1,293	389	3,070	479	5,231
Loans and advances to banks	101,856	97,950	101,814	113,786	415,406
Loans and advances to customers	211,680	0	0	0	211,680
Debt securities	721	0	0	0	721
	315,550	98,339	104,883	114,265	633,038

Pillar 2 Capital

For prudence, additional capital of 1.25% of Iranian exposures has been allocated to compensate for the high concentration of assets in Iran. At 31st December 2009, this amounts to € 5,910,436.

Average exposure to credit risk by credit class

€ 000	Outstanding at 31.12.09	Average outstanding during 2009
Cash and balances at banks	5,231	10,581
Loans and advances to banks	415,406	424,383
Loans and advances to customers	211,680	226,111
Debt securities	721	822
	633,038	661,897

Residual risk

All the identified residual risks are common to the credit risk items with the exception of a borrower failing to adhere to covenants and the inability to realise security should the borrower be unable to repay.

The Bank has a share secured portfolio of loans of € 123 million at 31st December 2009. The security margin of these facilities is normally 200% of the drawn amount, although replacement to that level, should the share price fall, normally only takes place when the cover has fallen to 150%. Additional Pillar 2 capital of 1.25% of the share secured loan portfolio is deemed prudent to cover these risks and amounted to € 1,526,250 at 31st December 2009.

In addition to those loans secured by Tehran Stock Exchange shares, the Bank has € 47 million of loans to customers which are guaranteed by a parent company or bank and a further € 42 million of loans to customers which are secured by other collateral or take-down agreement. Where collateral is provided by a third party, the third party becomes subject to the same annual credit review as the primary borrower. The Bank has the right to call on its security in the event of customer default on principal or interest repayments.

Residual maturity.

The residual maturity breakdown of all the exposures analysed by class is as follows:

€ 000	Less than three months	Between three and six months	Between six months and one year	Between one and five years	Over five years and undated	Total
Cash, loans and advances to banks	281,701	76,056	62,880	0	0	420,637
Loans and advances to customers	15,144	11,765	45,002	138,348	1,421	211,680
Debt securities	0	0	721	0	0	721
	296,845	87,821	108,603	138,348	1,421	633,038

Past due and impaired.

A financial asset is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants or legal proceedings.

Past Due Amounts at 31.12.09	Less than one month		More than one month and less than three months		
	€ 000s		€ 000s		€ 000s
By Industry Sector	Past Due Principal	Past Due Interest	Past Due Principal	Past Due Interest	Total
Transport	-	-	473	-	473
Investment Companies	1,500	285	1,818	816	4,419
Construction	1,388	51	2,777	-	4,216
Oil/Gas/Petroleum	-	-	-	-	-
	2,888	336	5,068	816	9,108

The past due amount are secured as follows:

	By Shares Listed on the TSE (Tehran Stock Exchange)		By Guarantee	Total
	150 to 199% cover	200% cover and greater		
Transport	-	-	473	473
Investment Companies	1,818	-	-	1,818
Construction	-	4,216	2,601	6,817
Oil/Gas/Petroleum	-		-	-
	1,818	4,216	3,074	9,108

The Directors are of the opinion that should it be deemed necessary to realise the security, in all the above instances sufficient funds would be realised to repay the amounts outstanding.

On-going assessment is made to determine whether there is objective evidence that a specific financial asset or group of financial assets is impaired. Evidence of impairment may include past due amounts or other indications that the borrower has defaulted, is experiencing significant financial difficulty or where a debt has been restructured to reduce the burden to the counterparty.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is provided for.

The following impaired exposures and provisions against those exposures existed at 31st December 2009.

€ 000	Impaired Exposure	Provisions
Non-performing loans and advances		
- to customers	0	0
- to banks	4	(4)
	4	**(4)**

Amounts are written off when collection of the loan or advance is considered to be impossible, On secured loans, any write off would take place only after ultimate realisation of collateral value. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

Reconciliation of movements in provisions

	2009
At 1st January 2009	**186,558**
Exchange adjustments	(1,599)
Written off against loans	(86,566)
Recoveries	(94,737)
At 31st December 2009	**3,656**
Loans and advances	
- to banks (note 10)	3,655
- to customers (note 11)	1
	3,656

Operational Risk

Operational risk is the risk of loss to the Bank resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the implementation of controls, whilst avoiding procedures which inhibit efficiency and increase costs unjustifiably.

The Bank has elected to use the Basic Indicator Approach (BIA) which is considered to be the most appropriate basis given the disproportionate cost of establishing more sophisticated methods of capturing the requisite data and devising an acceptable method of calculating operational risk capital. Under this approach, the operational risk capital is calculated by mapping the Bank's three year average net interest income and net non-interest income and applying 15% thereto, as in the following table.

€ 000	**2007**	**2008**	**2009**
Net interest income	33,043	33,415	27,973
Fees and commissions receivable	1,899	1,312	1,114
Dealing profits	616	351	138
Other operating income/(expense)	(1,896)	(514)	(41)
	33,662	**34,564**	**29,185**
Average		**32,470**	
15% thereof = capital requirement		**4,870**	

Since its formation, Bank Saderat PLC has not suffered any material operating loss and the Directors consider that sufficiently robust operating procedures are in place to ensure that any operating loss that can reasonably be expected to occur in the foreseeable future would more than adequately be covered by the amount of capital allocated on this basis.

Operational risk is formally reviewed annually, when the Bank prepares its budget for the ensuing year. This review then encompasses the experience gained during the previous twelve months and also ensures that any risks associated with new areas of business, or changes in emphasis or scale of existing areas of business are incorporated in the risk review. The next formal review will take place in December 2010.

Pillar 2 Capital

The Bank has considered the following additional risks and the mitigants in place to ameliorate those risks in the context of providing additional Pillar 2 capital against Operational Risk.

- Strategic risk
- Liquidity risk
- Transactional risk
- Settlement risk
- Regulatory risk
- Reputational risk
- Systemic risk
- Pension risk

i) Strategic risk

The following four categories of strategic risk have been identified:-

a) Sanctions being applied to Iran that prevent funds being received or paid
b) Iran's inability to pay its debts due to low oil price or insufficient hard currency
c) Difficulty in enforcing security in the Iranian courts
d) Difficulty in keeping clearing facilities due to international pressure on other banks

If sanctions were imposed upon Iran, additional capital would provide limited mitigation. It is likely that movements in and out of Iranian accounts would be restricted to amounts allowed under licence by the sanctioning authorities which would most likely include payments to staff and for operating expenses and may allow the payment of pre-sanction contracted amounts for trade finance. As the significant majority of assets and liabilities of the Bank are Iranian, netting would allow an orderly run-off of the balance sheet even if new business was restricted.
In a worst case scenario, investment of the Bank's free capital, together with a sensible programme of cost reduction, would allow Bank Saderat PLC to remain solvent and profitable.

The Bank is of the view that the inability of Iran to pay its obligations due to lack of funds is not a risk for the foreseeable future. The current oil price is in the region of $70 per barrel and although demand for oil and oil products is, to a large extent dependent upon the world economic situation, it is deemed unlikely that demand or prices will decline to such an extent that the Iranian economy will significantly contract. Consequently, the Bank does not consider it necessary to allocate additional capital.

The risk of loss due to difficulty enforcing security in the Iranian courts is a type of credit risk, albeit a risk that could be triggered by political events and is therefore covered in the additional capital allocated for credit risk.

ii) Liquidity risk

It is considered that risks that could affect liquidity were all of medium to low probability and may be summarised as a major liquidity crisis that could be caused by political events the resolution of which could be protracted. The Bank's liquidity limits could, in theory, be breached for a period until licences or netting arrangements were in place. Other risks, such as the inability to use the Bank's premises, would cause difficulties in the short term, until the business continuity site was up and running. This could result in short term liquidity problems if deposits could not be renewed until the following day. This risk has been mitigated by the development of a comprehensive business continuity plan which is regularly successfully tested, the last occasion being September 2009.

Liquidity limits could also be breached, in theory, due to human error, for example by lending more than the correct amount in the position, failure to renew deposits or failure to cover a non-receipt in good time. There are robust procedures in place which are designed to prevent the risk of human error.

Taking into consideration the mitigants against liquidity risk, as described, the Bank considers that no additional capital is required to be allocated in this connection.

iii) Transactional risk

With the exception of the risk that a borrower may not adhere to covenants in their facility, all other transactional risks are common with credit risks. The single highest risk is that of a fall in the price of shares on the Tehran Stock Exchange when such shares are held as collateral. This risk has been dealt with as a credit risk.

Of medium probability, are risks related to fraudulent trades, a beneficiary under a letter of credit being insolvent at the time it is discounted, deterioration in a counterparty's financial position and the inability to either realise security or to convert security from Iranian Rials into convertible currency.

Of low probability are the risks concerning the insolvency of a counterparty, defective documentation, the risk of approving facilities over and above authorised limits and changes to the legislation, either in the United Kingdom, or in Iran, that impact upon the Bank's facilities.

As the Bank's procedures provide mitigants by way of rigorous credit reviews and authorisation processes prior to the drawdown of facilities, there is not considered to be a requirement to allocate additional capital to cover these procedural risks. It is accepted, however, that the risks related to changes in the ability to realise security require additional capital. These risks are common with credit risk and have therefore been taken into consideration by the Bank in determining the amount of additional capital required to cover credit risk.

iv) Settlement risk

Settlement risk may be divided into two elements: risks that relate to the failure of a payments system internally and risks of settlement failure due to sanctions, closure of correspondent accounts or the inability to access external payment system. The Bank has been living for many years with the risk that payments may be disrupted due to the efforts of the United States Treasury and is therefore confident that internal payment procedures and controls over systems are sufficiently robust to justify the conclusion that no additional capital is required to mitigate these risks beyond that already provided for operational risk.

The elements of settlement risk that relate to the political risk of sanctions are incorporated in the additional capital allocated for credit risk as they arise, predominantly, from the concentration of the Bank's business in Iranian assets. In order to mitigate the effect of sanctions, the Bank has opened US Dollar accounts in non-US jurisdictions and arranges for the netting of payments and receipts whenever possible to restrict the necessity for the movement of funds.

v) Regulatory risk

Regulatory risk concerns the Bank failing to comply with its statutory obligation of adhering to the regulatory limits on its business and reporting timetables and are considered to be in the medium to low category of risk. The Bank has minimal retail business that could be subject to consumer protection legislation.

The Board of Directors of Bank Saderat PLC has adopted a series of policies designed to ensure that the Bank operates in accordance with its statutory obligations and has created a "culture of compliance" throughout the organisation to ensure that regulatory requirements are met. The Bank does not consider that the allocation of additional capital for regulatory risk is necessary.

vi) Reputational risk

These medium to low probability risks may be analysed into four areas reflecting the underlying failure from which reputational risk may arise:-

a) IT related risk such as data loss, internal or external hacking, defamatory e-mails or inappropriate web sites or theft of confidential data.

b) Poor procedures that result in the mishandling of letters of credit.

c) Internal failings with regard to staff matters, e.g. loss of personal data or failure to comply with employment legislation.

d) Loss of reputation due to external factors such as the imposition of sanctions.

Reputational risk in respect of items a) to c) above, is intangible and considered to be mitigated by having in place appropriate and robust procedures together with a high degree of management overview of operations. It is not considered that the allocation of additional capital is necessary to mitigate these risks.

The imposition of sanctions has been considered under strategic risk, explained above.

vii) Systemic risk

The principal systemic risk to which the Bank is vulnerable is that of changes to Iranian laws that would prevent the Bank enforcing a claim for security in the event of default by a borrower. If Iranian law was changed, for example, to disallow shares being offered as security for external borrowing or exchange controls were imposed that prevented the conversion of Rials into hard currency then the Bank could experience difficulty in recovering funds.

There are two mitigating factors in place. Firstly, regardless of any legislative changes in Iran, a primary obligation would remain on the borrower to repay its indebtedness and secondly, it is the Bank's policy to lend only to large, reputable, publicly owned companies.

If the Bank had recovered security in Iranian Rials but was unable to convert the Rials into hard currency, the Bank's shareholder, Bank Saderat Iran, has agreed to accept any dividend payments in Rials which could then be netted against the value of the security. The shareholder would also assist the Bank to recover Rial denominated security within Iran in any way possible.

It is not deemed necessary to allocate additional capital to cover systemic risk.

viii) Pension risk

The Bank is not vulnerable to pension risk.

With effect from 31st January 2002, the Bank's defined benefit pension scheme, the Iran Overseas Investment Bank PLC Retirement Benefits Scheme (the 'Scheme'), was closed and all active members became deferred pensioners.

As at 31st December 2009 the assets of the Scheme were nil having been used to settle the liabilities in respect of individual members' benefits by the purchase of deferred annuities from Legal & General Assurance Company, or by the payment of individual transfer values to another pension scheme or personal pension plan.

The final winding up of the Scheme is now complete, the liabilities have been discharged and final accounts have been prepared and to this extent, the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

As the scheme has been terminated, an indemnity has been given by the Bank to each trustee against any possible action by a scheme member. And the Bank has become the sole corporate trustee of the scheme.

The costs of providing pension benefits to staff under the defined contribution scheme are charged to the profit and loss account monthly.