

Bank Saderat PLC

Annual Report and Accounts

For the year ended 31st December 2005

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BOARD OF DIRECTORS AND MANAGEMENT

Directors

Dr H. Borhani
Chairman

S. Iranzad
Managing Director

E.S. Lacy
Non-Executive Director

Dr D.J. Reid
Non-Executive Director

Management

S. Iranzad
Managing Director

R.J. Speedy
Assistant Managing Director and
Treasurer

J.M. Alabaster
Manager, Documentary Credits

M. Baninajar
Operations Manager

C.R. Wakefield
Manager, Loans and Trade Finance

L.D. Peckham
Financial Controller and Company
Secretary

CHAIRMAN'S STATEMENT

I am delighted to report that the profitability of the Bank continued to improve during the year under review. Pre-tax Operating Profit increased to £15.01m, an improvement of 49.8% on 2004. Since the merger of Bank Saderat Iran, London Branch and Bank Saderat PLC (formerly Iran Overseas Investment Bank PLC) in 2002 profits have increased by 171.9%. Post-tax return on Equity has risen from 3.7% in 2002 to 9.4% in 2005. The Bank's Shareholder has decided that in order to ensure steady capital growth for the Bank, the dividend declared each year will be set at a level that allows for a portion of the profits for the year being held in retained earnings.

Several factors contributed to the increase in profitability during 2005. The most significant factor was changing the composition of the Iranian assets of the Bank. Over the past few years, the majority of the Iranian assets has consisted of portfolios of primary and secondary market discountings of 360 day Iranian Letters of Credit, with a relatively small portfolio of medium term lending to corporate entities. However, following the successful syndication in late 2004, whereby the Bank raised USD120m three year funds from the London syndicated loan market, the Bank has been able to more than double its medium term lending to, primarily, state-owned corporate entities. These medium term facilities have significantly higher margins than the Letters of Credit discounting portfolios.

The loan portfolios are all performing and there has been no need to raise any new provisions during 2005. The Bank was able to write back £188.2k of provisions relating to non-performing loans that have been settled by the borrowers. Non-performing loans were 0.24% of the total assets.

Foreign Exchange trading produced an 83% increase in profits in 2005 compared to 2004, whilst income from fees and commissions was 22% higher than in 2004.

CHAIRMAN'S STATEMENT (Continued)

In order to increase fee income it is intended that the Bank will increase the number of syndications that it arranges for Iranian Corporates during 2006.

The existing strategy of the Bank will be maintained in 2006, which is to continue to concentrate the Bank's resources in the Iranian market, to the extent that the agreed regulatory limits allow. Thereafter, diversification will take place in accordance with the five-year plan.

The core business of the Bank remains the financing of trade to or from Iran and the investment in infrastructure projects in Iran. The assets making up the discounting portfolios are either purchased directly from the beneficiaries of the Letters of Credit or bought in the secondary market. These secondary market purchases are often from banks located in the UAE that are able to access the large client base of exporters to Iran based on the southern side of the Persian Gulf. In order for Bank Saderat PLC to obtain more of this primary discounting business the Bank is planning to open a branch in the Dubai International Financial Centre. It is anticipated that the branch will open in the latter part of 2006.

The Bank continues to prepare for the introduction of Basel 2, the new Capital Adequacy Directive. Calculations of the Risk Weighted Assets of the Bank under the Basel 2 regime have indicated that the Trade Finance portfolios will require a significantly greater Capital Charge than under Basel 1. However, the Bank is sufficiently well capitalised that the adoption of Basel 2 will not put any pressure on the Bank's Individual Capital Ratio.

CHAIRMAN'S STATEMENT (Continued)

The Iranian economy, which has a significant impact on the Bank's profitability, continued to perform well during 2005. The Iranian Government's Management and Planning Organisation estimated that real GDP grew by 5.8% in 2005 and anticipates that growth will reach 6.5% in 2006. This was a considerable improvement on the 4.8% recorded in the Iranian year ended 20th March 2005. The Iranian Government's target annual growth rate for 2005-2010 is 7.1%. What has been particularly encouraging is the growth in the non-oil sector that had shown 6.9% growth year-on-year. Manufacturing and mining have also performed particularly well over the past year.

By the end of the second quarter of the Iranian year the high price of oil had boosted the current account surplus to USD7.1 billion. This compared with USD2.4 billion surplus in the first six months of the previous fiscal year. The oil price was a major factor in the steady rise in the level of the foreign reserves which were approximately USD45 billion by the end of 2005.

Inflation continues to decrease. Average year-on-year inflation stood at 14.7% as at 21st September 2005. The Government's target rate to 21st March 2006 was 14.6%.

Following the election of Dr Mahmoud Ahmadinejad as President of the Islamic Republic of Iran the Government has announced that there will be an increase in Government spending by 27% in 2006/2007. This increase will be funded by a 40% increase in the budget assumption for the oil price from USD 28 per barrel to USD 39.3 per barrel. Previously, oil revenues received in excess of the budgeted oil price have been paid to the Oil Stabilisation Fund and then allocated to infrastructure projects. By raising the budget assumption of the oil price income will, in future, be channelled directly into individual ministry budgets. It is intended that there will be a major increase in Government spending in the provinces outside Tehran and a general increase in spending on education. Bank Saderat PLC is in an ideal position to take advantage of the investment opportunities presented by this development programme. The increased Government spending will increase the fiscal deficit to Iranian Rials 71.54 billion, equivalent 4.25% of GDP.

CHAIRMAN'S STATEMENT (Continued)

The Tehran Stock Exchange has seen retrenchment after the tremendous growth of previous years. From March 1999 the index rose from 2,206 to peak in December 2004 at 13,836. The market has now slipped back to stand at 9,862 in February 2006. The Government has expressed its support for the Tehran Stock Exchange and is introducing a share allocation scheme for poorer members of society.

2006 will be a challenging year for Bank Saderat PLC, due to international tension regarding the outcome of the negotiations concerning Iran's development of nuclear power which have yet to be resolved. On a positive note, the President of Iran has committed to bring petrol prices in line with market prices within five years. The phasing out of subsidies will have a significant beneficial effect on the Government finances. Bank Saderat PLC will be taking advantage of the extra business that will be available due to the withdrawal from the Iranian market of some major banks.

I wish to thank my predecessors for the dedicated help and guidance they gave to Bank Saderat PLC during their time as Board Members and Chairmen of the Bank.

Dr H. Borhani
Chairman

REPORT OF THE DIRECTORS

for the year ended 31st December 2005

The directors present their annual report together with the audited accounts for the year ended 31st December 2005.

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 7.

Results and dividend

The results for the year are set out in the profit and loss account on page 12.

Profit on ordinary activities after taxation for the year ended 31st December 2005 was £10,597,322 (2004: £6,900,324). The directors proposed and paid a dividend in the year ended 31st December 2005 of 5.31 pence per ordinary share totalling £6,000,000 (2004: £5,650,000).

Future developments

Future developments are described in the Chairman's Statement.

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 2005 at an average of 6.2 days (2004: 5.1 days).

Directors

The present membership of the Board is shown on page 3. Mr Hosseini Hashemi ceased to be Chairman and a director on the 18th November 2005. Dr Borhani was appointed as Chairman on the 13th December 2005. The directors had no interest in the capital of the parent company.

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

	31st December 2005:	1st January 2005 or date of appointment if later:
S.B. Hosseini Hashemi	-	1
Dr H. Borhani	1	-
S. Iranzad	1	1

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

Charitable and political donations

The Bank made charitable donations of £17,929 (2004: £4,000). No donations were made to political parties in the year (2004: £nil).

Auditors

A resolution to re-appoint the auditors, Deloitte & Touche LLP, will be proposed at the Annual General Meeting.

By order of the Board
L.D. Peckham
Secretary
London,

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK SADERAT PLC

We have audited the financial statements of Bank Saderat PLC for the year ended 31st December 2005 which comprise the balance sheet, profit and loss account, the cash flow statement and the statement of total recognised gains and losses, and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK SADERAT PLC (Continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

Date

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2005

	Notes	31.12.2005 £	Restated 31.12.2004 £
Interest receivable:			
- interest receivable and similar income arising from debt securities		5,700,567	5,727,810
- other interest receivable and similar income		35,533,659	23,840,347
Less: interest payable		<u>(24,141,189)</u>	<u>(16,192,082)</u>
Net interest income		17,093,037	13,376,075
Fees and commissions receivable		2,044,171	1,905,925
Less: fees and commissions payable		(14,039)	(10,032)
Dealing profits	2	760,938	415,557
Other operating income	3	<u>(697)</u>	<u>19,282</u>
Operating income		19,883,410	15,706,807
Administrative expenses	4	<u>(4,806,892)</u>	<u>(4,894,766)</u>
Depreciation of fixed assets	15	(420,290)	(462,635)
Impairment losses	13	188,241	(284,702)
Profit/(Loss) on sale of fixed asset investments		<u>161,708</u>	<u>(49,193)</u>
Profit on ordinary activities before taxation	6	15,006,177	10,015,511
Tax on profit on ordinary activities	8	<u>(4,408,855)</u>	<u>(3,115,187)</u>
Profit on ordinary activities after taxation		10,597,322	6,900,324
Final equity dividend payable		<u>(6,000,000)</u>	<u>(5,650,000)</u>
Retained profit for the year		4,597,322	1,250,324
Retained profit brought forward	24 & 27	10,709,262	1,485,605
Retained profit transferred to general reserve	24 & 26	(2,300,000)	-
Retained profit carried forward	24	<u>13,006,584</u>	<u>2,735,929</u>

The notes on pages 16 to 33 form an integral part of these financial statements.

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

BALANCE SHEET

as at 31st December 2005

	Notes	31.12.2005 £	Restated 31.12.2004 £
Assets			
Cash and balances at banks	9	2,389,008	2,499,034
Loans and advances to banks	10	426,269,863	335,435,267
Loans and advances to customers	11	186,701,175	137,434,750
Debt securities	12	87,800,850	148,503,060
Equity shares and other similar investments	14	1,154,148	515,014
Tangible fixed assets	15	11,536,277	11,879,313
Derivative assets	29	1,100,621	-
Other assets	16	2,110,040	2,082,452
Prepayments and accrued income		88,554	8,985,365
Total assets		<u>719,150,536</u>	<u>647,334,255</u>

	Notes	31.12.2005 £	31.12.2004 £
Liabilities			
Deposits by banks	19	333,475,767	313,057,995
Customer accounts	20	190,269,490	150,151,592
Derivative liabilities	29	4,288,468	-
Other liabilities	21	7,031,653	4,300,521
Accruals and deferred income		-	3,438,218
Subordinated loan	22	55,000,000	55,000,000
Called up share capital	23	113,000,000	113,000,000
Available for sale reserve	25	778,574	-
General reserve	26	2,300,000	-
Profit and loss account	27	13,006,584	8,385,929
Equity shareholders' funds	24	129,085,158	121,385,929
Total liabilities		<u>719,150,536</u>	<u>647,334,255</u>

Memorandum items:

Contingent liabilities	28	24,275,920	24,830,939
Commitments	28	32,863,837	106,038,892

The financial statements on pages 12 to 33 were approved by the Board of Directors on _____ and signed on its behalf by:

Dr H. Borhani
S. Iranzad

The statement of accounting policies and the notes on pages 16 to 33 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st December 2005

	Notes	31.12.2005 £	Restated 31.12.2004 £
Profit for the year		10,597,322	6,900,324
Available for sale investments			
- valuation (losses)/gains taken to equity	25	213,107	-
- tax on items taken directly to equity	25	(63,932)	-
Total recognised gains and losses relating to the year		<u>10,746,497</u>	<u>6,900,324</u>
Impact of change in accounting policy	34	2,952,732	
Total gains and losses recognised since the last annual report		<u>13,699,229</u>	

CASH FLOW STATEMENT
for the year ended 31st December 2005

	Notes	31.12.2005 £	31.12.2004 £
Net cash inflow/(outflow) from operating activities	31b	41,939,115	(85,542,027)
Taxation			
Corporation tax paid		(3,647,534)	(2,570,843)
Capital expenditure			
Sale of tangible fixed assets		-	2,583
Purchase of tangible fixed assets		<u>(77,254)</u>	<u>(103,750)</u>
Net cash outflow from capital expenditure		<u>(77,254)</u>	<u>(101,167)</u>
Equity dividends paid		<u>(6,000,000)</u>	<u>(5,650,000)</u>
Net cash inflow/(outflow) before financing		32,214,327	(93,864,037)
Financing			
Share capital issued		-	-
Issue of subordinated loans		-	-
Increase/(decrease) in cash	31a	<u>32,214,327</u>	<u>(93,864,037)</u>

NOTES TO THE ACCOUNTS

for the year ended 31st December 2005

1 Accounting policies

(a) Basis of accounting

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom, under the historical cost convention, except for available for sale financial assets, derivatives held at fair value and assets designated in fair value hedges, and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and banking companies. The policies have been consistently applied except as noted below.

The Bank is required to present its 2005 accounts in accordance with IAS/IFRS convergence standards issued under UK GAAP and has, therefore, in the current period adopted FRS 21, FRS 23, FRS 25 and FRS 26. Advantage has been taken of the exemption in FRS 25 and FRS 26 not to restate comparative information to comply with these standards.

The adoption of the standard has impacted on the accounting policies for the following:

- Dividend recognition (FRS 21)
- Impairment losses (FRS 26)
- Income recognition (FRS 26)
- Valuation of available for sale assets (FRS 26)
- Derivatives and hedge accounting (FRS 26)

Details on the impact of these changes in accounting policy are provided in note 34.

(b) Revenue recognition

(i) Interest income

Interest income on financial assets classified as loans and receivables or available for sale 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 cashflow discounted at 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 and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate. When the financial instrument is measured at fair value, with the change in fair value recognised in profit or loss, 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 as services are provided are recognised as revenue as the services are 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.

NOTES TO THE ACCOUNTS (Continued)

(c) Depreciation

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:

Leasehold property	Over the term of the lease
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.

(d) Impairment of financial assets

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 profit or loss.

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 profit or loss.

(e) Foreign exchange

(i) Monetary assets and liabilities denominated in foreign currencies are translated in the balance sheet at the middle market rates ruling at the close of business on the balance sheet date. Exchange differences are recognised in the profit or loss.

(ii) Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction.

(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.

NOTES TO THE ACCOUNTS (Continued)

(g) Derivative financial instruments

The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Bank uses derivative financial instruments (primarily foreign currency swaps) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The significant interest rate risk arises from debt securities. The Bank's policy is to convert certain unmatched fixed rate assets to floating rate. The Bank designates these as fair value hedges of interest rate risk. 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 financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as fair value hedges are recognised immediately in profit or loss. The gain or loss on the hedged item attributable to the risk being hedged is recognised in profit or loss and adjusts the carrying amount of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

(h) Loans and receivables

Loans and receivables 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 profit or loss 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 and equity shares

Investments in debt securities and equity shares are classified as available-for-sale and are measured at subsequent reporting dates at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, except for foreign exchange gains and losses, interest recognised under the effective interest method and impairment losses which are taken to profit or loss, 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 or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss 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 method (see (b)(i) above).

NOTES TO THE ACCOUNTS (Continued)

2 Dealing profits

	31.12.2005	31.12.2004
	£	£
Foreign exchange	<u>760,938</u>	<u>415,557</u>

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

3 Other operating income

	31.12.2005	31.12.2004
	£	£
Revaluation of FX forwards	(697)	-
Revaluation of fair value hedged debt securities	(424,965)	-
Revaluation of fair value hedging interest rate swaps	424,965	-
Dividend income	-	19,282
	<u>(697)</u>	<u>19,282</u>

4 Administrative expenses

	31.12.2005	31.12.2004
	£	£
Salaries and wages	2,524,120	2,338,570
Social security costs	286,040	299,881
Pension costs	331,385	363,038
Other administrative expenses	<u>1,665,347</u>	<u>1,893,277</u>
	<u>4,806,892</u>	<u>4,894,766</u>

The average number of persons employed by the Bank, including the executive director, was 62 (2004: 64), of whom 4 (2004: 5) were employed outside the UK.

5 Directors' emoluments and transactions with officers

	31.12.2005	31.12.2004
	£	£
Directors' salaries and fees	160,310	187,011
Performance bonus	44,965	33,807
Pension contribution	<u>25,582</u>	<u>37,316</u>
	<u>230,857</u>	<u>258,134</u>

Number of directors in Money Purchase Pension Scheme is one (2004: one).

The aggregate emoluments of the highest paid director, excluding pension contributions, were £152,742 (2004: £144,805). The amount paid into pension scheme for the highest paid director was £25,582 (2004: £24,290).

Transactions with officers

At 31st December 2005 £1,389 (2004: £4,722) was outstanding in respect of loans to the Managing Director. There were no amounts (2004: £nil) outstanding in respect of loans to other officers of the Bank. No interest arrears or provisions were outstanding at 31st December 2005 (2004: £nil).

NOTES TO THE ACCOUNTS (Continued)

6 Profit on ordinary activities before taxation

	31.12.2005	31.12.2004
Is stated after:	£	£
Income:		
Profit on foreign exchange revaluation	760,938	415,557
Charges:		
Auditors' remuneration:		
Audit work	53,500	46,200
Non-audit work (application to DIFC)	46,000	54,752

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. The Scheme is in the final stages of being wound up and expectations are that there will be no further cash call on the Bank.

As at 31st December 2005 the majority of the assets were held in a Legal and General over 15 year Gilt fund. The assets will be used to settle the liabilities in respect of individual members' benefits or to pay individual transfer values to another pension scheme or personal pension plan.

The Bank has taken advice from its solicitors on the extent of its minimum legal obligations under the Scheme, and given available information at the time of advice, is able to meet those from the assets in the Scheme. As far as is reasonably estimable, were a Debt Notice to be issued by the Scheme's actuaries as at 31st December 2005, it would be nil and no obligation would exist on the employer. The final winding up of the Scheme was estimated to be 31st March 2006. As a result of the proximity of conclusion of winding up to the year end, the directors deemed that full disclosures, including an actuarial valuation under FRS 17, could be misleading insofar as it may indicate a surplus or shortfall in the fund against which the Bank would have no legal claim or obligation. The Bank's actuaries have confirmed the final settlement amounts to each scheme member. The Bank also understands that the legal and actuarial advice to the trustees of the Scheme is similar.

To this extent, given the status of the Scheme and the advanced nature of the winding up of the Scheme, the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

The costs of providing pension benefits to staff under the defined contribution scheme are charged to profit or loss on a monthly basis.

NOTES TO THE ACCOUNTS (Continued)

8 Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities:

	31.12.2005	31.12.2004
	£	£
United Kingdom corporation tax based on the profits for the year at 30% (2004: 30%)	(4,547,783)	(3,191,111)
Adjustment to tax charge in respect of prior periods	<u>221,110</u>	<u>19,639</u>
	<u>(4,326,673)</u>	<u>(3,171,472)</u>

Deferred tax:

Timing differences, origination and reversal	(5,476)	79,880
Adjustment in respect of prior years	<u>(76,706)</u>	<u>(23,595)</u>
Deferred taxation (note 30)	<u>(82,182)</u>	<u>56,285</u>
Corporation tax charge for the year	<u>(4,408,855)</u>	<u>(3,115,187)</u>

Factors affecting tax charge for the current year

The tax assessed for the year was lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2004: 30%).

The differences are explained below:

	31.12.2005	31.12.2004
	£	£
Profit on ordinary activities before tax	<u>15,006,177</u>	<u>10,015,511</u>
Tax at 30% thereon:	(4,501,852)	(3,004,653)
Effects of:		
Expenses not deductible for tax purposes	(51,407)	(106,579)
Capital allowances in excess of depreciation	5,476	10,121
Movement in short-term timing differences	-	(90,000)
Adjustment to tax charge in respect of prior years	<u>221,110</u>	<u>19,639</u>
	<u>(4,326,673)</u>	<u>(3,171,472)</u>

9 Cash and balances with banks

	31.12.2005	31.12.2004
	£	£
Amounts include:		
Balances held with group companies	<u>107,856</u>	<u>137,007</u>

NOTES TO THE ACCOUNTS (Continued)

10 Loans and advances to banks

	31.12.2005	31.12.2004
	£	£
Repayable on demand	57,978,660	51,840,332
Other loans and advances		
Remaining maturity:		
- over five years	-	32,571
- five years or less but over one year	21,109,057	3,671,507
- one year or less but over three months	147,771,388	148,886,783
- three months or less but over one day	199,426,956	131,551,693
Less allowance for losses on loans and advances to banks (note 13)	<u>(16,198)</u>	<u>(547,619)</u>
	<u>426,269,863</u>	<u>335,435,267</u>

Non performing loans and advances to banks of £16,198 were fully provided at 31st December 2005 (2004: £547,619).

Amounts above include:

Due from group companies	<u>87,189,342</u>	<u>72,872,715</u>
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Loans and advances to banks consisted of loans arising from trade finance activity and money market lending. These were as follows:

	31.12.2005	31.12.2004
	£	£
Trade finance related loans	167,953,689	193,450,438
Money market loans	<u>258,316,174</u>	<u>141,984,829</u>
	<u>426,269,863</u>	<u>335,435,267</u>

11 Loans and advances to customers

	31.12.2005	31.12.2004
	£	£
Repayable on demand	5,781,771	5,227,901
Remaining maturity:		
- over five years	13,536,154	1,469,706
- five years or less but over one year	135,343,880	79,713,564
- one year or less but over three months	22,691,506	50,921,628
- three months or less	11,077,393	4,201,756
Less allowance for losses on loans and advances to customers (note 13)	<u>(1,729,529)</u>	<u>(1,799,805)</u>
	186,701,175	139,734,750
General provision	<u>-</u>	<u>(2,300,000)</u>
	<u>186,701,175</u>	<u>137,434,750</u>

Non performing loans and advances to customers:

- before impairment allowances	1,729,529	1,799,805
- after impairment allowances	-	-

NOTES TO THE ACCOUNTS (Continued)

12 Debt securities

	31.12.2005 Fair value £	31.12.2004 Book value £	31.12.2004 Fair value £	31.12.2004 Fair value difference £
Issued by public bodies	<u>45,937,077</u>	<u>44,771,795</u>	<u>46,557,606</u>	
Issued by other issuers				
- bank certificates of deposit	35,000,000	71,059,769	71,059,769	
- other debt securities	<u>6,863,773</u>	<u>32,671,496</u>	<u>32,708,255</u>	
	<u>41,863,773</u>	<u>103,731,265</u>	<u>103,768,024</u>	
	<u>87,800,850</u>	<u>148,503,060</u>	<u>150,325,630</u>	<u>1,822,570</u>
Amounts include:				
Due within one year	41,863,773	88,337,378		
Due one year and over	<u>45,937,077</u>	<u>60,165,682</u>		
	<u>87,800,850</u>	<u>148,503,060</u>		
Unamortised discount		<u>267,776</u>		

The securities detailed above do not include any amounts relating to government securities, subordinated securities or amounts due from group or other associated undertakings. All of the above securities are listed and are held for investment purposes. The fair values for these securities are based on quoted market prices.

13 Impairment losses on loans and advances

	Specific £	General £	31.12.2005 Total £	Specific £	General £	31.12.2004 Total £
At 1st January 2005	2,347,424	2,300,000	4,647,424	2,899,380	2,000,000	4,899,380
Impact of implementation of FRS 26	-	<u>(2,300,000)</u>	<u>(2,300,000)</u>	-	-	-
At 1st January 2005 (as restated)	2,347,424	-	2,347,424	2,899,380	2,000,000	4,899,380
Exchange adjustments	170,475	-	170,475	(177,052)	-	(177,052)
Charge against profits	-	-	-	-	300,000	300,000
Written off against loans	(583,931)	-	(583,931)	(359,606)	-	(359,606)
Recoveries	(188,241)	-	(188,241)	(15,298)	-	(15,298)
At 31st December 2005	<u>1,745,727</u>	-	<u>1,745,727</u>	<u>2,347,424</u>	<u>2,300,000</u>	<u>4,647,424</u>
Loans and advances						
- to banks (note 10)	16,198	-	16,198	547,619	-	547,619
- to customers (note 11)	1,729,529	-	1,729,529	1,799,805	2,300,000	4,099,805
	<u>1,745,727</u>	-	<u>1,745,727</u>	<u>2,347,424</u>	<u>2,300,000</u>	<u>4,647,424</u>

NOTES TO THE ACCOUNTS (Continued)

14 Equity shares and other similar investments

	31.12.2005	31.12.2004	31.12.2004
	Fair value	Book value	Fair value
	£	£	£
Unlisted investment securities	1,147,234	508,100	508,100
Listed investment securities	6,914	6,914	6,914
	<u>1,154,148</u>	<u>515,014</u>	<u>515,014</u>

There are no impairment losses on these securities.

15 Fixed assets

	Freehold & short term leasehold property	Office equipment, furniture & motor vehicles	Total
	£	£	£
Cost			
At 1st January 2005	14,435,143	2,306,439	16,741,582
Additions	13,740	63,514	77,254
Disposals	-	(1,418)	(1,418)
At 31st December 2005	<u>14,448,883</u>	<u>2,368,535</u>	<u>16,817,418</u>
Depreciation			
At 1st January 2005	2,731,459	2,130,810	4,862,269
Charge for the year	314,858	105,432	420,290
Disposals	-	(1,418)	(1,418)
At 31st December 2005	<u>3,046,317</u>	<u>2,234,824</u>	<u>5,281,141</u>
Net book value at 31st December 2005	<u>11,402,566</u>	<u>133,711</u>	<u>11,536,277</u>
Net book value at 31st December 2004	<u>11,703,684</u>	<u>175,629</u>	<u>11,879,313</u>

Freehold and short term leasehold properties are occupied for own use.

16 Other assets

	31.12.2005	31.12.2004
	£	£
Unrealised loss on foreign exchange transactions	-	(146,435)
Deferred taxation (note 30)	-	787,361
Other debtors	2,110,040	1,441,526
	<u>2,110,040</u>	<u>2,082,452</u>

17 Segmental analysis

Analysis of geographical segments

Profit before taxation is not disclosed by geographical segment, as in the directors' opinion such disclosure would be seriously prejudicial to the interests of the Bank. The Bank does not specifically match deposit liabilities against assets and, therefore, allocation of net assets is not possible. The directors believe that it is more meaningful to analyse total assets by reference to region of ultimate risk and this analysis is shown in the table below:

	31.12.2005	31.12.2004
	£'000	£'000
Region: Europe	208,484	179,173
North America	11,799	14,700
South America	8,500	7,499
North Africa	183	212
Middle East	490,185	443,202
Far East	-	2,548
Total assets	<u>719,151</u>	<u>647,334</u>
Deposit accounts and other liabilities	<u>(590,065)</u>	<u>(525,948)</u>
Net assets	<u>129,086</u>	<u>121,386</u>

NOTES TO THE ACCOUNTS (Continued)

18 Derivatives and other financial instruments

Risk management

The normal activities of the Bank 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.

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior staff in developing risk policy and in monitoring its application. Market, credit and liquidity risks are inherent in the company's core business. The evaluation of these risks and the setting of policies is carried out either through the Board, the Risk Monitoring Committee, Credit Committee, Assets and Liabilities Committee, senior management or internal audit.

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. These swaps are revalued daily against spot and forward rates and any change is recognised immediately in the profit or loss.

The total notional amount of outstanding forward foreign exchange contracts to which the Bank is committed is disclosed in note 29.

Interest rate swaps

The Bank uses interest rate swaps to manage the exposure to interest rate movements on the funding of a bond, by swapping all the fixed rate receipts to floating rate. Contracts with nominal values of €20 million have fixed interest payments of 8.75% and floating interest receipts at 4.02% plus LIBOR for the period up until July 2007.

The fair value of swaps entered into at 31st December 2005 is estimated at £1,090,826 (2004: £1,417,391). These amounts are based on quoted market prices for equivalent instruments at the balance sheet date. All of the interest rate swaps are designated and effective as fair value hedges

Securities are held primarily for liquidity purposes. These are classified as available-for-sale and revalued at the balance sheet date, with any changes being recognised in equity.

NOTES TO THE ACCOUNTS (Continued)

Fair value of financial assets and liabilities

The following table summarises the carrying value of the Bank's financial assets and liabilities not already presented in the balance sheet at fair value:

	31.12.2005 Carrying value £'000	31.12.2005 Fair value £'000
Financial assets		
Cash and balances at banks	2,389	2,389
Loans and advances to banks	426,270	426,270
Loans and advances to customers	186,701	186,701
Financial liabilities		
Deposits by banks	333,476	333,476
Customer accounts	190,269	190,269
Other liabilities	7,032	7,032

The fair value of floating rate and overnight deposits approximates to carrying value. Floating rate loans and deposits fair value approximates to amortised cost carrying value. Fixed rate loans and deposits fair value is calculated based on discounting expected cash flows using current market interest rates.

Concentrations of credit risk

The table below shows the Bank's geographic concentrations of credit risk as at 31st December 2005:

	Iran £'000	Belgium £'000	United Kingdom £'000	Other £'000	Total £'000
Cash and balances at banks	24	-	1,506	859	2,389
Loans and advances to banks	271,193	20,580	127,198	7,299	426,270
Loans and advances to customers	172,414	-	13,452	835	186,701
Debt securities	38,931	-	38,616	10,254	87,801
Equity shares and other similar investments	-	-	7	1,147	1,154
Tangible fixed assets	-	-	11,536	-	11,536
Derivative assets	-	-	1,101	-	1,101
Other assets	-	-	2,110	-	2,110
Prepayments and accrued income	-	-	89	-	89

Interest rate gap sensitivity analysis

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

NOTES TO THE ACCOUNTS (Continued)

As at 31st December 2005

	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	More than one year but less than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash, loans and advances to banks	257,389	65,879	81,893	21,109	-	2,389	428,659
Loans and advances to customers	15,130	6,489	16,202	135,344	13,536	-	186,701
Debt securities	23,616	-	18,433	42,862	2,890	-	87,801
Tangible fixed assets	-	-	-	-	-	11,536	11,536
Equity shares	-	-	-	-	-	1,154	1,154
Derivative assets	-	-	-	-	-	1,101	1,101
Other assets	-	-	-	-	-	2,110	2,110
Prepayments and accrued income	-	-	-	-	-	89	89
Total assets	296,135	72,368	116,528	199,315	16,426	18,379	719,151
Liabilities							
Deposits by banks	185,150	296	20,568	127,462	-	-	333,476
Customer accounts	141,660	15,377	33,233	-	-	-	190,270
Derivative liabilities	-	-	-	-	-	4,288	4,288
Other liabilities	-	-	-	-	-	7,032	7,032
Accruals and deferred income	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	129,085	129,085
Subordinated loan	-	55,000	-	-	-	-	55,000
Total liabilities	326,810	70,673	53,801	127,462	-	140,405	719,151
Interest rate sensitivity gap	(30,675)	1,695	62,727	71,853	16,426	(122,026)	-

As at 31st December 2004

	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	More than one year but less than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash, loans and advances to banks	182,844	55,838	93,048	3,672	33	2,499	337,934
Loans and advances to customers	5,330	41,651	9,270	79,714	1,470	-	137,435
Debt securities	48,552	17,664	22,122	54,981	5,184	-	148,503
Tangible fixed assets	-	-	-	-	-	11,879	11,879
Investments	-	-	-	-	-	515	515
Other assets	-	-	-	-	-	2,083	2,083
Prepayments and accrued income	-	-	-	-	-	8,985	8,985
Total assets	236,726	115,153	124,440	138,367	6,687	25,961	647,334
Liabilities							
Deposits by banks	190,604	-	2,907	119,547	-	-	313,058
Customer accounts	95,442	16,177	38,532	-	-	-	150,151
Other liabilities	-	-	-	-	-	4,301	4,301
Accruals and deferred income	-	-	-	-	-	3,438	3,438
Shareholders' funds	-	-	-	-	-	121,386	121,386
Subordinated loan	-	55,000	-	-	-	-	55,000
Total liabilities	286,046	71,177	41,439	119,547	-	129,125	647,334
Interest rate sensitivity gap	(49,320)	43,976	83,001	18,820	6,687	(103,164)	-

NOTES TO THE ACCOUNTS (Continued)

The following table provides detail of the weighted average effective interest rates applicable for interest bearing assets and liabilities:

	US Dollar	Japanese Yen	Euros	Other Currencies	Sterling
Interest bearing financial assets					
Cash, loans and advances to	6.28%	2.09%	2.89%	0.89%	4.69%
Loans and advances to customers	8.04%	0.00%	6.85%	0.00%	5.04%
Debt securities	2.72%	0.00%	7.23%	0.00%	4.55%
Interest bearing financial liabilities					
Deposits by banks	3.52%	1.33%	1.91%	0.13%	4.44%
Customer accounts	3.45%	0.00%	0.93%	2.11%	5.01%

Net currency position analysis

The following analysis gives details of the Bank's assets and liabilities as at 31st December 2005 in sterling, 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 2005

	US Dollar £'000s	Japanese Yen £'000s	Euros £'000s	Other Currencies £'000s	Sterling £'000s	Total £'000s
Assets						
Cash, loans and advances to banks	277,912	282	87,932	2,640	59,893	428,659
Loans and advances to customers	102,944	-	81,017	1	2,738	186,701
Debt securities	5,210	-	47,591	-	35,000	87,801
Tangible fixed assets	-	-	-	-	11,536	11,536
Investments	1,147	-	-	-	7	1,154
Derivative assets	-	-	-	-	1,101	1,101
Other assets	2,035	-	-	-	75	2,110
Prepayments and accrued income	-	-	-	-	89	89
Total assets	389,248	282	216,540	2,641	110,439	719,151
Liabilities						
Deposits by banks	224,575	273	92,543	2,492	13,593	333,476
Customer accounts	162,289	1	122,165	148	(94,333)	190,270
Derivative liabilities	-	-	-	-	4,288	4,288
Other liabilities	2,338	8	183	1	4,502	7,032
Accruals and deferred income	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	129,085	129,085
Subordinated loan	-	-	-	-	55,000	55,000
Total liabilities	389,202	282	214,891	2,641	112,135	719,151
Net position	46	-	1,649	-	(1,696)	-
Off-balance sheet items						
Undrawn commitments	32,395	-	469	-	-	32,864
Guarantees and other obligations	8,239	708	14,860	16	453	24,276

As at 31st December 2004

	US Dollar £'000s	Japanese Yen £'000s	Euros £'000s	Other Currencies £'000s	Sterling £'000s	Total £'000s
Assets						
Cash, loans and advances to banks	267,291	165	24,942	863	44,673	337,934
Loans and advances to customers	96,957	-	42,643	-	(2,165)	137,435
Debt securities	14,861	-	56,648	-	76,994	148,503
Tangible fixed assets	-	-	-	-	11,879	11,879
Investments	508	-	-	-	7	515
Other assets	1,383	-	-	-	700	2,083
Prepayments and accrued income	4,043	-	2,661	4	2,277	8,985
Total assets	385,043	165	126,894	867	134,365	647,334
Liabilities						
Deposits by banks	192,614	133	100,405	11	19,895	313,058
Customer accounts	84,273	24	17,473	176	48,205	150,151
Other liabilities	1,054	8	44	1	3,194	4,301
Accruals and deferred income	1,548	-	475	-	1,415	3,438
Shareholders' funds	-	-	-	-	121,386	121,386
Subordinated loan	-	-	-	-	55,000	55,000
Total liabilities	279,489	165	118,397	188	249,095	647,334
Net position	105,554	-	8,497	679	(114,730)	-
Off-balance sheet items						
Undrawn commitments	91,269	-	14,770	-	-	106,039
Guarantees and other obligations	17,922	497	4,877	400	1,134	24,831

NOTES TO THE ACCOUNTS (Continued)

19 Deposits by banks

	31.12.2005	31.12.2004
	£	£
Repayable on demand	36,460,772	60,930,664
Other deposits		
Remaining maturity:		
- three months or less	148,688,817	129,673,229
- one year or less but over three months	20,863,838	2,906,678
- five years or less but over one year	127,462,340	119,547,424
	<u>333,475,767</u>	<u>313,057,995</u>
Amounts above include:		
Due to group companies	<u>61,830,854</u>	<u>89,227,034</u>

20 Customer accounts

	31.12.2005	31.12.2004
	£	£
Repayable on demand	9,095,393	10,811,525
Other deposits		
Remaining maturity:		
- three months or less	132,563,489	84,631,315
- one year or less but over three months	48,610,608	54,708,752
	<u>190,269,490</u>	<u>150,151,592</u>

21 Other liabilities due within one year

	31.12.2005	31.12.2004
	£	£
Taxation	2,517,724	1,838,585
Deferred taxation (note 30)	318,496	-
UK income tax and social security payable	78,470	80,076
Accrued expenses	1,162,563	606,425
Other liabilities	2,954,400	1,775,435
	<u>7,031,653</u>	<u>4,300,521</u>

22 Subordinated floating rate notes due 2022

The loan stock of £55,000,000 (2004: £55,000,000) is made up of three tranches constituting the "Subordinated Floating Rate Notes due 2022." The first tranche of £12,000,000 was issued on the Luxembourg Stock Exchange in June 1998 and the second of £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 £36,000,000 was issued on the Luxembourg Stock Exchange on 18th September 2002. The notes are repayable on notice of five years and one day. No notice has currently been given.

The rate of interest is 5 year LIBOR plus 0.25% per annum, reset semi-annually, and paid semi-annually in arrears.

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

No provisions exist whereby the subordinated loan can be converted into capital or any other form of liability.

NOTES TO THE ACCOUNTS (Continued)

23 Called up share capital

	31.12.2005	31.12.2004
	£	£
Authorised		
200,000,000 Ordinary shares of £1 each	<u>200,000,000</u>	<u>200,000,000</u>
Issued, allotted and fully paid		
113,000,000 Ordinary shares of £1	<u>113,000,000</u>	<u>113,000,000</u>

24 Reconciliation of movements in shareholders' funds and reserves

	Called up share capital	Profit and loss account	Reserves	Total
	£	£	£	£
As at 1st January 2004	113,000,000	1,485,605	-	114,485,605
Impact of change in accounting policy FRS 21	-	<u>5,650,000</u>	-	<u>5,650,000</u>
As at 1st January 2004 (as restated)	113,000,000	7,135,605	-	120,135,605
Profit for the year	-	6,900,324	-	6,900,324
Dividend paid	-	<u>(5,650,000)</u>	-	<u>(5,650,000)</u>
As at 1st January 2005	113,000,000	8,385,929	-	121,385,929
Effects of changes in accounting policy (note 34)	-	<u>2,323,333</u>	<u>629,399</u>	<u>2,952,732</u>
As at 1st January 2005 (as restated)	113,000,000	10,709,262	629,399	124,338,661
Profit for the year	-	10,597,322	-	10,597,322
Transfer to banking risk reserve	-	<u>(2,300,000)</u>	2,300,000	-
Dividend paid	-	<u>(6,000,000)</u>	-	<u>(6,000,000)</u>
Fair value adjustment	-	-	<u>149,175</u>	<u>149,175</u>
As at 31st December 2005	<u>113,000,000</u>	<u>13,006,584</u>	<u>3,078,574</u>	<u>129,085,158</u>

25 Available for sale reserve

As at 1st January 2005	£	-
Effects of changes in accounting policy (note 34)		629,399
Increase in fair value of available for sale assets		-
As at 1st January 2005 (as restated)		<u>629,399</u>
Increase in fair value of available for sale assets		149,175
As at 31st December 2005		<u>778,574</u>

26 General banking risk reserve

As at 1st January 2005	£	-
Transfers from profit & loss account during the year		<u>2,300,000</u>
As at 31st December 2005		<u>2,300,000</u>

27 Retained earnings

As at 1st January 2004 as previously stated	£	1,485,605
Impact of change in accounting policy FRS 21		<u>5,650,000</u>
As at 1st January 2004 (as restated)		7,135,605
Profit for the year		6,900,324
Dividend paid		<u>(5,650,000)</u>
As at 1st January 2005		8,385,929
Effects of changes in accounting policy (note 34)		<u>2,323,333</u>
As at 1st January 2005 (as restated)		<u>10,709,262</u>
Profit for the year		10,597,322
Transfer to banking risk reserve		<u>(2,300,000)</u>
Dividend paid		<u>(6,000,000)</u>
As at 31st December 2005		<u>13,006,584</u>

NOTES TO THE ACCOUNTS (Continued)

28 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:

	31.12.2005 £	31.12.2004 £
Commitments		
Undrawn commitments	<u>32,863,837</u>	<u>106,038,892</u>
Contingencies		
Guarantees and other obligations	<u>24,275,920</u>	<u>24,830,939</u>

29 Derivative financial instruments

	Contract or underlying principal amount £	31.12.2005 Assets £	31.12.2005 Liabilities £
Derivatives not hedge accounted			
Foreign exchange swaps	345,685,600	1,100,621	3,790,006
Interest rate swaps	-	-	-
	<u>345,685,600</u>	<u>1,100,621</u>	<u>3,790,006</u>
Derivatives fair value hedge accounted			
Foreign exchange swaps	-	-	-
Interest rate swaps	14,326,424	-	498,462
	<u>14,326,424</u>	<u>-</u>	<u>498,462</u>
Analysed as:			
Current		1,100,621	3,790,006
Non current		-	498,462
		<u>1,100,621</u>	<u>4,288,468</u>

30 Deferred taxation

	31.12.2005 £	31.12.2004 £
As at 1st January 2005	<u>(787,361)</u>	<u>(731,076)</u>
Effects of changes in accounting policy (note 34)	959,743	-
As at 1st January 2005 (as restated)	172,382	(731,076)
Debit to available for sale reserve (note 25)	63,932	-
Debit/(Credit) to profit or loss (note 8)	82,182	(56,285)
As at 31st December	<u>318,496</u>	<u>(787,361)</u>

Deferred tax has arisen as a result of the general provision and excess of capital allowances over depreciation. The deferred tax asset arising is recognised as the directors believe that the Bank will generate sufficient profits to realise the asset.

NOTES TO THE ACCOUNTS (Continued)

31 Cash flow statement

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

	31.12.2005	Cashflow	31.12.2004
	£	£	£
Cash and balances at banks	2,389,008	(110,026)	2,499,034
Loans and advances repayable on demand	57,978,660	6,138,328	51,840,332
Deposits repayable on demand	(45,556,164)	26,186,025	(71,742,189)
	<u>14,811,504</u>	<u>32,214,327</u>	<u>(17,402,823)</u>

(b) Net cashflow from operating activities

	31.12.2005	31.12.2004
	£	£
Profit before taxation	15,006,177	10,015,511
Depreciation of tangible assets	420,290	462,635
Decrease in fair value of derivative contracts	697	-
Effects of changes in accounting policy FRS 26	2,381,023	-
Provision for loan losses	-	300,000
(Increase)/decrease in interest receivable and prepaid expenses	8,896,811	(3,593,031)
Increase/(decrease) in interest payable and accrued expenses	(3,438,218)	71,417
Effect of foreign exchange rate changes on provisions	170,475	(177,052)
Recovery of provisions	(188,241)	(15,298)
Profit on sale of tangible fixed assets	-	(2,583)
Net cashflow from operating activities	<u>23,249,014</u>	<u>7,061,599</u>
Increase in deposits	86,721,695	13,457,776
Increase in derivative liabilities	4,288,468	-
Increase in other liabilities	1,177,359	592,655
(Increase)/decrease in debt securities	60,702,210	(21,242,966)
Increase in loans and advances	(131,644,927)	(96,415,328)
(Increase)/decrease in investments	(639,134)	10,945,469
(Increase) in derivative assets	(1,100,621)	-
(Increase)/decrease in other assets	(814,949)	58,768
	<u>41,939,115</u>	<u>(85,542,027)</u>

NOTES TO THE ACCOUNTS (Continued)

32 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.

33 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: Mr Yousefi, 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 Jomhuri Islami Iran.

34 Change in accounting policy

For the current period, the Bank has adopted FRS 25 and FRS 26 which are effective for accounting periods beginning on or after 1st January 2005. The Bank has taken the exemption available in FRS 25 and FRS 26 not to restate the comparative information to comply with these standards.

The impact of the adoption of FRS 26 on the opening balance sheet for 2005 is described below:

	31.12.2004 £'000	Retained earnings		Available for sale reserve	Restated 1.1.2005 £'000
		EIR adjustment	Fair value adjustment	Fair value adjustment	
Loans and advances to customers (note 11)	139,735	(143)	(3,971)		135,621
General provision (note 26)	(2,300)	-	2,300		-
Debt securities (note 12)	148,503	-		1,823	150,326
Derivative assets (foreign exchange swaps)	-	-	5,938		5,938
Derivative liabilities (foreign exchange swaps)	-	-	(804)		(804)
Derivative liabilities (interest rate swaps)	-	-	-	(923)	(923)
Other liabilities (Corporation tax @ 30%)	-	-	(306)		(306)
Other liabilities (deferred tax) (note 30)	4,301	-	(690)	(270)	3,341
Impact on net assets	<u>290,239</u>	<u>(143)</u>	<u>2,467</u>	<u>630</u>	<u>293,193</u>

In addition, the Bank has adopted FRS 21. The impact of this adjustment was to increase net assets by £5.65m at 31st December 2004, this being the reversal of the accrual for dividends payable that were not approved until later in 2004.

TEN YEAR PERFORMANCE

for the ten years ended 31st December 2005

Results

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating profit	£m	10.6	10.7	4.8	4.8	3.5	3.0	6.7	8.3	10.3	14.8
Impairment losses	£m	(0.5)	(0.4)	(0.8)	(0.6)	(0.3)	(0.6)	(1.2)	(0.1)	(0.3)	0.2
Profit before taxation	£m	10.1	10.3	4.0	4.2	3.2	2.4	5.5	8.2	10.0	15.0
Share capital		40	40	40	40	50	50	113	113	113	113
Shareholders' funds	£m	58	58	59	59.2	60	62	114	115	121	129
Current and deposit accounts	£m	167	178	168	172	248	315	542	427	463	524
Total assets	£m	234	254	245	250	334	399	724	621	647	719
Earnings per share (pre-tax)	pence	25.3	25.8	10.0	10.5	6.4	4.8	4.9	7.2	8.9	13.3
Earnings per share (post-tax)	pence	17.0	17.5	6.8	8.7	4.2	3.1	3.7	5.0	6.1	9.4

Ratios

Return on assets:

Profit before taxation as a percentage of total assets	%	4.3	4.1	1.6	1.7	1.0	0.6	0.8	1.3	1.5	2.1
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Profit after taxation as a percentage of total assets	%	2.9	2.7	1.1	1.4	0.6	0.4	0.6	0.9	1.1	1.5
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Return on equity share capital

Profit before taxation as a percentage of share capital	%	25.3	25.8	10.0	10.5	6.4	4.8	4.9	7.2	8.9	13.3
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Profit after taxation as a percentage of share capital	%	17.0	17.5	6.8	8.7	4.2	3.1	3.7	5.0	6.1	9.4
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Return on shareholders' funds:

Profit before taxation as a percentage of shareholders' funds	%	18.0	17.8	6.8	7.1	5.3	3.9	4.8	7.1	8.3	11.6
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Profit after taxation as a percentage of shareholders' funds	%	11.8	12.0	4.6	5.9	3.5	2.5	3.7	4.9	5.7	8.2
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Gearing:

Current and deposit accounts as a multiplier of shareholders' funds	x	3.0	3.1	2.9	2.9	4.1	5.1	4.8	3.7	3.8	4.1
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Risk asset ratio	%	56.0	65.0	64.0	71.0	60.0	51.0	50.0	57.0	49.7	49.2
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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.