



BANK SADERAT PLC

Reg No: 1126618

Annual Report & Accounts

For the year ended 31st December 2008

Contents

<u>BOARD OF DIRECTORS AND MANAGEMENT</u>	3
<u>CHAIRMAN'S STATEMENT</u>	4-8
<u>REPORT OF THE DIRECTORS</u>	9-12
<u>STATEMENT OF DIRECTORS' RESPONSIBILITIES</u>	13
<u>INDEPENDENT AUDITOR'S REPORT</u>	14
<u>PROFIT AND LOSS ACCOUNT</u>	15
<u>BALANCE SHEET</u>	16
<u>STATEMENT OF RECOGNISED GAINS AND LOSSES</u>	17
<u>CASH FLOW STATEMENT</u>	18
<u>NOTES TO THE ACCOUNTS</u>	19 - 30
<u>TEN YEAR PERFORMANCE</u>	31
<u>BANKING SERVICES</u>	32
<u>BASEL II PILLAR 3 DISCLOSURES</u>	33 - 47

Registered Office

5 Lothbury,
London EC2R 7HD

Telephone: (+ 44 20) 7600 0133
Fax: (+ 44 20) 7796 3216
Telex: 883382

Foreign Exchange and Money Market
Operations
Telephone: (+ 44 20) 7796 1221
Telex: 887307

e-mail address: enquiries@saderat-plc.com

Registered No: 1126618

Representative Office

1137 Vali Asr Ave.,
6th Floor, Sadaf Building,
P.O. Box: 15175/584,
Tehran 15119-43885,
Iran

Telephone: (+ 98 21) 8879 6008/6329/6838/6965
Fax: (+ 98 21) 8879 6053
Telex: 226361

Chief Representative:
H. M. Faiyaz

e-mail address: tehref@saderat-plc.com

BOARD OF DIRECTORS AND MANAGEMENT

Directors

Dr H. Borhani
Chairman

S. Iranzad
Managing Director

Dr D. J. Reid
Non-Executive Director

Mr E S Lacy
Non-Executive Director
(Resigned 31st December 2008)

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

REPORT OF THE DIRECTORS

for the year ended 31st December 2008

The directors present their annual report together with the audited financial statements for the year ended 31st December 2008.

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 32.

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, to optimise the volume of business undertaken. The directors also apply constant effort to the improvement of margins on 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 31.

Share capital

On 16th July 2008, the Directors issued and allotted 18,682,300 ordinary shares of € 1 each, fully paid, to Bank Saderat Iran and of the proceeds, € 16,323,456 was used to purchase the remaining 13,000,000 ordinary shares of £1 each to ensure that the currency of the Bank's share capital more accurately reflected the predominant currency of the assets of the Bank. The £ ordinary shares purchased were subsequently cancelled. The Bank's issued share capital at 31st December 2008 was therefore 162,392,300 ordinary shares of € 1 each, fully paid.

REPORT OF THE DIRECTORS (continued)

The Bank's presentation currency changed from Sterling into Euros on 1st January 2008. Following an increase in the proportion of the Bank's balance sheet in Euros during the course of 2008 to 71.3% of assets at 31st December 2008 and the increasing dominance of the Euro in all of the Bank's transactions, the Directors are of the opinion that the change to the presentation currency to Euros more accurately reflects the business of the Bank.

Results and dividend

The results for the year are set out in the profit and loss account on page 15.

Profit on ordinary activities after taxation for the year ended 31st December 2008 was € 20,190,354 (2007: € 18,253,184). The directors proposed and paid dividends in the year ended 31st December 2008 of 13.336 cents per ordinary share totalling € 21,656,753 (2007: € 14,976,583).

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 18. 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 Accounts 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 33 to 47) 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.

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 2008 at an average of 9.4 days (2007: 8.9 days)

Directors

The membership of the Board is shown on page 3. Mr E.S. Lacy resigned as a Non-Executive Director of the Bank on 31st December 2008 and 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:

	31st December 2008	1st January 2008
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 € 124 (2007: €9,481). No donations were made to political parties. (2007: £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 2009, will be proposed at the Annual General Meeting.

By order of the Board

R. G. Wetton
Secretary
London, 12th March 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

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 2008 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and notes 1 to 32. 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

The directors responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements.

The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement that is cross referred from the business review, future developments and risk management sections of the Report of the Directors. It also includes the ten-year performance table that is cross referenced from the business review section in the Report of the Directors.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, the Report of the Directors, the Ten Year Performance Statistics table, Banking Services and the Basel II Pillar 3 Disclosures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31st December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
London, England
12th March 2008

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2008

	Notes	31.12.2008	Restated
		€	31.12.2007
			€
Interest receivable:			
- interest receivable and similar income arising from debt securities		1,050,447	9,089,573
- other interest receivable and similar income		64,118,134	74,143,284
Interest income		65,168,581	83,232,857
Less: interest payable		(31,754,053)	(50,190,476)
Net interest income		33,414,528	33,042,381
Fees and commissions receivable		1,312,258	1,899,290
Less: fees and commissions payable		(17,368)	(26,418)
Dealing profits	2	350,576	615,416
Other operating income/(expense)	3	(514,425)	(1,896,897)
Operating income		34,545,569	33,633,772
Administrative expenses	4	(6,014,869)	(7,144,234)
Depreciation of fixed assets	15	(510,794)	(568,417)
Recovery of impairment losses	13	321,574	259,121
Profit on ordinary activities before taxation	6	28,341,480	26,180,242
Tax on profit on ordinary activities	8	(8,151,126)	(7,927,058)
Profit on ordinary activities after taxation		20,190,354	18,253,184

The statement of accounting policies and the notes on pages 19 to 32 form part of these financial statements.

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

BALANCE SHEET

as at 31st December 2008

	Notes	31.12.2008 €	Restated 31.12.2007 €
Assets			
Cash and balances at banks	9	15,736,241	31,462,034
Loans and advances to banks	10	403,831,307	396,743,370
Loans and advances to customers	11	230,253,583	274,143,937
Debt securities	12	78,122	95,858,643
Equity shares	14	-	679,139
Tangible fixed assets	15	14,404,122	14,871,789
Derivative assets	28	-	6,043,676
Other assets	16	1,991,340	4,043,856
Prepayments and accrued income		143,769	97,316
Total Assets		666,438,484	823,943,760

	Notes	31.12.2008 €	Restated 31.12.2007 €
Liabilities			
Deposits by banks	19	392,312,667	513,566,310
Customer accounts	20	26,029,983	36,581,957
Derivative liabilities	28	1,948,206	5,562,822
Other liabilities	21	8,845,050	11,482,728
Subordinated loan	22	57,609,721	74,880,872
Called up share capital	23	162,392,300	162,392,300
Available-for-sale reserve	25	-	(12,433)
General Banking reserve	26	2,409,134	3,131,382
Fx Reserve (see note 1)		-	(1,166,956)
Profit and loss account	24	14,891,423	17,524,778
Equity shareholders' funds	24	179,692,857	181,869,071
Total Liabilities		666,438,485	823,943,760

Commitments	27	71,592,757	44,892,926
Contingent liabilities	27	2,897,856	19,172,127

The financial statements on pages 15 to 32 were approved by the Board of Directors on 12th March 2009 and signed on its behalf by:

Dr H. Borhani
S. Iranzad

The statement of accounting policies and the notes on pages 19 to 32 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st December 2008

	Notes	31.12.2008 €	Restated 31.12.2007 €
Profit for the financial year		20,190,354	18,253,184
Available-for-sale investments			
- valuation gains/(losses) taken to equity	25	9,565	(59,687)
- current tax of gains in the period	29	(3,035)	17,906
Total recognised gains and losses relating to the year		<u>20,196,885</u>	<u>18,211,403</u>

CASH FLOW STATEMENT
for the year ended 31st December 2008

	Notes	31.12.2008 €	Restated 31.12.2007 €
Net cash (outflow)/inflow from operating activities	30b	21,182,108	(105,516,526)
Taxation			
Corporation tax paid		(8,006,935)	(3,856,997)
Capital expenditure			
Sale of tangible fixed assets		-	-
Purchase of tangible fixed assets		<u>(43,127)</u>	<u>(132,591)</u>
Net cash outflow from capital expenditure		<u>(43,127)</u>	<u>(132,591)</u>
Equity dividends paid		(21,656,753)	(14,976,583)
(Decrease)/increase in cash	30a	<u>(8,524,707)</u>	<u>(124,482,697)</u>

NOTES TO THE ACCOUNTS
for the year ended 31st December 2008

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, applicable UK generally accepted accounting principles and the relevant British Bankers' Association Statements of Recommended Accounting Practice.

(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 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.

(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) From 1st January 2008, the Bank's presentation currency changed to Euros from Sterling, in line with the Bank's functional currency, which was changed to Euros on 25th October 2007. Exchange differences continue to be recognised in the profit and loss account. 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 foreign 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.

(iii) Transactions in foreign currencies are translated into Euros at the spot 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 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.

(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 and equity shares

Investments in debt securities and equity shares 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. Unlisted 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).

(k) Comparative figures

As a result of the change in presentation currency on 1st January 2008, comparative figures for 2007 have been restated in Euros. Assets and liabilities at 31st December 2007 have been converted to Euros using the closing mid-market spot rate of exchange prevailing on that day and items of income and expense have been converted using the simple average of the month-end closing mid-market spot rates of exchange, prevailing during the year.

2 Dealing profits	31.12.2008	Restated 31.12.2007
	€	€
Foreign exchange	<u>350,576</u>	<u>615,416</u>

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

3 Other operating income	31.12.2008	Restated 31.12.2007
	€	€
Revaluation of assets funded by Sterling share capital	-	(1,053,324)
Revaluation of FX forwards	(629,575)	(869,314)
Dividend income	115,150	25,741
	<u>(514,425)</u>	<u>(1,896,897)</u>

4 Administrative expenses	31.12.2008	Restated 31.12.2007
	€	€
Salaries and wages	3,043,934	3,596,364
Social security costs	379,292	437,960
Defined contribution pension scheme costs	454,720	544,346
Staff costs	<u>3,877,945</u>	<u>4,578,670</u>
Other administrative expenses	2,136,924	2,565,564
	<u>6,014,869</u>	<u>7,144,234</u>

The average number of persons employed by the Bank, including the Executive Director, was 56 (2007: 60), of whom 4 (2007: 4) were employed outside the UK.

5 Directors' emoluments and transactions with officers	31.12.2008	Restated 31.12.2007
	€	€
Directors' salaries and fees	236,058	301,927
Performance bonus	25,519	32,381
Pension contribution	132,467	123,626
	<u>394,044</u>	<u>457,934</u>

Number of directors in Money Purchase Pension Scheme is 1 (2007: 1).

The aggregate emoluments of the highest paid director, excluding pension contributions, were €184,683 (2007: €225,822). The amount paid into pension scheme for the highest paid director was €132,467 (2007: €115,394).

Transactions with officers

At 31st December 2008 €5,237 (2007: €11,345) was outstanding in respect of loans to the Managing Director. There were no amounts (2007: €nil) outstanding in respect of loans to other officers of the Bank. No interest arrears or provisions were outstanding at 31st December 2008 (2007: €nil).

NOTES TO THE ACCOUNTS (Continued)

6 Profit on ordinary activities before taxation

	31.12.2008	Restated 31.12.2007
	€	€
Is stated after charging:		
Auditors' remuneration:		
Fees payable to the Bank's auditor for the audit of the annual financial statements	72,274	94,809
All other services:	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 2008.

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 2008 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:

	31.12.2008	Restated 31.12.2007
	€	€
United Kingdom corporation tax based on the profits for the year at 28.5% (2007: 30%)	(7,702,056)	(7,934,810)
Adjustment to tax charge in respect of prior periods	(251,679)	(20,772)
	<u>(7,953,735)</u>	<u>(7,955,582)</u>

Deferred tax:

Timing differences, origination and reversal	(421,656)	17,959
Adjustment in respect of prior years	243,324	10,565
Change in rate of Corporation Tax from 30% to 28%	(19,059)	-
Deferred taxation (note 29)	(197,391)	28,524
Corporation tax charge for the year	<u>(8,151,126)</u>	<u>(7,927,058)</u>

Factors affecting tax charge for the current year

The tax assessed for the year was higher (2007: higher) than that resulting from applying the standard rate of corporation tax in the UK of 28.5% (2007: 30%).

The differences are explained below:	31.12.2008	Restated 31.12.2007
	€	€
Profit on ordinary activities before tax	<u>28,341,480</u>	<u>26,180,242</u>
Tax at 28.5% (2007: 30%) thereon:	(8,076,528)	(7,854,072)
Effects of:		
Expenses not deductible for tax purposes	(62,124)	(71,252)
Depreciation in excess of Capital allowances	(25,078)	(17,206)
Profit on revaluation of banking reserve	205,821	-
Profit on revaluation of Sterling assets	223,039	-
Dividend Income	32,815	7,721
Adjustment to tax charge in respect of prior years	(251,679)	(20,772)
	<u>(7,953,735)</u>	<u>(7,955,581)</u>

9 Cash and balances with banks

	31.12.2008	Restated 31.12.2007
	€	€
Amounts include:		
Balances held with group companies	<u>745,030</u>	<u>4,564,862</u>

10 Loans and advances to banks

	31.12.2008	Restated 31.12.2007
	€	€
Repayable on demand	14,050,370	6,849,284
Other loans and advances		
Remaining maturity:		
- three months or less but over one day	202,924,282	164,628,220
- one year or less but over three months	162,317,068	192,772,198
- five years or less but over one year	24,545,455	32,499,232
Less allowance for losses on loans and advances to banks (note 13)	(5,868)	(5,563)
	<u>403,831,307</u>	<u>396,743,371</u>

Non performing loans and advances to banks of € 5,868 were fully provided for at 31st December 2008 (2007: € 5,563).

Amounts above include:

Due from group companies	<u>34,563,552</u>	<u>29,945,631</u>
--------------------------	-------------------	-------------------

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

	31.12.2008	Restated 31.12.2007
	€	€
Trade finance related loans	198,326,888	210,680,761
Money market loans	<u>205,504,419</u>	<u>186,062,610</u>
	<u>403,831,307</u>	<u>396,743,371</u>

NOTES TO THE ACCOUNTS (Continued)

11 Loans and advances to customers	31.12.2008	Restated 31.12.2007
	€	€
Repayable on demand	-	9,464,622
Remaining maturity:		
- three months or less	9,858,360	17,757,019
- one year or less but over three months	22,219,201	16,608,430
- five years or less but over one year	196,685,565	216,048,299
- over five years	1,671,147	14,866,653
Less allowance for losses on loans and advances to customers (note 13)	<u>(180,690)</u>	<u>(601,085)</u>
	<u>230,253,583</u>	<u>274,143,938</u>

Non performing loans and advances to customers:		
- before impairment allowances	180,690	601,085
- after impairment allowances	<u>-</u>	<u>-</u>

12 Debt securities	31.12.2008	Restated 31.12.2007
	Fair value €	Fair value €
Issued by public bodies	<u>-</u>	<u>25,000,000</u>
Issued by other issuers		
- bank certificates of deposit due within one year	78,122	70,858,643
	<u>78,122</u>	<u>95,858,643</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 debt securities issued by public bodies are listed and are held for investment purposes. The fair values for these securities are based on quoted market prices.

13 Impairment provisions against loans and advances	2008	Restated 2007
	€	€
At 1st January	606,648	2,109,487
Exchange adjustments	(17,758)	(115,271)
Written off against loans	(80,759)	(1,128,447)
Recoveries	<u>(321,574)</u>	<u>(259,121)</u>
At 31st December	<u>186,558</u>	<u>606,648</u>
Loans and advances		
- to banks (note 10)	5,868	5,563
- to customers (note 11)	180,690	601,085
	<u>186,558</u>	<u>606,648</u>

14 Equity shares and other similar investments	31.12.2008	Restated 31.12.2007
	€	€
Unlisted investment securities at cost	<u>-</u>	<u>679,139</u>

There are no impairment losses on these securities.

15 Tangible Fixed assets	Freehold property	Motor Vehicles	Office equipment, furniture, fixtures and fittings	Total
	€	€	€	€
Cost				
At 1st January 2008	15,569,129	173,845	4,124,193	19,867,167
Additions	-	-	43,127	43,127
Disposals	-	-	-	-
Write off of fully depreciated, obsolete, tangible fixed assets	<u>-</u>	<u>-</u>	<u>(212,449)</u>	<u>(212,449)</u>
At 31st December 2008	<u>15,569,129</u>	<u>173,845</u>	<u>3,954,871</u>	<u>19,697,845</u>
Depreciation				
At 1st January 2008	1,904,075	163,502	2,927,801	4,995,378
Charge for the year	99,713	4,876	406,206	510,794
Disposals	-	-	-	-
Write off of fully depreciated, obsolete, tangible fixed assets	<u>-</u>	<u>-</u>	<u>(212,449)</u>	<u>(212,449)</u>
At 31st December 2008	<u>2,003,788</u>	<u>168,378</u>	<u>3,121,558</u>	<u>5,293,723</u>
Net book value at 31st December 2008	<u>13,565,341</u>	<u>5,467</u>	<u>833,313</u>	<u>14,404,122</u>
Net book value at 31st December 2007 (Restated)	<u>13,665,054</u>	<u>10,343</u>	<u>1,196,392</u>	<u>14,871,789</u>

Freehold property is occupied for own use.

Office refurbishment costs are included in Office equipment, furniture, fixtures and fittings.

NOTES TO THE ACCOUNTS (Continued)

16 Other assets	31.12.2008	Restated 31.12.2007
	€	€
Deferred taxation (note 29)	(138,058)	79,907
Other debtors	2,129,398	3,963,949
	<u>1,991,340</u>	<u>4,043,856</u>

Other debtors includes € 1,979,373 of funds blocked in the United States of America.

17 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 total income. These analyses are shown in the table below:

	€'000	2008 €'000	€'000	2007 Restated €'000
	Assets at 31.12.08	Total income	Assets at 31.12.07	Total income
Region: Europe	240,894	13,030	229,929	25,263
Middle East	414,796	49,699	594,014	53,713
Other	10,748	4,102	-	6,770
Total assets / Profit on ordinary activities before taxation	<u>666,438</u>	<u>66,831</u>	<u>823,943</u>	<u>85,746</u>
Deposit accounts and other liabilities	(486,746)		(642,075)	
Net assets	<u>179,692</u>		<u>181,868</u>	

18 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, the Audit Committee and the Risk Monitoring Committee have both executive and non-executive members and the Assets and Liabilities Committee and the Credit Committee have 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. These swaps are revalued daily against spot and forward rates and any change is recognised immediately in the profit and loss account.

The total notional amount of outstanding currency swap contracts to which the Bank is committed is disclosed in note 28.

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 2008 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 ACCOUNTS (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 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
Equity shares	-	-	-	-	-
Derivative assets	-	-	-	-	-
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	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	-	-

In €'000s	Sight to Eight days	Eight days to one month	One month to one year	Over one year and undated	Total
31st December 2007 (Restated)					
Assets					
Cash, loans and advances to banks and customers	183,736	63,733	190,076	264,806	702,351
Debt securities	25,001	70,858	-	-	95,859
Tangible fixed assets	-	-	-	14,871	14,871
Equity shares	-	-	679	-	679
Derivative assets	-	1	6,042	-	6,043
Other assets	-	-	-	4,044	4,044
Prepayments and accrued incor	-	-	-	97	97
Total maturing assets	208,737	134,592	196,797	283,818	823,944
Liabilities					
Deposits by banks & Customer Accounts	194,892	8,455	312,472	34,331	550,150
Derivative liabilities	-	-	5,563	-	5,563
Other liabilities	-	-	4,102	7,379	11,481
Shareholders' funds	-	-	-	181,869	181,869
Subordinated loan	-	-	-	74,881	74,881
Total maturing	194,892	8,455	322,137	298,460	823,944
Net liquidity surplus/(deficit) per	13,845	126,137	(125,340)	(14,642)	-
Cumulative surplus/(deficit)	13,845	139,982	14,642	-	-

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 minimising 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 2008:

	Iran €'000	Germany €'000	United Kingdom €'000	Other €'000	Total €'000
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

At 31st December 2007 (Restated)

Cash and balances at banks	4,998	15,525	6,858	4,081	31,462
Loans and advances to banks	248,211	28,784	59,156	60,592	396,743
Loans and advances to customers	220,409	-	30,121	23,613	274,143
Debt securities	24,822	-	70,751	285	95,858
Derivative assets	-	-	6,044	-	6,044
	498,440	44,309	172,930	88,572	804,251

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.

NOTES TO THE ACCOUNTS (Continued)

Non-bank credit exposures by industrial sector.

€000	at 31st December 2008			at 31st December 2007 (Restated)		
	Outstanding	Limit	Capacity	Outstanding	Limit	Capacity
Automotive	18,000	48,000	30,000	12,000	48,000	36,000
Transport	31,000	73,000	42,000	41,000	71,000	30,000
Shipping	7,000	73,000	66,000	11,000	71,000	60,000
Utilities	25,000	73,000	48,000	38,000	71,000	33,000
Metals	3,000	48,000	45,000	3,000	48,000	45,000
Construction	56,000	73,000	17,000	55,000	71,000	16,000
Food	2,000	48,000	46,000	4,000	48,000	44,000
Oil/gas/petroleum	54,000	146,000	92,000	75,000	142,000	67,000
Investment companies	35,000	97,000	62,000	35,000	95,000	60,000
	<u>231,000</u>	<u>679,000</u>	<u>448,000</u>	<u>274,000</u>	<u>665,000</u>	<u>391,000</u>

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 2008. 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 2008, loans and advances to customers amounting to €125 million were secured by Tehran Stock Exchange listed shares and €102 million of loans and advances to customers were secured by guarantees, mortgages or other forms of collateral. (2007: €117 million and €150 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 €125 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	29	38	4	71
Tranche B	38	10	0	48
Tranche C	6	0	0	6
				<u>125</u>

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 2008 €206.3m (88%) of loans were classified as A or B, €21.1m (9%) were classified C and €7.5m (3%) were classified D.

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 2008, loans and advances to banks amounting to €5,868 (2007: €5,563) were deemed to be in default and had a 100% provision raised against them and loans and advances to customers amounting to €180,690 (2007: €601,085) were also deemed to be in default and had a 100% provision raised against them. Impaired loans and advances represented 0.03% of total loans and advances at 31st December 2008 (2007: 0.09%).

As at 31st December 2008, €5.8 million of principal was overdue. Of this amount €2.87 is subject to a guarantee by the parent company. The remaining €2.93 million we are awaiting payment. €1.08 million of interest was past due at the end of the year.

By Industry Sector €000s	Less than one month		More than one month and less than three months		€000s
	€000s		€000s		
	Past Due Principal	Past Due Interest	Past Due Principal	Past Due Interest	
Transport	2,870				2,870
Investment Companies			670	60	730
Construction	1,450	1,000			2,450
Oil/Gas/Petroleum	810	17			827
	<u>5,130</u>	<u>1,017</u>	<u>670</u>	<u>60</u>	<u>6,877</u>

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.

Interest rate gap sensitivity analysis

The following interest rate gaps appeared at 31st December 2008.

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
Equity shares	-	-	-	-
Derivative assets	-	-	-	-
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	407,722	92	10,528	418,342
Derivative liabilities	1,948	-	-	1,948
Other liabilities	-	-	8,845	8,845
Shareholders' funds	-	-	179,693	179,693
Subordinated loan	-	57,610	-	57,610
Total liabilities	409,670	57,702	199,066	666,438
Interest rate sensitivity gap	4,329	43,112	(47,442)	-

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 2008 was €2,794,454 (31st December 2007: €3,167,509). 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 2007 (Restated)

	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	344,026	168,135	190,190	702,351
Debt securities	51,808	44,050	-	95,858
Tangible fixed assets	-	-	14,871	14,871
Equity shares	-	679	-	679
Derivative assets	-	6,044	-	6,044
Other assets	-	-	4,044	4,044
Prepayments and accrued incor	-	-	97	97
Total assets	395,834	218,908	209,202	823,944
Liabilities				
Deposits by banks & Customer accounts	467,003	70,490	12,655	550,148
Derivative liabilities	-	5,563	-	5,563
Other liabilities	-	-	11,483	11,483
Accruals and deferred income	-	-	-	-
Shareholders' funds	-	-	181,869	181,869
Subordinated loan	-	74,881	-	74,881
Total liabilities	467,003	150,934	206,007	823,944
Interest rate sensitivity gap	(71,169)	67,974	3,195	-

NOTES TO THE ACCOUNTS (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 2008 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 2008

	US Dollar	United Arab Emirates Dirhams	Euros	Other Currencies	Sterling	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash, loans and advances to banks	12,231	32,551	308,014	442	66,328	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
Investments	-	-	-	-	-	-
Derivative assets	-	-	-	-	-	-
Other assets	1,782	-	-	-	210	1,992
Prepayments and accrued income	-	-	-	-	144	144
Total assets	67,771	40,191	469,956	520	88,000	666,438
Liabilities						
Deposits by banks	58,370	12,153	301,665	411	19,713	392,312
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	8,846
Shareholders' funds	-	-	177,284	-	2,409	179,693
Subordinated loan	-	-	-	-	57,609	57,609
Total liabilities	74,522	14,667	488,494	415	88,340	666,438
Net position	(6,751)	25,524	(18,538)	105	(340)	-
Off-balance sheet items						
Foreign exchange contracts	-	-	-	-	-	-
Undrawn commitments	71,467	-	126	-	-	71,593
Guarantees and other obligations	-	-	2,829	-	69	2,898

As at 31st December 2007 (Restated)

	US Dollar	United Arab Emirates Dirhams	Euros	Other Currencies	Sterling	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash, loans and advances to banks	19,524	41,225	316,088	302	51,067	428,206
Loans and advances to customers	83,873	11,834	163,082	-	15,355	274,144
Debt securities	-	-	25,001	72	70,786	95,859
Tangible fixed assets	-	-	-	-	14,871	14,871
Investments	679	-	-	-	-	679
Derivative assets	-	-	-	-	6,044	6,044
Other assets	2,558	-	(8)	-	1,494	4,044
Prepayments and accrued income	-	-	-	-	97	97
Total assets	106,634	53,059	504,163	374	159,714	823,944
Liabilities						
Deposits by banks	106,410	26,475	360,837	260	19,584	513,566
Customer accounts	(1,786)	17,109	9,257	116	11,887	36,583
Derivative liabilities	-	-	-	-	5,563	5,563
Other liabilities	1,920	33	705	-	8,825	11,483
Shareholders' funds	-	-	143,710	-	38,159	181,869
Subordinated loan	-	-	-	-	74,881	74,881
Total liabilities	106,544	43,617	514,509	376	158,899	823,944
Net position	90	9,443	(10,346)	(2)	816	-
Off-balance sheet items						
Undrawn commitments	43,777	-	1,116	-	-	44,893
Guarantees and other obligations	-	-	16,495	-	2,677	19,172

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 2008. 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 ACCOUNTS (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 Bank's 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	
	2008	2007 (Restated)
Ordinary share capital	162,392	162,392
Retained earnings	14,891	17,525
Tier 1 capital	<u>177,283</u>	<u>179,917</u>
Shareholder's subordinated loan	57,610	74,881
Foreign exchange reserve	0	(1,167)
Available for sale reserve	0	(12)
General banking reserve	2,409	3,131
Tier 2 capital	<u>60,019</u>	<u>76,833</u>
Total regulatory capital base	<u>237,302</u>	<u>256,750</u>

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.

19 Deposits by banks

	31.12.2008	Restated 31.12.2007
	€	€
Repayable on demand	32,829,346	27,166,295
Other deposits		
Remaining maturity:		
- three months or less	359,483,321	440,774,477
- one year or less but over three months	-	-
- five years or less but over one year	-	45,625,539
	<u>392,312,667</u>	<u>513,566,311</u>
Amounts above include:		
Due to group companies	<u>25,098,996</u>	<u>72,357,117</u>

20 Customer accounts

	31.12.2008	Restated 31.12.2007
	€	€
Repayable on demand	5,623,633	527,689
Other deposits		
Remaining maturity:		
- three months or less	18,412,012	32,296,856
- one year or less but over three months	1,994,339	3,757,413
	<u>26,029,983</u>	<u>36,581,958</u>

21 Other liabilities due within one year

	31.12.2008	Restated 31.12.2007
	€	€
Taxation	2,772,933	3,225,710
UK income tax and social security payable	84,287	109,408
Other liabilities and accrued expenses	5,987,830	8,147,610
	<u>8,845,050</u>	<u>11,482,728</u>

22 Subordinated floating rate notes due 2022

The loan stock of £55,000,000 (2007: £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. During the year ended 31st December 2008, € 4,322,271 interest on the subordinated loan was charged to the Profit and Loss Account (2007: € 4,935,577).

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.

Subsequent to the year-end, the Bank was informed by the Luxembourg Stock Exchange that due to the imposition of EC sanctions on the Bank, the listing of the Subordinated Loan Notes had been suspended on the 11th January 2009. The Bank will use this opportunity to change the denomination of the notes to Euros, to reflect more accurately the denomination of the majority of the Bank's assets, will also increase the rate of interest payable to 1 year LIBOR plus 3.00%, to provide a more reasonable market return to the note-holder and will de-list the notes. All other terms and conditions of the Subordinated Loan Notes remain unchanged.

NOTES TO THE ACCOUNTS (Continued)

23 Called up share capital	31.12.2008	Restated 31.12.2007
	€	€
Authorised		
100,000,000 Ordinary shares of £1 each	104,744,946	136,147,039
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
	<u>304,744,946</u>	<u>336,147,039</u>
Issued, allotted and fully paid		
Nil Ordinary shares of £1 each (2007: 13,000,000 Ordinary shares of £1 each)	-	18,682,300
162,392,300 ordinary shares of €1 each (2007: 143,710,000)	162,392,300	143,710,000
	<u>162,392,300</u>	<u>162,392,300</u>

On 16th July 2008, the directors issued and allotted 18,682,300 ordinary shares of €1 each to Bank Saderat Iran, fully paid, and simultaneously used €16,323,456 of the proceeds to purchase the remaining 13,000,000 ordinary shares of £1 each.

From 1st January 2008, the reporting currency of the Bank changed from Sterling to Euros.

24 Reconciliation of movements in shareholders' funds and reserves

	Called up share capital	Profit and loss account	Reserves	Total
	€	€	€	€
As at 31st December 2007 (Restated)	162,392,300	17,524,778	1,951,993	181,869,071
Capitalisation of increase in the Sterling value		20,190,354		20,190,354
Profit for the year after taxation	162,392,300	37,715,132	1,951,993	202,059,425
2007 second interim dividend paid		(6,807,461)		(6,807,461)
2007 final dividend paid	-	(8,848,897)	-	(8,848,897)
2008 interim dividend paid 3.695 cents per share	-	(6,000,395)	-	(6,000,395)
Write back of foreign exchange reserve		(1,166,956)	1,166,956	-
Exchange rate fluctuation on general reserve			(722,248)	(722,248)
Available-for-sale adjustment	-	-	12,433	12,433
As at 31st December 2008	<u>162,392,300</u>	<u>14,891,423</u>	<u>2,409,134</u>	<u>179,692,858</u>

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.

25 Available-for-sale reserve

As at 1st January 2008	(12,433)
Valuation loss transferred to Profit & Loss Account on maturity of the investments	9,565
Exchange difference	2,868
As at 31st December 2008	<u>0</u>

26 General banking risk reserve

As at 31st December 2007	3,131,382
Exchange difference	(722,248)
As at 31st December 2008	<u>2,409,134</u>

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.

27 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:

	31.12.2008	Restated 31.12.2007
	€	€
Commitments		
Undrawn commitments	71,592,757	44,892,926
Contingencies		
Guarantees and other obligations	2,897,856	19,172,127

28 Derivative financial instruments

	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

There are no significant uncertainties or restrictions that may affect the amount, timing or certainty of future cash flows

	Contract or underlying principal amount	Restated 31.12.2007 Assets	Restated 31.12.2007 Liabilities
	€	€	€
Derivatives not hedge accounted			
Foreign currency swaps	198,856,387	6,043,676	5,562,821
Current		6,043,676	5,562,821

NOTES TO THE ACCOUNTS (Continued)

29 Deferred taxation

	31.12.2008	Restated 31.12.2007
	€	€
As at 1st January		
Reversal in respect of prior years	(79,907)	(279,731)
(Credit)/Debit to available for sale reserve (note 25)	23,609	243,163
(Credit)/Debit to profit and loss account (note 8)	(3,035)	(16,714)
	197,391	(26,625)
As at 31st December	138,058	(79,907)

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

30 Cash flow statement

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

	31.12.2008	Cash flow	Restated 31.12.2007
	€	€	€
Cash and balances at banks	15,736,241	(15,725,793)	31,462,034
Loans and advances to banks repayable on demand	14,050,370	7,201,086	6,849,284
	29,786,611	(8,524,707)	38,311,318

(b) Net cash flow from operating activities

	31.12.2008	Restated 31.12.2007
	€	€
Profit before taxation	28,341,480	26,180,242
Depreciation of tangible fixed assets	510,794	530,567
(Decrease) in fair value of derivative contracts	(629,575)	(869,314)
Decrease/(increase) in interest receivable and prepaid expenses	(46,454)	37,649
Effect of foreign exchange rate changes on provisions	(17,758)	(115,271)
Effect of foreign exchange rate changes on subordinated loan	(17,271,151)	-
Recovery of provisions	(321,574)	(259,121)
Profit on sale of tangible fixed assets	-	(878)
(Decrease) in deposits	(131,805,619)	(253,036,993)
Increase/(decrease) in derivative liabilities	(3,614,616)	4,966,471
(Decrease)/increase in other liabilities	(1,581,959)	1,868,124
Decrease in debt securities	95,780,521	50,430,001
Decrease in loans and advances	43,260,078	63,309,755
Decrease in investments	679,139	703,272
Decrease/(Increase) in derivative assets	6,043,676	(503,831)
Decrease in other assets	1,855,125	1,242,801
Net cash flow from operating activities	21,182,108	(105,516,526)

31 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.

32 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 Jomhuri Islami Iran.

TEN YEAR PERFORMANCE

for the ten years ended 31st December 2008

Results

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating profit	€m	7.9	5.6	4.8	9.7	12.2	15.1	21.7	24.8	25.8	28.8
Impairment losses	€m	(1.0)	(0.5)	(1.0)	(1.7)	(0.1)	(0.4)	0.3	0.1	0.3	0.3
Profit before taxation	€m	6.9	5.1	3.8	7.9	12.1	14.6	22.0	25.0	26.1	28.3
Share capital		65.1	80.9	77.8	161.0	162.6	166.3	168.0	156.4	162.4	162.4
Shareholders' funds	€m	96.4	97.0	96.5	162.4	165.4	178.0	191.8	250.5	181.9	179.7
Current and deposit accounts	€m	280.1	401.1	490.2	772.1	614.3	681.2	779.0	761.2	550.0	418.3
Total assets	€m	407.2	540.1	620.9	1031.3	893.3	952.0	1068.9	1140.4	823.7	666.4
Earnings per share (pre-tax)	cent	10.6	6.4	4.9	4.9	7.4	8.8	13.1	16.0	16.1	17.5
Earnings per share (post-tax)	cent	6.9	4.3	3.1	3.7	5.1	6.1	9.3	11.2	11.2	12.4

Ratios

Return on assets:

Profit before taxation as a percentage of total assets % 1.7 1.0 0.6 0.8 1.4 1.5 2.1 2.2 3.2 4.3

Profit after taxation as a percentage of total assets % 0.1 0.0 0.4 0.6 0.9 1.1 1.5 1.5 2.2 3.0

Return on equity share capital:

Profit before taxation as a percentage of share capital % 10.5 6.4 4.8 4.9 7.2 8.9 13.3 15.1 15.8 17.5

Profit after taxation as a percentage of share capital % 0.7 0.2 3.1 3.7 5.1 6.1 9.3 11.2 11.2 12.4

Return on shareholders' funds:

Profit before taxation as a percentage of shareholders' funds. % 7.2 5.3 4.0 4.9 7.3 8.2 11.5 10.0 14.4 15.8

Profit after taxation as a percentage of shareholders' funds. % 0.5 0.2 2.5 3.7 5.0 5.7 8.1 7.0 10.0 11.2

Gearing:

Current and deposit accounts as a multiplier of shareholders' funds x 2.9 4.1 5.1 4.8 3.7 3.8 4.1 3.0 3.0 2.3

Capital cover ratio % 447.3 378.0 321.3 315.0 359.1 313.1 310.0 274.1 348.1 340.0

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.