Melli Bank plc
Annual Report
Year Ended 31 December 2020

Registration number: 04152338

Registered Office:
98a Kensington High Street
London
W8 4SG

CERTIFIED TRUE COPY
For and on behalf of
MELLI BANK plc,
HONG KONG BRANCH

Authorized Signature(s)

Contents

Management

Board of Directors

Mr M. Hossein Zadeh
Non–executive Chairman

Mr G. Zaferani
Deputy Chairman & Chief Executive

Mr M. Aminzare
Non–executive Director

Mr J. Thompson
Non–executive Director

Mr R. England
Non–executive Director

Mr B. Ataii
Executive Director

Mr A. Zand
Executive Director & Company Secretary

Executive Management London

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Strategic Report

Principal Activities

Melli Bank Plc ("the Bank" or "the Company") is a commercial bank incorporated in the United Kingdom and based in London. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000. The principal activity of the Company is the provision of retail and commercial banking services. The Bank's registered address is 98a Kensington High Street, London, W8 4SG.

Business Review

The Bank improved the performance in 2020 with higher income and lower expenses contributing to more than 50% reduction in the loss of €3,419,000 in 2019 to €1,661,000 in 2020.

Iran is the Bank's niche market and its business model is based on the provision of banking services to the parties involved in the chain of trade between Iran and other countries. Prior to the imposition of EU sanctions in 2008, the Bank held a prominent position in the provision of banking services to the parties involved in trade with Iran. This continues to be the Bank's strategy and forms the basis of its business model. While the Bank's Head Office in London is focused on the Iranian trade with the European countries, the Bank's Hong Kong Branch is focused on the Iranian trade with the Asia-Pacific countries. The banks in Iran are the main target customers for sourcing of trade finance transactions. In keeping with its business model, the Bank has been taking advantage of the available trade finance and lending opportunities to generate income until the improvement in the political environment permits the Bank to fully implement its business model. The human and other resources have been kept in a ready state with a view to be able to return to a relatively normal level of activity.

During the year, the main source of revenue was interest income from loans and advances to banks and trade finance transactions which showed a significant increase to €4,478,000 (2019: €3,416,000). After income from fees and commissions offset by foreign exchange losses, the Bank reported total revenue of €4,467,000 (2019: €4,020,000). Expenses were kept under control and showed a reduction to €6,649,000 (2019: €6,961,000). After depreciation and other non-operating income, the Bank reported a loss before provision and taxation of €2,678,000, which was a significant reduction compared to 2019 (loss of €3,419,000). The improvement in the doubtful debt position resulted in a net write back to the profit and loss account of €1,017,000 (2019: €nil). The Bank did not recognise deferred tax in 2020 (2019: €nil) (see note 13 for more information).

The Bank has made significant progress in its efforts to build up the resources and re-establish relationships with customers and correspondent banks and positioned the Bank to implement its business plan, starting with the signing of the Joint Comprehensive Plan of Action (JCPoA) in July 2015 and the subsequent lifting of the sanctions in January 2016. In May-2018, the US unilaterally pulled out of the JCPoA and in November 2018 reimposed all of the US sanctions suspended under agreement. This created various challenges for the Bank which continued in 2020. The key challenge was to ensure that the payment channels remained intact. The Bank, however, was in a good position to meet the challenges in 2020 due to the measures already taken in the previous years.

Despite the withdrawal of the US from the JCPoA, the other signatories have declared their commitment to the agreement. The incoming US president whose term started from 20 January 2021 has declared his intention to return the US to the JCPOA, and Iran has stated it will return to observing the JCPOA provisions if an effective lifting of the US sanctions takes place. It is expected that an effective lifting of the US sanctions would significantly improve the Bank's business prospects and enable the Bank to better implement its business model. However, it is possible that the benefits of the lifting of the US sanctions will take a while to result in an improvement in the Bank's business and operating environment. The Bank's internal forecasts show a modest return to profitability in 2022 under a relatively optimistic scenario.

Brexit

Bank Melli Iran group (the Bank's parent group) has banking presences in London and Hong Kong through the Bank, and direct presence in the Eurozone. The Bank's direct participation in the TARGET2 Euro clearing system is no longer possible due to Brexit. From January 2021, the Bank will be clearing Euro through group presence and other Iranian banks in the Eurozone. The Bank has taken measures to ensure that it will continue to meet its regulatory liquidity ratio requirements without any HQLA held with a central bank in the EU.

Going Concern

The Bank has considered the impact of the political environment, the US sanctions and Coronavirus pandemic, and assessed whether these factors give rise to events or conditions pertinent to Melli Bank that may individually or collectively, cast significant doubt on the Bank's ability to continue as a going concern. The US extra territorial sanctions constrain the ability of the Bank to establish correspondent banking relationships which would be required by a bank operating without sanction restrictions. The Bank has considered this risk to its business and has adopted a strategy which is commensurate with the financial, operating, regulatory and other requirements and resources available to it, taking full account of the impact of the sanctions. The funding requirements have been provided by the Tier 1 Capital, which is well in excess of the amounts required to support the planned business, with no reliance on customer deposits. Resilient processes have been put in place to manage liquidity and ensure discharge of liabilities on due dates.

Remote working infrastructure has been put in place to ensure financial and operational resilience is maintained while the impact of the pandemic risk persists.

The Bank has managed the sanction risk since 2008 by adopting a suitable strategy and implementing policies and processes which have been working well. The Board of Directors and the committees, in particular the Board Risk Committee, provide oversight within the Bank's risk management framework. The Bank is satisfied that its risk mitigation actions have and would mitigate any significant risk to the ability of the Bank to continue as a going concern.

COVID-19

The Bank put in place infrastructure and processes for the staff to work remotely from 23 March 2020 in order to mitigate the impact of the COVID-19 pandemic to the Bank's operational and financial resilience. These arrangements have been working satisfactorily enabling the Bank to continue to operate effectively, fulfilling its obligations as they fall due and comply with the regulatory requirements. The impact of COVID-19 on the performance and the balance sheet was limited as the bulk of the Bank's relatively small and static balance sheet is made up of short-term placements with the banks, and therefore no material write-down of the assets is likely to be necessary.

Section 172 statement for the year to 31 December 2020

The directors of the Bank, in performance of their duty to promote the success of the Bank, have regard to the matters set out in section 172 of Companies Act 2006, as applicable to the restricted operations of the Bank.

The Bank is a wholly owned subsidiary of Bank Melli Iran. The directors have acted in good faith in a manner considered to be most likely to promote the success of the Bank for the benefit of its shareholder, and in doing so, had regard to the interests of the stakeholders, and considered the consequences of their decisions, the interests of the Bank's employees, the relationship with the customers, banking correspondents and the suppliers of services and goods to the Bank. In discharging their responsibilities, the directors have paid particular attention to maintaining high standards of business conduct.

The Board, in its discussions and decision-making, considers regular reports from the management on issues concerning various stakeholders (which includes staff, suppliers, customers, regulators and the shareholder), and where applicable to the Bank's operations, the environment and its communities. In addition, the Board undertakes training to enhance its understanding of key issues impacting the Bank's stakeholders. Furthermore, members of the Board have had interactions with various stakeholders, including the Bank's regulators, the PRA, the FCA and the Hong Kong Monetary Authority ("HKMA"), with which the designated directors are in continuous communication. Directors also had interactions with important customers, and the non-resident directors have had regular contacts with other customers resident in other jurisdictions providing feedback to the management.

The Board had direct access and regular engagement with the Bank's employees including during regular Board visits or at any time they chose and during social events, which would resume once the government-imposed lockdown has been lifted.

As part of the Bank's outsourcing and operational resilience procedures, senior management meet regularly with key strategic partner (the Bank's parent) and suppliers to conduct due diligence and ensure a good standard service delivery is maintained. Regular reports on these visits are provided to the relevant committees.

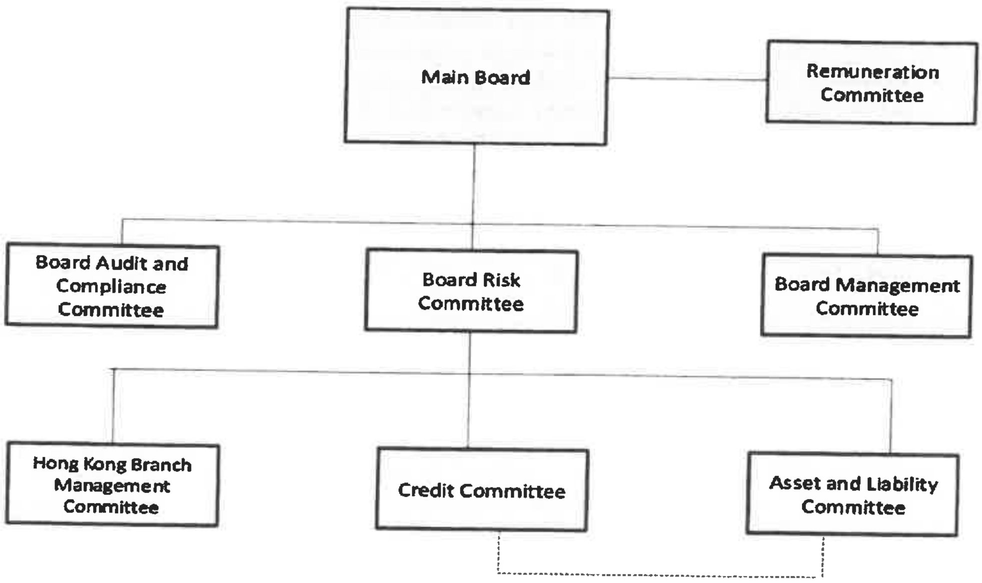
The Board wishes to thank the shareholder for its continued support in retaining a high capital base to support business growth as per its approved business plan. The Board, in determining the timing of dividend payments, will continue to consider relevant factors; including the long-term value of retaining capital to grow the business, the level of profits after tax available to distribute and maintaining appropriate levels of capital in-line with the Bank's risk appetite and regulatory requirements.

Risk Management

Risk is an inherent component of the Bank's activities. The ability to effectively identify, assess, measure, respond, monitor and report on risk throughout the Bank's activities is critical to the achievement of the Bank's objectives.

The Bank's Risk Management Framework Policy formalises the Bank's risk management framework and establishes the process for the management of risks faced by the Bank.

The Bank conducts its risk management and oversight through various committees which ultimately report to the Board of Directors.



- Main Board normally meets at the London Head Office
- Committees, with the exception of the Hong Kong Branch's Management Committee, meet at the London Head Office
- Hong Kong Branch's Management Committee meets locally

Board Risk Committee
The Board Risk Committee, in liaison with the executive risk management team, provides oversight over the arrangements for the management of risk. It assesses the Bank's capability to identify and manage new risk types and oversees, and advises the Board, on the current risk exposures and future risk strategy including the strategy for capital and liquidity management. Its advice to the Board includes advice on the Bank's overall risk appetite and the related risk limits and risk tolerances.

Board Management Committee
The Board Management Committee is responsible for supporting the Board in setting strategic objectives, and business and operational strategies.

Board Audit and Compliance Committee
The Board Audit and Compliance Committee provides independent oversight of the activities of the management and plays a significant role in ensuring that the controls as implemented by the management are effective. It assists the Board in the appointment of the external auditors and the review of their findings. It also provides oversight over the operations of the Risk, Remuneration and the Management Committees.

Board Remuneration Committee
The Board Remuneration Committee is responsible for ensuring that the members of the executive management of the Bank are provided with appropriate remuneration and incentives to encourage enhanced performance in a fair and responsible manner (in line with the Bank's risk appetite and risk culture).

Hong Kong Branch Management Committee
The Hong Kong Branch Management Committee is responsible for the following branch matters: review and recommend changes to policies, procedures, strategies, budgets, resources and the review of the performance of the Branch. It is also responsible for the risk management of the Branch.

Credit Committee
The Credit Committee is an executive committee which assesses proposed credit exposure transactions and either approves them within the Board mandated limits or rejects them. If the proposed exposures are outside the Committee's authority, it recommends them to the Board for approval in accordance with the provisions of the Credit Policy Statement.

Assets and Liabilities Committee
The Assets and Liabilities Committee is an executive committee. It monitors the Bank's financial performance and risk profile. It provides oversight of liquidity and market risks in accordance with the provisions of the Liquidity and Market Risk policy.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are credit, concentration, operational and liquidity risks and the speed at which the Bank would be able to implement its strategy.

Information on the Bank's credit, concentration and liquidity risks and the uncertainly around the speed at which the Bank would be able to implement its strategy, is provided in note 21. Information on the Bank's operational risk is given below.

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

Operational risk event types that have the potential to result in losses for the Bank include, but are not limited to:

1. internal fraud
2. external fraud
3. employment practices and workplace safety
4. client, products and business practices
5. damage of physical assets
6. business disruption and system failures (including those relating to cybercrime)

The Bank's focus with regards to operational risk is on Operations, Regulatory, Conduct, Cybercrime, Governance and Compliance.

The Bank has put in place measures to identify, assess, monitor and manage operational risk.
The main elements of the Bank's Operational Risk Management Framework are the following:

i Identification of the operational risks that could significantly impact the Bank's business objectives
ii Definition of the operational risk appetite given the Bank's business objectives, risk capacity and existing risks
iii Assessment and measurement of the operational risks and definition of mitigation activities to ensure consistency between risk-taking and risk appetite
iv Monitoring of the operational risks and ensuring timely risk reporting to anticipate problems

The Bank has identified no material losses since implementation of this framework and any process weaknesses identified have been addressed.

The Bank has full disaster recovery procedures in place which includes a fully functional back up site with necessary IT systems and communication capabilities. IT hardware is operated with full back up capabilities and third party software.

The Bank also has policies and procedures to address the risks covering cybersecurity, fraud, anti-money laundering and terrorist financing, corruption and bribery. Regular training for staff is also provided, at least annually. The Bank continually monitors and addresses any emerging risks that might have a significant effect on the Bank. Further details of the Bank's risk management objectives and policies and details of the Bank's indicative exposure to risk are given in note 21.

Key Performance Indicators (KPIs)

The Bank currently considers its capital ratios, given below, as its primary KPI. Adequate capital is key to the Bank's progress as it not only provides stability but is also its main source of funding. Since the lifting of the sanctions in 2016, the Bank has been building its resources and upgrading its systems and controls in order to be prepared for the relaunch of normal banking operations. This has resulted in net losses from 2016 to 2020, as the intended business uptake has been slow to materialise, while expenses continued as planned (albeit within budget). Profitability has, however, shown improvement (see Business Review on page 4).

In 2020 the Bank's total capital ratio showed a decline. This was on account of the decline in eligible capital on account of the Bank's net loss for the year combined with an increase in the total risk exposure amount. Nevertheless, the Bank has a very strong capital base which is evidenced by its capital ratios given below. All of the Bank's capital is Common Equity Tier 1(CET1). It is the Bank's intention to continue to maintain a capital position significantly above regulatory requirements at all times.

		2020	2019	2018
Shareholders' Equity (€m)		263	264	268
Eligible Capital (€m)	(a)	263	264	268
Total Assets (€m)	(b)	320	324	367
Total Risk Exposure Amount (€m)	(c)	422	380	351
Total Capital Ratio	(a/c)	62%	69%	76%
Equity to Assets Ratio	(a/b)	82%	81%	73%

This information has been extracted from regulatory returns and the audited financial statements.

Approved by the Board of Directors and signed on behalf of the Board by:

H. Zaferani

Gholamhassan Zaferani
Deputy Chairman and Managing Director
24 June 2021

Directors' Report

The directors of Melli Bank plc, company registration number: 04152338 present their annual report and the audited financial statements for the year ended 31 December 2020.

The business review and future developments are presented in the Strategic Report.

Proposed dividend

The directors do not propose payment of a dividend in respect of the year ended 31 December 2020 (2019: nil).

Directors and directors' interest

Directors who held office during the year were as follows:

Chairman	Mr M. Hossein Zadeh	
Deputy Chairman and Managing Director	Mr. G. Zaferani	
Executive Director	Mr. B. Ataii	
Executive Director	Mr. A. Zand	(Company Secretary)
Non-Executive Director	Mr. M. Aminzare	
Non-Executive Director	Mr. J. Thompson	
Non-Executive Director	Mr. R. England	

Directors' indemnities

The Company has taken up an insurance policy which indemnifies directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third-party indemnity provisions were in force until 16 March 2020 when the policy expired. The policy has not been renewed.

Financial risk management

Disclosures in relation to financial risk management, objectives and policies and exposure to concentration risk, credit risk and liquidity risk have been included in note 21 to the financial statements.

Basel III - Pillar 3 Disclosures

The Pillar 3 disclosures are available on request from the Bank.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment the Directors have taken into account the high level of capital (common equity tier 1) the Company holds.

Future developments

The development of Melli Bank plc is included in the Business Review on page 4.

There are no other significant events affecting Melli Bank plc that have arisen between 31 December 2020 and the date of signing of this report that require disclosure.

Overseas branches

Melli Bank plc has a branch in Hong Kong. The branch was authorised by the Hong Kong Monetary Authority in 2005 and started operations from 3 April 2006.

Statement of disclosure of information to auditors

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Appointment of Auditors

MHA MacIntyre Hudson has expressed its willingness to continue as statutory auditor of the Bank, and will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Bank receives notice under section 488(1) of the Companies Act 2006.

The Directors' Report was approved by the Board of Directors and signed on their behalf by:

H. Zaferani

Gholamhassan Zaferani
Deputy Chairman and Managing Director
24 June 2021

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland').

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors' Responsibilities Statement was approved by Board of Directors and signed on their behalf by:

Gholamhassan Zaferani
Deputy Chairman and Managing Director
24 June 2021

Independent auditor's report to the members of Melli Bank Plc

Our Opinion

We have audited the financial statements of Melli Bank Plc.

The financial statements that we have audited comprise:

- Profit and Loss Account
- Statement of Comprehensive Income
- Balance Sheet
- Statement of Changes in Equity
- Notes 1 to 25 of the financial statements, including the accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland, United Kingdom Generally Accepted Accounting Practice.

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and the Bank's loss for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Consideration of macroeconomic risks to the Bank's operations including sanctions.
- Liquidity considerations throughout the year and post year end, including review of submitted regulatory liquidity reports.

- Review of the future forecasts and comparisons of the past forecasts to actuals, sensitivity analysis of the key assumptions and review of cash position.
- COVID considerations in relation to both the macroeconomic and operational effects on the Bank were made and considered in our assessment of loans and similar items.
- Review of post year end board minutes, management accounts and developments in relation to any new business activities.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality	2020	2019	
Company	€1.31m	€1.32m	5% of Net Assets
	€66k	€66k	Threshold for reporting to those charged with governance
Key audit matters			
Recurring	• Revenue Recognition • Valuation of loans and advances to customers		

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team and, as required for public interest entities, our results from those procedures. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	
The risk	**Our response**
Loans made by the Bank may be subject to changing cash flows or terms and loans may mature in the year. There is a risk that interest rates are not updated correctly or changing cash flows are not	Our work included, but was not restricted to: • Interest on all commercial and discounted loans was recalculated and agreed to the financials. • Interest on money market loans was recalculated in full and a sample placements were vouched to agreements. • Interest on placements was recalculated and vouched to third party confirmations in full.

taken into account when calculating interest received.	• All interest income lines were subject to analytical review procedures, where the year-on-year movements were reviewed for reasonableness and corroborated to supporting evidence; and • We documented and performed walkthroughs of the related controls in place within this area including how the accounting system calculates interest. The Bank's accounting policy on revenue recognition is shown in note 1(a) to the financial statements.

Result of our procedures
Based on audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the recognition of revenue in the financial statements in accordance with the stated accounting policy.

Valuation of loans and advances to customers

The Risk	Our response
The estimation of allowance for impairment on loans involves a significant degree of judgement and estimation. The impairment allowance is based on the management's best estimate of the loan losses incurred at the balance sheet date depending on factors such as likelihood and timing of the future cash flows.	Our work included, but was not restricted to: • Checking management's assessment of the loan impairment and challenging the assumptions made by verifying assumptions to third party sources. • Substantively testing the repayment history of significant loans by agreeing drawdowns and payments to the supporting documentation. • Testing the interest movements by recalculating interest ourselves based on the agreed interest rates and payment plans. • Evaluating any guarantors for their feasibility to pay. The Bank's accounting policy on impairment of financial assets carried at amortised cost is shown in note 1(e) to the financial statements and related disclosures are included in note 10.

Result of our procedures
Based on audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the valuation of loans and advances to customers.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the Bank was set at €1.31m (2019: €1.32m) which was determined on the basis of 0.5% of net assets.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Bank was set at €789k (2019: €793k) which represents 60% (2019: 60%) of the above materiality levels.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls, the impact of there being a number of components and locations and the level of misstatements arising in previous audits.

In addition, we applied the following materiality to the audit of specific financial statement components:

Other administrative expenses	€286k
Related party transactions	€129k

We agreed to report any corrected or uncorrected adjustments exceeding €66k to the audit committee as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Reporting on other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the Bank operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included Companies Act 2006, Consumer Credit Act 1974, Banking Reform Act 2013, the Financial Services and Markets Act 2000 and applicable tax legislation. In addition, we considered compliance with the UK Bribery Act and employee legislation, as fundamental to the Bank's operations.

- Reviewing key correspondence with regulatory authorities such as the Financial Conduct Authority and Prudential Regulatory Authority.

- Enquiry of management to identify any instances of non-compliance with laws and regulations.

- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

- Enquiry of management around actual and potential litigation and claims.

- Enquiry of management to identify any instances of known or suspected instances of fraud.

- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

- Reviewing minutes of meetings of those charged with governance.

- Reviewing internal audit reports.
- Identifying and validating the key controls in place (we have not tested the operating effectiveness of these controls and accordingly have not relied upon these controls in obtaining sufficient and appropriate audit evidence).
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for impairment of loans and amounts advanced to customers.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Other requirements

We were appointed by the Directors on 15 September 2019. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Bank and we remain independent of the Bank in conducting our audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

R Shaunak

Rakesh Shaunak FCA, CTA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
6th Floor
2 London Wall Place
London
EC2Y 5AU
24 June 2021

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 € '000	2019 € '000
Interest receivable and similar income	2	4,457	3,400
Interest expense		21	16
Net interest income		**4,478**	**3,416**
Fees and commission receivable	3	146	516
Fees and commission payable		(42)	(24)
Foreign exchange gains/(losses)		(115)	106
Other operating income		-	6
Total revenue		**4,467**	**4,020**
Administrative expenses	4	(6,649)	(6,961)
Depreciation	11,12	(525)	(523)
Operating loss		**(2,707)**	**(3,464)**
Other income	23	29	45
Loss before provision and taxation		**(2,678)**	**(3,419)**
Impairment on loans and advances	10	1,017	-
Loss before taxation		**(1,661)**	**(3,419)**
Tax recoverable on loss	5	-	-
Loss for the financial year		**(1,661)**	**(3,419)**

The result for the year is derived entirely from continuing activities. The notes on pages 24 to 48 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
		€ '000	€ '000
Loss for the financial year		**(1,661)**	(3,419)
Other comprehensive income			
Pension remeasurement	20	(29)	(45)
		-	-
Other comprehensive loss for the year		**(29)**	**(45)**
Total comprehensive loss for the year		**(1,690)**	**(3,464)**

The notes on pages 24 to 48 form part of these financial statements.

BALANCE SHEET
AT 31 DECEMBER 2020

	Note	2020 € '000	2019 € '000
Assets			
Cash and cash equivalents	7b	102,393	114,968
Loans and advances to banks	7a	196,274	187,756
Loans and advances to customers	8	11,941	12,349
Investments	9	-	-
Tangible assets	11	4,051	4,236
Intangible assets	12	786	1,098
Debtors	14	4,230	4,306
Total Assets		**319,675**	**324,713**
Liabilities			
Deposits by banks	15	49,414	49,579
Customer accounts	15	4,251	5,136
Other liabilities	15	670	725
Accruals and deferred income	15	2,387	3,716
Provisions for liabilities	16	-	914
Total Liabilities		**56,722**	**60,070**
Shareholder's funds			
Called up share capital	17	264,412	264,412
Retained earnings		(1,480)	210
Other reserves		21	21
Total Equity		**262,953**	**264,643**
Total Equity and Liabilities		**319,675**	**324,713**

The Financial Statements were approved by Board of Directors and authorised for issue on 24 June 2021 and signed on their behalf by:

H. Zaferani

Gholamhassan Zaferani
Deputy Chairman and Managing Director

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Called-up share capital	Retained earnings	Other reserves	Total
	€ '000	€ '000	€'000	€ '000
At 1 January 2019	**264,412**	**3,674**	**21**	**268,107**
Loss for the financial year	-	(3,419)	-	(3,419)
Other Comprehensive Loss for the year	-	(45)	-	(45)
Total comprehensive loss for the year	**-**	**(3,464)**	**-**	**(3,464)**
Issue of shares	-	-	-	-
At 31 December 2019	**264,412**	**210**	**21**	**264,643**
Loss for the financial year	-	(1,661)		(1,661)
Other Comprehensive Loss for the year	-	(29)	-	(29)
Total comprehensive loss for the year	**-**	**(1,690)**	**-**	**(1,690)**
At 31 December 2020	**264,412**	**(1,480)**	**21**	**262,953**

Notes
(Forming part of the financial statements)

Principal activities

Melli Bank Plc is a commercial bank incorporated in England and Wales and based in London. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000. The principal activity of the Company is the provision of retail and commercial banking services. The Bank's registered address is 98a Kensington High Street, London, W8 4SG.

1. Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except if noted below.

Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. The functional and reporting currency of the Bank is the Euro. The figures have been reported in thousands of Euros, unless stated otherwise.

In respect of financial instruments, the Bank has applied the provisions of FRS 102 chapters 11 and 12 in full.

The Company has one class of business and all other services provided are ancillary to this. Business is conducted from the United Kingdom and from a branch in Hong Kong.

(i) Going Concern

The financial statements have been prepared on a going concern basis.

The Directors have considered the risk factors impacting the Bank, including the political environment, the US sanctions and COVID-19, and assessed the results of the actions taken to mitigate the risk to the ability of the Bank to operate within its set strategy and business forecasts, realise its assets and meet its obligations as they fall due.

Based on these assessments and having regard to the resources available to the Bank, the Directors have concluded that the risk factors do not give rise to events or conditions that, after risk mitigation action, may individually or collectively, cast significant doubt on the Bank's ability to continue as a going concern and that the Directors can continue to adopt the going concern basis in preparing the annual report and accounts. Further information is provided in the Strategic Report under the heading of Going Concern.

(ii) Cash flow exemptions

The Company, as a qualifying entity for certain exemptions under FRS 102 on account of it being consolidated with Bank Melli Iran, a group that prepares publicly available financial statements which give a true and fair view, has taken advantage of the exemption in FRS 102 from the requirement to produce a statement of cash flows.

(iii) Related party transactions

As the Bank is a wholly owned subsidiary of Bank Melli Iran, the Bank has taken advantage of the exemption contained in section 33.1A and 33.7 of FRS 102 and (i) not disclosed transactions or balances with wholly owned subsidiaries which form part of Bank Melli Iran and (ii) not disclosed transactions with key management personnel of the entity or its parent (see note 24).

(iv) Functional and presentation currency

The financial statements are prepared and presented in Euro, which is the functional currency of the Bank as it represents the currency of the primary economic environment in which the Bank operates. A significant proportion of the Bank's assets and revenues are transacted in Euro. All amounts in the financial statements have been rounded to the nearest €1,000 except when otherwise indicated.

Accounting Policies

a) *Interest receivable and payable*

Interest receivable and payable is recognised over the period of the related loans, securities and deposits using the effective interest method.

When loans, securities or deposits are impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument.

b) *Financial Assets*

Loans and advances

Loans and advances are basic financial instruments satisfying the conditions set out in FRS 102 sections 11 & 12. Loans and advances are initially recognised at fair value. They are subsequently stated at amortised cost after deduction of amounts which are calculated as impairment provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through profit or loss from the date of acquisition to the date of maturity using the effective interest method.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Impairment

Impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence of impairment is considered on both individual and portfolio bases.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance, restructuring of a loan or advance by the Company on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of the future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the assets shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

c) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that are directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows. Single items which cost GBP 1,000 or less are expensed in the year and not depreciated. The useful economic life of the fixed assets is expected as follows:

Leasehold building	-	over the remaining period of the lease
Leasehold improvements	-	12.5% per annum
Freehold building	-	over the remaining useful life of the building
Fixtures, fittings and equipment	-	20% per annum
Motor vehicles	-	20% per annum

d) *Intangible assets*

Intangible assets are measured at cost less accumulated amortisation and impairment. Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:

- The technical feasibility of completing the software so that it will be available for use or sale.
- The intention to complete the software and use or sell it.
- The ability to use the software or to sell it.
- How the software will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the software.
- The ability to measure reliably the expenditure attributable to the software during its development.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

Software	-	Up to 5 years

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

e) *Impairment of assets*

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. The estimated recoverable amount is the higher of net realisable value and value in use.

f) *Financial liabilities*

Basic financial liabilities, including trade and other payables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at present value of the future receipt discounted at market rate of interest. They are subsequently measured at amortised cost using the effective interest rate method as set in FRS 102 - 11.14.

In accordance with FRS 102, financial instruments issued by the Company which include a contractual obligation to either deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company, are classified as financial liabilities. Otherwise, they are classified as equity.

g) *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the close of business each day and the gains or losses on translations are included in the Profit and Loss Account. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. The functional and reporting currency of the Bank is the Euro. The Bank uses average exchange rates to translate income and expenses accrued during the year reported in the Profit and Loss Account. The Bank uses year end exchange rates to translate items reported in the Balance Sheet. The Euro exchange rates at the year-end against US Dollar and Sterling were €1= US$1.2273 (2019: €1=US$1.1177) and €1=£0.8995 (2019: €1=£0.8545). The average of month end Euro exchange rates ruling at the Balance Sheet date against US Dollar and Sterling were €1=US$1.1462 (2019: €1=US$1.1189) and €1=£0.8886 (2019: €1=£0.8757).

h) *Taxation*

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Current tax liabilities are recognised without discounting.

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the Balance Sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. The notional deferred tax on the actuarial loss under FRS 102 is recognised in Other Comprehensive Income.

Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted that are expected to apply when the timing difference reverses. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The Bank does not currently recognise deferred tax (see note 13 for additional information).

Management periodically evaluates the position taken in the tax return with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

i) *Pensions and other post-retirement benefits*

(i) Defined contribution pension plan

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged to profit or loss represent the contributions payable to the scheme in respect of the accounting period.

(ii) Defined benefit pension plan

The Company also operates a defined benefit pension scheme based on final pensionable pay. This scheme was closed to future accrual from 31 July 2004 and replaced by the defined contribution scheme. The assets are held in a specific trust separately from those of the Company, and managed by an independent trustee. A formal valuation is conducted periodically by a qualified actuary. The defined benefit pension scheme liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme assets are measured at fair value. The pension scheme surplus, to the extent it is considered recoverable, or deficit, when payable, is recognised in full and presented on the face of the Balance Sheet. Remeasurement of the pension is included in other comprehensive income. See note 20 for further information.

j) ***Provisions and contingent liabilities***

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date and are discounted to present value at an appropriate rate if the effect of the time value of money is deemed material.

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resource is remote.

k) ***Operating lease rentals***

Leases that do not transfer all the risks and rewards of the ownership are classified as operating leases. Payments under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

l) ***Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months from the date of inception, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

m) ***Share Capital***

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds net of tax.

n) ***Significant judgments and estimates***

Judgements

In the course of preparing the financial statements, no critical judgements have been made in the process of applying the Bank's significant accounting policies that have had a significant effect on the amounts recognised in the financial statements.

Estimates

a. **Impairment of loans and debt securities**

The development of provisions against non-performing loans and assessing impairment of debt securities imply making reliable judgements and estimates of the ability of customers and other counterparties to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic volatility. The Bank measures impairment on an incurred loss basis under FRS 102. The Bank reviews the impairment of financial assets annually.

b. **Other Provisions**

The other provision in the financial statements relates to a potential benefit claim by a former Managing Director per note 16. The claim was settled in 2020 and the residual provision was reversed into profit or loss. Other aspects of the claim which were estimated to be less likely to result in a payout were disclosed as contingent liabilities (see note 19). This contingent liability ceased to exist from the date of the settlement of the claim.

c. **Defined benefit pension scheme**

The Bank's defined benefit pension scheme was in surplus at 31 December 2020. No significant funding is estimated for 2020. The principal assumptions used for the pension scheme valuation are outlined in note 20.

d. **Deferred Tax**

The carrying amount of the deferred tax asset is based on management's best estimate of the probability of sufficient taxable profits being available to allow all or part of the asset to be recovered. However, the Bank has decided not to recognise deferred tax on its balance sheet. For more details refer to note 13.

2. Interest receivable and similar income

	2020	2019
	€'000	€'000
Loans and advances to customers	544	788
Loans and advances to banks	3,913	2,612
	4,457	**3,400**

Interest income is recognised in profit and loss using effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through expected life of the financial instrument to the carrying amount of the financial asset.

3. Fees and commission receivable

	2020	2019
	€'000	€'000
Commissions	60	112
Account maintenance fees	82	94
LC discounting fees	4	310
	146	**516**

4. Administrative expenses

	2020	2019
	€'000	€'000
Staff costs - Salaries and wages	3,895	4,000
Social security costs	356	369
Other pension costs	352	347
	4,603	**4,716**
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts UK	105	111
Fees payable to the Company's auditor for the audit of the Company's annual accounts HK	14	13
Lease rentals in respect of leasehold premises	448	424
Legal and professional fees	505	539
Business Rates	190	190
Building and liability insurance	78	68
Building repairs and maintenance	33	51
Other administration expenses	673	849
	6,649	**6,961**

Employee Information

	2020	2019
Banking operations	9	9
Banking others	39	37
Administration	2	2
	50	48

The average number of employees in the Bank, excluding non-executive directors, during the year was 50 (2019: 48).

5. Taxation

a) Analysis of charge for the year

	2020	2019
	€'000	€'000
Current taxation:		
UK corporation tax at 19.00% (2019: 19.00%) on taxable income for the year	-	-
UK corporation tax adjustment in relation to prior year	-	-
Total current tax (note 5b)	-	-
Deferred taxation (note 13):		
Adjustment in respect of prior years	-	-
Origination and reversal of timing differences	-	-
b) Factors affecting the tax charge	-	-

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	2020	2019
	€'000	€'000
Loss before taxation	(1,661)	(3,419)
Loss multiplied by UK standard rate of corporation tax of 19.00% (2019: 19.00%)	(315)	(649)
Effects of:		
Expenses not deductible for tax purposes	26	(1)
Difference in tax rates	-	-
Tax impact in respect of unrecognised deferred tax asset	289	650
Adjustment in relation to prior years	-	-
Tax on loss (note 5a)		-

c) Factors that may affect the future tax charges

It was announced in the 2021 Budget that the current 19% rate of corporation tax will continue until April 2023 when it will be increased to 25%. The directors of the Company are not aware of any other factors which will have a material effect upon the future tax charges.

6. Remuneration and interests of directors

	2020	2019
	€'000	€'000
Aggregate remuneration including benefits	809	817
Pension contributions	36	35
Director's emoluments	**845**	**852**

Highest paid director's emoluments:		
Salary and bonus	146	141
Adjustment in respect or prior year	8	6
Benefits:		
Arising from rented accommodation	40	44
Arising from use of company car	14	14
Arising from membership of medical scheme	19	23
UK income tax and national insurance	161	156
	388	**384**

One director at 31 December 2020 (2019: one) was a member of the Bank's pension scheme which provided benefits based on final pensionable pay. This director was not the highest paid director in the Bank. The scheme closed and benefits were frozen on 31 July 2004. Two directors are members of the defined contribution pension scheme.

7a. Loans and advances – banks

	2020	2019
	€'000	€'000
Maturity:		
3 months or less	158,666	79,141
1 year or less but over 3 months	37,608	71,850
over 1 year	-	36,765
	196,274	**187,756**
Impairment provision	-	-
	196,274	**187,756**

Loans and advances – banks comprises

	2020	2019
Loans and advances to money market counterparties	65,600	70,000
Loans and advances to other banks	130,674	117,756
	196,274	**187,756**

Of the above amount 63.71% (2019: 59.53%) represents exposure to Iranian banks other than Group undertakings.

	2020	2019
Due from Group undertakings	**5,621**	**5,991**

The Bank does not consider the loans and advances to banks to be impaired. Please refer to note 21 for the Bank's assessment of credit risk.

7b. Cash at bank and in hand

	2020	2019
	€'000	€'000
Cash	3,515	3,650
Group	26,604	5,052
Other banks	72,274	106,266
	102,393	**114,968**

8. Loans and advances – customers

	2020 €'000	2019 €'000
Repayable on demand or at short notice	-	-
Remaining maturity:		
3 months or less	-	-
1 year or less but over 3 months	1,039	219
5 years or less but over 1 year	3,298	-
5 years and above	1,222	-
Past due	16,637	24,078
	22,196	**24,297**
Impairment provisions (note 10)	(10,255)	(11,948)
	11,941	**12,349**

Of the above amount 55% (2019: 63%) are exposures to Iranian corporate and government owned entities.

Past due analysis	***Current**	**Past due not more than 3 months**	**Past due more than 3 months but not more than 6 months**	**Past due more than 6 months but not more than 1 year months**	**Past due more than one year but not more than 5 years**	**Past due more than 5 years**	**Total**
31-Dec-20	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loan 1	5,344	-	-	-	-	-	5,344
Loan 2	-	-	-	-	-	3,930	3,930
Loan 3	-	-	-	215	-	-	215
Loan 4	-	-	-	-	-	2,452	2,452
Loan 5	-	-	-	-	-	-	-
Loan 6	-	-	-	-	-	-	-
Total	**5,344**	**-**	**-**	**215**	**-**	**6,382**	**11,941**

*The current information is included for completeness.

Past due analysis	*Current	Past due not more than 3 months	Past due more than 3 months but not more than 6 months	Past due more than 6 months but not more than 1 year months	Past due more than one year but not more than 5 years	Past due more than 5 years	Total
31-Dec-19	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loan 1	-	-	-	-	-	4,602	4,602
Loan 2	-	-	-	-	-	4,328	4,328
Loan 3	-	-	-	215	-	-	215
Loan 4	-	-	-	-	-	3,199	3,199
Loan 5	5	-	-	-	-	-	5
Loan 6	-	-	-	-	-	-	-
Total	**5**	**-**	**-**	**215**	**-**	**12,129**	**12,349**

*The current information is included for completeness.

Loan 2 is partially impaired and is included in the impairment provision (note 10). Loans 3 and 4 are past due but not impaired. This is on account of the security the Bank holds, which are either (a) irrevocable guarantees from guarantors who the Bank deems to be of high quality or (b) reputable ownership, strong financial condition and commitment to repay. Loan 5 is employee loans. Loan 6 is over 5 years past due and considered fully impaired. A 100% impairment provision has been set against this loan and it is included in the impairment provisions figure (note 10).

All loans and advances to customers have been classified as basic financial instruments and reported at amortised cost under the provisions of FRS 102. At 31 December 2020, the effective interest rate earned on loans and advances to customers was 4.49% (2019: 5.96%). All financial instruments are measured at amortised cost under the provisions of FRS 102.

9. Debt Securities

At amortised cost	**2020**	**2020**	**2019**	**2019**
	Fully Impaired Cost*	**Original Cost**	**Fully Impaired Cost***	**Original Cost**
Investment securities – listed	€'000	€'000	€'000	€'000
Financial corporations				
Securities due one year or over	-	4,935	-	5,419
	-	**4,935**	**-**	**5,419**

*For impairment provisions see note 10.

Reconciliation of (unimpaired) book cost of debt securities

	2020	2019
Cost	€'000	€'000
At start of year	5,419	5,292
Exchange rate impact	(484)	127
Book cost at end of year before impairment	**4,935**	**5,419**

At 31 December 2020 the effective interest rate earned on debt securities was 0% (2019: 0%).

10. Impairment provisions

In accordance with FRS 102 the Bank makes impairment provisions only where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event (or events) have an impact on the estimated future cash flows from the asset that can be reliably estimated.

	2020	2019
	€'000	€'000
Provision charge (release) in the year	(1,017)	-
Exchange rate movements	(1,160)	300
Impairment loss provision at start of year	17,367	17,067
Impairment loss provision at year end	**15,190**	**17,367**

The provisions at year end 2020 of €15,190,000 are made up of €10,255,000 in respect of impaired loans and advances to customers (note 8) and €4,935,000 against debt securities (note 9). Provision release for the current year amounts (€1,578,000) relating to Loan 1 (Note 8) and provision charge amounts €562,000 relates to Loan 4 (Note 8). The exchange rate movements mainly relate to fully impaired loans denominated in Kuwaiti Dinars and US Dollars.

11. Tangible fixed assets

	Freehold Building €'000	Leasehold Building €'000	Leasehold Improvements €'000	Fixtures, Fittings and Equipment €'000	Motor Vehicle €'000	Total €'000
Cost						
At 31/12/2019	1,150	2,955	1,229	787	37	6,158
Additions	-	-	9	15	-	24
Disposals	-	-	-	-	-	-
At 31/12/2020	**1,150**	**2,955**	**1,238**	**802**	**37**	**6,182**

Depreciation						
At 31/12/2019	-	410	958	517	37	1,922
Disposals	-	-	-	-	-	-
Charge	-	45	48	116	-	209
At 31/12/2020	-	**455**	**1,006**	**633**	**37**	**2,131**
Net book value at						
31-12-20	**1,150**	**2,500**	**232**	**169**	-	**4,051**
31-12-19	**1,150**	**2,545**	**271**	**270**	-	**4,236**

All freehold and leasehold properties are occupied by the Company for its own activities. The leasehold building has an unexpired lease of more than 50 years. Depreciation of the freehold building has not been recognised on account of non-materiality.

12. Intangible fixed assets

	IT-Intangibles	Total
	€'000	€'000
Cost		
At 31/12/2019	1,583	1,583
Additions	4	4
Disposals	-	-
At 31/12/2020	**1,587**	**1,587**
Depreciation		
At 31/12/2019	485	485
Disposals	-	-
Charge	316	316
At 31/12/2020	**801**	**801**
Net book value at		
31-12-20	**786**	**786**
31-12-19	**1,098**	**1,098**

13. Deferred tax

	2020 €'000	2019 €'000
Balance brought forward	-	-
Redundancy provision	(191)	-
Tax losses	429	621
Accelerated capital allowances	45	33
Recoverable costs	-	1
Pension accrued	6	(5)
Deferred tax asset not recognised	(289)	(650)
Deferred tax asset	-	-

The deferred tax asset comprises the following:	2020 €'000	2019 €'000
Accelerated capital allowance	25	(19)
Tax losses	3,422	2,992
Recognition of fair value of investments	1	1
Redundancy provision	-	191
Recoverable costs	4	4
Pension accrued	6	0
Deferred tax asset not recognised	(3,458)	(3,169)
	-	-

The Bank has not recognised the deferred tax asset of €3,458,000 on its balance sheet as it is not certain that there will be taxable profits available in the foreseeable future against which the Bank can utilise the benefits therefrom.

14. Debtors

	2020 €'000	2019 €'000
Accrued tax (Hong Kong Branch)	617	664
Prepayments	249	342
Accrued Income	315	589
Other debtors	3,049	2,711
	4,230	**4,306**

15. Liabilities -Maturity analysis

Maturity analysis	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than five years	Undated Items	Total
31-Dec-20						
	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities:						
Deposits by banks	49,414	-	-	-	-	49,414
Customer accounts	4,251	-	-	-	-	4,251
Other liabilities	670	-	-	-	-	670
Accruals and deferred income	2,387	-	-	-	-	2,387
Total financial liabilities	**56,722**	**-**	**-**	**-**	**-**	**56,722**

Maturity analysis	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than five years	Undated Items	Total
31-Dec-19						
	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities:						
Deposits by banks	17,801	31,778	-	-	-	49,579
Customer accounts	5,136	-	-	-	-	5,136
Other liabilities	725	-	-	-	-	725
Accruals and deferred income	3,716	-	-	-	-	3,716
Provision for liabilities	-	-	-	-	914	914
Total financial liabilities	**27,378**	**31,778**	**-**	**-**	**914**	**60,070**

At 31 December 2020 the effective interest rate paid on deposits by banks was 0.0002% (2019: 0.0002%).

16. Provisions for liabilities

	Former Managing Director claim	Former Managing Director potential claim
	2020	2019
	€'000	€'000
At 1 January	914	868
Settlement of claim/Reversal of residual provision	(914)	-
Exchange rate movement	-	46
As at 31 December	-	**914**

17. Authorised and called up share capital

	2020	**2019**
Authorised	€'000	€'000
50,000 Ordinary shares of £1 each	68	68
225,000,000 Ordinary shares of $1 each	153,061	153,061
300,000,000 Ordinary shares of €1 each	300,000	300,000
	453,129	**453,129**
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	68	68
264,343,895 Ordinary shares of €1 each	264,344	264,344
	264,412	**264,412**

There was no movement in number of shares during the year. There are no restrictions on the distribution of dividends and the repayment of capital.

18. Operating lease Commitments

As at 31 December 2020 the Bank had the following non-cancellable operating lease commitments:

	2020	**2019**
	€'000	€'000
Within one year	456	497
Between one and five years	494	1,017
	950	**1,514**

The operating leases are in respect of office premises of the Hong Kong Branch. The renewed lease of office premises was signed and started in January 2020.

19. Contingent liabilities and undrawn commitments

Contingent liabilities in existence at 31 December 2020 was €Nil (2019: €Nil) in respect of letters of guarantee issued by the Bank. Undrawn commitments relating to letters of credit discounting and syndicate loan facilities at 31 December 2020 was €Nil (2019: €Nil) and letter of credit refinancing was €Nil (2019: €Nil).

A contingent liability estimated to be in the region of £1,500,000 relating to a claim in respect of additional pension obligation to a former director of the Bank, has ceased to exist on account of the settlement of the claim in 2020, for which there was a provision (see note 16).

20. Pension Scheme

The Company sponsors The Pension and Life Assurance Scheme of Melli Bank plc, a funded defined benefit pension scheme in the UK. The scheme is set up on a tax relieved basis as a separate trust independent of the Company and is supervised by an independent trustee. The Trustee is responsible for ensuring that the correct benefits are paid, that the Scheme is appropriately funded and that Scheme assets are appropriately invested.

Information about the characteristics of the Scheme

The Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary and their length of service.

The Scheme is not contracted out of the State Earnings-Related Pension Scheme. With effect from 31 July 2004 benefit accrual ceased and members then in active service became deferred pensioners.

The Scheme is a registered scheme under UK legislation and is subject to the scheme funding requirements.

The Scheme was established from 1 August 1969 under trust and is governed by the Scheme's trust deed and rules dated 31 July 2001 and subsequent amendments.

The Trustee is responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

Information about the risks of the Scheme to the Company

The Scheme exposes the Company to actuarial risks such as; market (investment) risk, interest rate risk, inflation risk, currency risk and longevity risk.

The Scheme does not expose the Company to any unusual Scheme-specific or Company-specific risks.

Information about the valuation of the defined benefit obligation at the accounting date

The Company pays the balance of the cost as determined by regular actuarial valuations. The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates. Best estimate means a broadly 50/50 chance of reality being better/worse than expectations. The most recent formal actuarial valuation of the Scheme was as at 31 July 2018.

The liabilities at the reporting date have been calculated by updating the results of the actuarial valuation of the Scheme as at 31 July 2018 for the assumptions as detailed in these disclosures. Allowance has been made for the passage of time, benefits paid out of the Scheme, inflationary experience, expected deaths and changes in actuarial assumptions over the period from 31 July 2018 to 31 December 2020.

Such an approach is normal for the purposes of accounting disclosures. It is not expected that these projections will be materially different from a summation of individual calculations at the accounting date, although there may be some discrepancy between the actual liabilities for the Scheme at the accounting date and those included in the disclosures.

Information about the most recent actuarial valuation and expected future cashflows to and from the Scheme

The valuation as at 31 July 2018 revealed a funding surplus of £1,103,000. Therefore, no further contributions are currently due from the Company.

In addition, the Company is expected to meet the cost of administrative expenses for the Scheme.

The liabilities of the Scheme are based on the current value of expected benefit payment cashflows to members approximately over the next 60 years. The average duration of the liabilities is approximately 13 years.

The Scheme's investment strategy

The Scheme's investment strategy is to invest entirely in insurance contracts. This is done through a with-profits policy. The underlying asset split of the policy at the last reported date (30 September 2020) was approximately 49% equities; 23% fixed-interest bonds; 15% property and 13% cash and alternatives. The policy enables the Trustee to benefit from smoothed returns and avoid full exposure to the volatility of markets, which is important given the Scheme's small size. This distribution is intended to reflect the liability profile of the Scheme. The Scheme also holds a number of annuity policies which match a portion of the pensions in payment as well as a small cash fund.

The Scheme does not hold any ordinary shares issued or property occupied by the Company.

Other Comprehensive Income reconciliation to plan:	**31-12-20** €'000	**31-12-19** €'000
Charge/(credit) recorded in other comprehensive income	(537)	(147)
Surplus derecognition/ plan movements	508	102
Pension remeasurement	**(29)**	**(45)**

The amounts recognised in other comprehensive income are:

	31-Dec-20 €'000	**31-Dec-19** €'000
Service cost:		
Net interest expense/(credit)	(29)	(45)
Charge/(credit) recognised in other comprehensive income	**(29)**	**(45)**

Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in net interest expense)	(449)	(1017)
Actuarial (gains)/losses	986	1164
Charge/(credit) recorded in other comprehensive income	537	147
Total defined benefit cost/(credit)	**508**	**102**

The principal actuarial assumptions used were:	**31-Dec-20**	**31-Dec-19**
Liability discount rate	1.15%	1.95%
Inflation assumption - RPI	3.15%	3.15%
Inflation assumption - CPI	2.15%	2.15%
Rate of increase in salaries	0.00%	0.00%
Revaluation of deferred pensions	2.15%	2.15%
Increases for pensions in payment:		
Benefits accrued pre 97	3.00%	3.00%
Benefits accrued post 97	3.60%	3.60%
Proportion of employees opting for early retirement	0.00%	0.00%
Proportion of employees commuting pension for cash	50.00%	50.00%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	86.0	86.8
Female aged 65 at year end:	88.3	88.9
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end:	86.6	87.6
Female aged 45 at year end:	89.1	90.0

Reconciliation of scheme assets and liabilities	**Assets**	**Liabilities**	**Total**
	€'000	€'000	€'000
At the start of period	17,131	(15,632)	1,499
Benefits paid	(633)	633	-
Interest income / (expense)	328	(299)	29
Return on assets (excluding amount included in net interest expense)	449	-	449
Actuarial gains/(losses)	-	(986)	(986)
At end of period	**17,275**	**(16,284)**	**991**

The return on plan assets was:	31-Dec-20	31-Dec-19
	€'000	€'000
Interest income	328	456
Return on plan assets (excluding amount included in net interest expense)	449	1,017
Total return on plan assets	**777**	**1,473**

The major categories of scheme assets are as follows:	31-Dec-20	31-Dec-19
	€'000	€'000
UK Equities	1,680	1,604
Overseas Equities	2,717	2,662
Corporates (fixed interest)	2,082	2,606
Property	1,305	1,335
Other-Private Eq + Alternatives	983	844
Annuities	8,308	8,727
Cash	200	255
Total return on plan assets	**17,275**	**18,033**

21. Management of financial risks and uncertainties

Melli Bank Plc is a UK incorporated bank, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority and conforms to all applicable UK accounting standards and disclosure requirements. It is a wholly owned subsidiary of Bank Melli Iran. The Bank has one branch in Hong Kong which is regulated by the Hong Kong Monetary Authority.

The Bank has identified the risks to which it is exposed in its activities and has in place a management framework and control procedures to meet such risks. The Bank considers the most significant financial risks to be credit risk (including concentration risk) and liquidity risk.

The Bank's market risk is not considered to be significant. It does not run a trading book and the only market risks it might be exposed to are foreign exchange position risk and interest rate risk in the banking book. It is the Bank's policy to square most of its open foreign exchange positions on a daily basis. Foreign exchange activity is principally driven by the requirement to cover exposure related to customer operations. With regard to interest rate risk, the Bank does not have long term fixed rate exposure. It does not have any borrowings and the loan assets are funded by its CET 1 capital.

All financial assets and liabilities are recorded at amortised cost. There are none at fair value.

Risk control environment

The size and structure of the Bank enables the direct involvement of the most senior managers in the day-to-day activities of the Bank and provides short and effective channels of communication that readily identify and address both threats and opportunities.

The Risk Management Framework Policy formalises the risk management framework of the Bank and establishes the process for the management of the risks faced by the Bank.

In parallel to routine operational controls, the Bank operates a committee structure to formally review activities.

Risk control procedures

Credit Risk

The Bank is exposed to credit risk which arises from its commercial lending, trade finance activities and also from its inter-bank placements and deposits. There is a requirement to clearly identify credit risk and to manage credit risk not only individually, but also at a sector/industry level and at an overall portfolio level. By closely monitoring its portfolio, the Bank is able to gauge the quality of credit risk taken on its books and is able to gauge the movement of the portfolio over time. The Bank has not been in a position to re-build its loan book as it intended mainly due to exporters and banks not working with Iran due to the political environment.

The Bank emphasises a policy of adequate asset quality, as reflected in its Credit Policy Statement. Asset quality is determined on the basis of the size, trend, and mix of the Bank's portfolio of financial assets, as well as the associated credit risk. Credit are driven by principles outlined in the Credit Policy Statement.

Iran has been the Bank's niche market where it has historically had a large concentration mainly as a result of its expert knowledge in understanding, analysing and managing the unique risks associated with investment opportunities in the Iranian market. However, strict standards in maintaining a high-quality asset base have led to the adoption of a conservative approach even with the Iranian business and thus the Bank's products (including bank placements) have generally been offered to a select class of high-quality and reputable customers known to the Bank. To assess risk, the Bank has carefully combined a judgmental approach, taking account of management quality, industry, and operating environment, with a discriminant analysis approach addressing liquidity, leverage, profitability, debt-service coverage, and volatility among other factors.
The Bank monitors the credit portfolio identifying individual portfolio segments and movements in the portfolio over time. Customer, issuer and industry risk are reviewed on inception of each particular transaction, and regularly thereafter. In instances of concern, a more frequent review schedule is applied.

The Bank would usually look to take security in support of corporate loan facilities with the type and level of security being determined on a case by case basis but normally taking the form of one or more of the following:

- A pledge of shares in listed companies.
- A mortgage of property.
- Bank, corporate or personal guarantees.
- Cash.

In order to sustain the credit quality of exposures to banks, inter-bank limits are reviewed annually with the assistance of a matrix approved by the Board of the Bank. The matrix is driven by the level of the external credit rating agency short and long term rating for each bank, and the net worth of each bank. Occasionally, the Bank will take a view that it would be appropriate to mark a limit above the matrix driven limit or mark a limit for a bank which is not rated by external credit rating agency, in which case an individual credit risk analysis paper is produced.

Country risk is analysed using a matrix based upon the level of external credit rating agency short and long term rating for each country. The matrix is approved by the Board annually. As is the case of banks, any adverse change in the rating of a country during the year could require the limit to be reduced.

Exposure against overall limits (both regulatory and internal) is checked on a daily basis, and any excesses are reported to senior management, the Credit Committee and the Board Risk Committee.

The Bank makes impairment provisions where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Details of provisions are set out in note 10.

The carrying amounts of the financial instruments shown on the Balance Sheet best represent the maximum exposure to credit risk as identified by the Company.

Loans and advances to customers detailed below are recorded net of provisions. Provisions have been raised on 4 accounts totalling €15,190,000. Provisions have been raised primarily on accounts which are in default, but also where other factors provide evidence of impairment such as changes in market and economic conditions.

Maturity analysis 31-Dec-20	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Undated Items	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets:							
Loans and advances banks	158,666	17,635	19,973	-	-	-	196,274
Cash at bank	102,393	-	-	-	-	-	102,393
Loans and advances customers	-	412	627	3,298	1,222	6,382	11,941
Other assets	4,230	-	-	-	-	-	4,230
Total financial assets	**265,289**	**18,047**	**20,600**	**3,298**	**1,222**	**6,382**	**314,837**
Liabilities:							
Deposits by banks	18,218	31,197	-	-	-	-	49,414
Customer accounts	4,251	-	-	-	-	-	4,251
Other liabilities	669	-	-	-	-	-	669
Accruals and deferred income	2,387	-	-	-	-	-	2,387
Provision for liabilities	-	-	-	-	-	-	-
Total financial liabilities	**25,525**	**31,197**	**-**	**-**	**-**	**-**	**56,722**

Maturity analysis 31-Dec-19	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Undated Items	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Assets:						
Loans and advances banks	79,141	71,850	-	36,765	-	187,756
Cash at bank	114,968	-	-	-	-	114,968
Loans and advances customers	-	216	4	-	12,129	12,349
Other assets	4,306	-	-	-	-	4,306
Total financial assets	**198,415**	**72,066**	**4**	**36,765**	**12,129**	**319,379**

Liabilities:						
Deposits by banks	17,801	31,778	-	-	-	49,579
Customer accounts	5,136	-	-	-	-	5,136
Other liabilities	725	-	-	-	-	725
Accruals and deferred income	3,716	-	-	-	-	3,716
Provision for liabilities	-	-	-	-	914	914
Total financial liabilities	**27,378**	**31,778**	**-**	**-**	**914**	**60,070**

Tangible and intangible fixed assets are not included in the maturity analysis tables.

Concentration Risk

Concentration risk arises when a number of counterparties are engaged in similar activities or similar geographic locations so that they have economic characteristics that would cause their ability to meet their obligations to be similarly affected by changes in economic or other circumstances. Concentration risk can also arise from a large exposure to a single counterparty. Given the Bank's niche market, a major area of sector concentration is found in the Iranian banking sector whilst geographic concentration risk also arises from the Bank's exposure to the economy of Iran.

The Bank's experience of lending to Iranian state owned banks and businesses is very good, with no losses recorded from such business during more than 15 years of Melli Bank's operation. Furthermore, the Bank has not recorded any losses from such business whilst operating as a branch of Bank Melli Iran, in total more than forty years of experience without loss. The Iranian state banks have an established track record of meeting all obligations.

The Bank also lends to privately-owned Iranian banks. Again, the Bank's experience has been good with no recorded losses but the history is shorter and the customers are inherently less secure. However, given the regulatory environment and the structure of the Iranian banking sector, the Bank considers that capital losses will not arise.

The Bank also has certain single name bank concentration due to the restrictions on establishing correspondent banking relationships.

The geographic concentration risk arises from the Bank's exposure to the economy of Iran receives particular attention in the identification of the amount of capital to be set aside to meet the risks inherent in the Bank's business model. The Bank also has significant exposure concentration to Turkey. However, in the case of Turkey, the bulk of the funds are in the United Kingdom. The Turkish exposure concentration is entirely due to risk transfer from the UK where the funds were placed. Nevertheless, it is the Bank's intention to manage this exposure down.

The Bank relies on its own funds for its funding. However, as the operations progress, it is likely more reliance will be placed on deposits to provide a larger pool of funding to support credit exposure operations. At this time the Bank will seek to broaden its customer base to manage funding concentration risk.

Melli Bank Plc, as a UK incorporated bank, has the United Kingdom as its home country. At 31 December 2020 the countries of risk of its assets comprised:

	2020	**2019**
	€'000	€'000
Iran	210,404	149,902
Turkey	66,925	70,918
United Kingdom	24,304	26,772
Germany	10,290	48,636
Other	7,752	28,485
	319,675	**324,713**

Liquidity Risk

Liquidity Risk Liquidity risk is that the Bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. The Bank has developed and implemented a liquidity risk management strategy in accordance with the Bank's risk tolerance. The Bank considers:

- The composition and maturity of assets and liabilities
- The diversity and stability of funding sources
- The approach to managing liquidity in different currencies, across borders, and across business lines and legal entities
- The approach to intraday liquidity management
- The assumptions on the liquidity and marketability of assets

The strategy takes into account the liquidity needs under normal conditions as well as liquidity implications under periods of liquidity stress, the nature of which may be institution-specific or market-wide or a combination of the two.

The Bank sets internal limits, above regulatory requirement, for the Liquidity Coverage Ratio and the Liquidity Maintenance Ratio. Additionally, the Bank has set an internal requirement to run a positive cumulative liquidity mismatch in the 1 day to 12-month time band.

The Bank does not consider that liquidity will become an impediment to the achievement of its business objectives. And it considers that it has considerable flexibility to address any periods of liquidity stress.

The Assets and Liabilities Committee ensures that liquidity risk remains within the Bank's risk appetite. The Board Risk Committee oversees and advises the Board on the current liquidity risk exposure.

Uncertainties

In addition to the above risks, there is some uncertainty over the speed in which the Bank would be able to implement its strategy which is built upon a trading model which provides trade finance services to the Iranian banks and other parties involved in the chain of trade transactions. The US withdrawal from the Joint Comprehensive Plan of Action (JCPoA) and the re-imposition of all US sanctions previously waived under the JCPoA has had a detrimental impact on trade transactions.

Capital Management

The Bank assesses projected risks and identifies how much capital is required by the Bank. It concludes that the Bank has more than adequate capital to satisfy not just current regulatory capital requirements but also to meet the additional capital requirements resulting from its business requirements over the next 3 years.

At 31 December 2020, the Bank's capital resources amounted to €262,953,000 (2019: €264,643,000) of which 100% was Common Equity Tier 1 (CET1) capital (2019: 100%). This reflects the strength of the Bank's capital resources given that the Bank's CET1 capital ratio is 62% (2019: 69%).

22. Foreign currency risk

	2020	2019
Total assets of the Company by currency are as follows:	€'m	€'m
Denominated in:		
US Dollars	4	5
Euro	298	302
Sterling	7	6
Other	11	12
	320	**325**

Total liabilities of the Company by currency are as follows:	2020 €'m	2019 €'m
Denominated in:		
US Dollars	2	3
Euro	37	38
Sterling	4	5
Other	14	14
	57	**60**

A 10% appreciation in value of Sterling against the Euro would increase the net loss by €0.46m (2019: €0.46m). The effect on capital would be a reduction in capital of 0.18% (2019: 0.17%).

23. Other income

Other income consists of interest income of €29,000 (2019: €45,000) relating to the Bank's pension plan.

24. Related party disclosures

As at 31 December 2020 there were no loans to officers of the Company (2019: €Nil).

A loan with a net value of €3,930,000 at 31 December 2020 is guaranteed by a subsidiary of Bank Melli Iran (the Bank's parent).

There were no other related party transactions requiring disclosure under FRS 102.

25. Ultimate parent undertaking

The Bank is a wholly owned subsidiary of Bank Melli Iran (the parent). The parent is incorporated in Iran, having registered address at Ferdowsi Avenue, Tehran, Iran. The ultimate 100% owner of Bank Melli Iran is the government of the Islamic Republic of Iran.

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