



Melli Bank plc  
Annual Report  
Year Ended 31 December 2022

Registration number: 04152338

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



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**Board & Management****Board of Directors**

**Mr A. Najarzadeh\***  
Non-executive Chairman

**Mr D. Rezaci**  
Deputy Chairman & Chief Executive Officer

**Mr A. Gachpazzadeh\***  
Non-executive Director

**Mr M. Aminzare**  
Non-executive Director

**Mr J. Thompson**  
Non-executive Director

**Mr R. England**  
Non-executive Director

**Mr M. Botshekan**  
Executive Director

\* Newly appointed, awaiting completion of regulatory processes.

**Offices**

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**Executive Management**

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**Mr Ram Rao**  
Financial Control  
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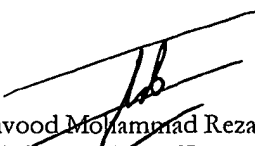
**Mr Terry Chiu**  
Chief Executive – Hong Kong Branch  
E-mail: [terry.chiu@mellibank.com](mailto:terry.chiu@mellibank.com)

## Chief Executive Officer's Statement

The year ended 31 December 2022 was on one hand a very difficult year when Melli Bank was trying to plot its strategy in the face of numerous challenges, and on the other hand it was a fulfilling year. During the year the strategy was fine-tuned to the prevailing economic conditions in our niche market and the restrictions faced as a result of the US sanctions and the other operational difficulties. This strategy, I am very pleased to report, was implemented successfully and the executive management managed to put the loss-making trend of the past six years behind us and Melli Bank returned to profitability. The net profit in 2022 of €559,000 was relatively small, however, the reversal of the net loss in 2021 of €7,308,000 was an outstanding result. This achievement was made possible by increasing the revenues by more than 140% to €9,221,000 while keeping the executive team intact and absorbing the price inflation in the overheads.

I like to put on record my gratitude for the support of my Board of Directors, and the Board and the senior management of our parent, Bank Melli Iran. I am also indebted to the efforts of my colleagues at Melli Bank who rose to the challenge of implementing the more focused and active strategy we developed together.

With the sense of achievement in 2022, we look forward with confidence to the repeat of our success in 2023.

  
Davood Mohammad Rezaei  
Chief Executive Office  
26 April 2023

## 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

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. The Bank has organised its resources on the basis of this business model, and planned its 2022 business activities to take 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. With the approach of 2022, the Bank refined its business model and strategy to focus on the current restricted business environment, and source business and develop products that are more suited to the current needs of the customers. This strategy was implemented successfully in 2022 with the positive impact of arresting the loss-making trend of the previous six years. The total revenue net of fees and commission paid and the impact of the revaluation of FX positions increased more than 144% to €9,221,000 (2021: €3,777,000).

The pressure on administrative expenses due to the consumer price inflation was present throughout 2022 and impacted both the staff costs and other administrative expenses. The average Consumer Price Inflation (CPI) experienced in the UK 2022 was around 9.1%. The Bank’s staff costs increased by 5.2% to €5,600,000 (2021: €5,322,000) and the other administrative expenses increased by 8.9% to €2,602,000 (2021: €2,389,000). It is expected that impact of the inflation in 2022 on the expenses, such as the pay awards during 2022 which was based on year-on-year CPI at the date of the awards, will carry forward to 2023.

UK, January 2022 to January 2023				
		CPI Index (UK, 2015=100)	CPI 12- month rate	CPI 1 month rate
2022	Jan	114.9	5.5	(0.1)
	Feb	115.8	6.2	0.8
	Mar	117.1	7.0	1.1
	Apr	120.0	9.0	2.5
	May	120.8	9.1	0.7
	Jun	121.8	9.4	0.8
	Jul	122.5	10.1	0.6
	Aug	123.1	9.9	0.5
	Sep	123.8	10.1	0.5
	Oct	126.2	11.1	2.0
	Nov	126.7	10.7	0.4
	Dec	127.2	10.5	0.4
2023	Jan	126.4	10.1	(0.6)

Source: Office for National Statistics – Consumer price inflation

After accounting for a small impairment in the valuation of loans and receivables in 2022 of €26,000 (2021: €2,643,000), depreciation charge of €475,000 (2021: €743,000), small interest income from pensions of €41,000 and taxation, the Bank reported a net profit for the year of €559,000 (2021: net loss of €7,308,000).

### Going Concern

The Bank has considered the impact of the political environment, the US sanctions, and assessed whether these factors give rise to events or conditions pertinent to the Bank that may individually or collectively, cast significant doubt on the its 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. Action has been taken to refine the business model and strategy, and the operational processes have been made more efficient in order to arrest the loss-making trend. These actions were successful in achieving a profitable performance in 2022 and the Bank is projecting profitable performances in the next three years. The capital funding requirements have been provided by the Tier 1 Capital, which is well in excess of the required capital to support the planned business and a larger balance sheet. Resilient processes have been put in place to manage liquidity and ensure discharge of liabilities on due dates.

The Bank has experienced and managed a worst-case scenario from 2008 to 2016 when it was subject to the EU sanctions (comprising the UK sanctions) 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 has returned to working from its office premises in London and Hong Kong, however the remote working infrastructure which was put in place during the Covid pandemic to ensure financial and operational resilience has been maintained. These arrangements have been added to the Bank's business continuity infrastructure, providing remote working option on an ongoing basis.

Other risks faced by the Bank are addressed in note 22.

### Section 172 statement for the year to 31 December 2022

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(1) 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 and its committees, in their discussions and decision-making, consider 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 members have direct access and regular engagement with the Bank's employees including during Board visits or at any time they choose and during social events, which has resumed following the lifting of the government-imposed Covid-19 related lockdown.

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

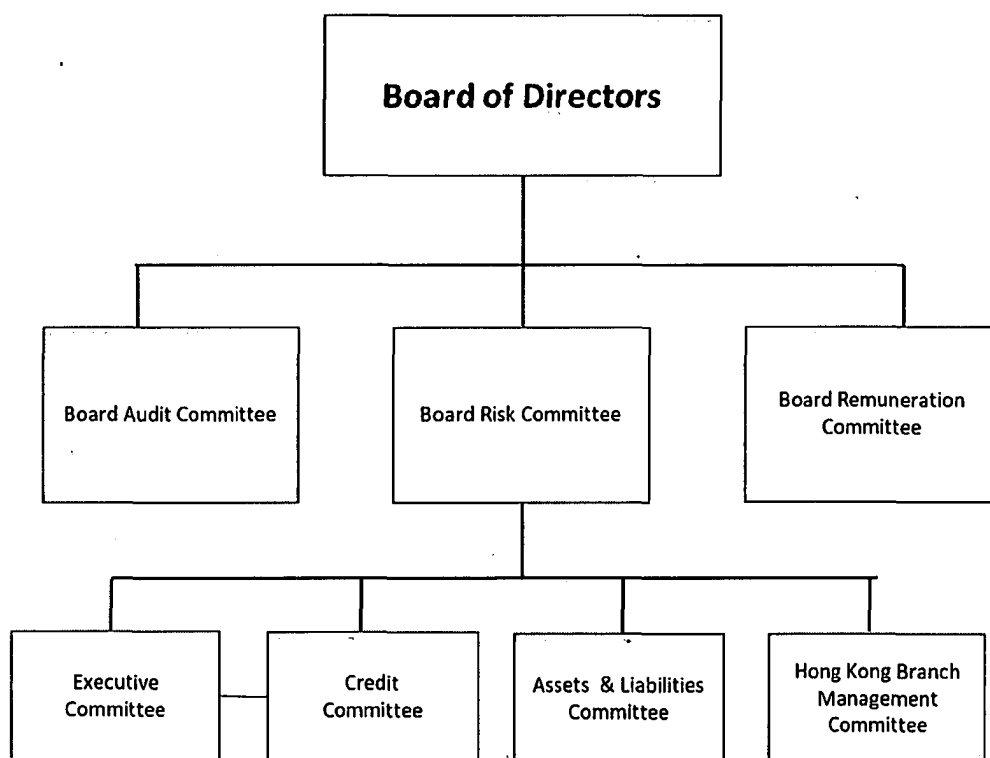
The Board wishes to thank the shareholder for its continued support in retaining a high capital base to support business growth as per its approved business plan. The Board, in determining the timing of dividend payments, will continue to consider relevant factors; including the long-term value of retaining 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.



Board Audit Committee

The Board Audit 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 of the operations of the Risk, Remuneration and the Management Committees.

Board Risk Committee

The Board Risk Committee, in liaison with the executive risk management team, provides oversight of 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 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).

Executive Committee

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

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 Risk Management Policy and the Market Risk Management Policy.

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.

*Principal risks and uncertainties*

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

Information on these is provided in note 22 along with further details of the Bank's risk management objectives and details of the Bank's indicative exposure to risk.



### Key Performance Indicators (KPI)

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 2021, as the intended business uptake has been slow to materialise, while expenses continued within budget as planned. However, there are signs of a turnaround as evidenced by the net profit in 2022.

In 2022 the Bank's total capital ratio showed modest decline. This was on account of the increase in the total risk exposure amount while the eligible capital remained largely unchanged. 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 use its capital efficiently and to maintain a capital position significantly above regulatory requirements at all times.

		<u>2022</u>	<u>2021</u>	<u>2020</u>
Shareholders' Equity (€m)		256	255	263
Eligible Capital (€m)	(a)	256	255	263
Total Assets (€m)	(b)	320	314	320
Total Risk Exposure Amount (€m)	(c)	423	399	422
Total Capital Ratio	(a/c)	60%	64%	62%
Equity to Assets Ratio	(a/b)	80%	81%	82%

*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:



**Davood Rezaei**  
Deputy Chairman and Chief Executive Officer  
26 April 2023

**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 2022.

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 2022 (2021: nil).

**Directors and directors' interest**

Directors who held office during the year were as follows:

Chairman	Mr M. Reza Farzin
Deputy Chairman and Chief Executive Officer	Mr. D. Rezaci
Non-Executive Director	Mr. M. Aminzare
Non-Executive Director	Mr. J. Thompson
Non-Executive Director	Mr. R. England
Executive Director	Mr. B. Ataii
Executive Director	Mr M. Botshekan (Appointed 26-Feb-2022)
Executive Director	Mr. A. Zand (Company Secretary)

**Directors' indemnities**

The Company did not take up an insurance policy which indemnifies directors against liability in respect of proceedings brought by third parties during 2022.

**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 22 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 adequate financial and other resources to continue its business for the foreseeable future as a going concern. In making this assessment, the Directors have considered the impact of the sanctions and the political environment on the performance, and the ability of the Bank to continue the planned operations in compliance with the regulatory requirements.

## 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 a 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:



**Davood Rezaei**  
*Deputy Chairman and Chief Executive Officer*  
26 April 2023

**Future developments**

The development of Melli Bank plc is included in the Business Review on page 5.

There are no other significant events affecting Melli Bank plc that have arisen between 31 December 2022 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.

The Bank is currently under US sanctions. However, these sanctions have not been adopted by the UK and Hong Kong.

**Statement of disclosure of information to auditors**

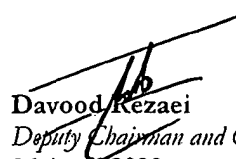
The directors confirm that:

- 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:**



**Davood Kezaei**  
*Deputy Chairman and Chief Executive Officer*  
26 April 2023

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

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Melli Bank Plc. For the purposes of the table on pages 14 to 15 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The "Bank" is defined as Melli Bank Plc. The relevant legislation governing the Bank is the United Kingdom Companies Act 2006 ("Companies Act 2006").

### Opinion

We have audited the financial statements of Melli Bank Plc for the year ended 31 December 2022. The financial statements that we have audited comprise:

- the Profit and Loss Account
- the Statement of Comprehensive Income
- the Balance Sheet
- the Statement of Changes in Equity
- Notes 1 to 26 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Bank's financial statements is applicable law and United Kingdom Accounting Standards, including 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 2022 and of the Bank's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Board 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.

### Emphasis of matter

We draw attention to note 9 to the financial statements which states as at year end that the Bank had a past due loan of €4.4m (2021: €4.2m) which is fully guaranteed by a related party and this balance was not provided for at year end. The loan represents 52% (2021: 48%) of the loans and advances to customers portfolio at year end. Management have received an enforceable and legally binding guarantee from the related party. Management have assessed the related party to have a strong financial position. The actual recoverable amount is dependent on the repayments from the related party and therefore may be materially different. Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going 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.
- Review of post year end board minutes, management accounts and developments in relation to any new business activities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

<b>Scope</b>	Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
<b>Materiality</b>	<b>2022</b>	<b>2021</b>	
<b>Bank</b>	€1.28m	€1.28m	0.5% (2021: 0.5%) of net assets
<b>Key audit matters</b>			
<b>Recurring</b>	<ul style="list-style-type: none"> <li>• Interest receivable recognition</li> <li>• Valuation of loans and advances to customers</li> </ul>		

## 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. 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.

### Interest receivable recognition

Key audit matter description	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 taken into account when calculating interest receivable.
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How the scope of our audit responded to the key audit matter	<p>Our work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Recalculating interest on all commercial and discounted loans and agreeing to the breakdown</li> <li>• Recalculating interest on money market loans and vouching a sample to agreements;</li> <li>• Recalculating interest on placements and vouching to third party confirmations;</li> <li>• Subjecting all interest income lines to analytical review procedures, where the year-on-year movements were reviewed for reasonableness and corroborated to supporting evidence; and</li> <li>• Performing and documenting walkthroughs on the design and implementation of the related controls in place within the revenue area, including how the accounting system calculates interest.</li> </ul> <p>The Bank's accounting policy on interest recognition is shown in note 1(a) to the financial statements.</p>
Key observations communicated to the Bank's Audit Committee	Based on the 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

Key audit matter description	The estimation of allowance for impairment on loans involves a significant degree of judgement and estimation. The impairment allowance is based on management's best estimate of the loan losses incurred at the balance sheet date, depending on factors such as likelihood and timing of future cash flows.
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How the scope of our audit responded to the key audit matter	<p>Our work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Checking management's assessment of the loan impairment and challenging the assumptions made by verifying assumptions to third party sources;</li> <li>• Substantively testing repayments for significant loans by agreeing any drawdowns and payments to supporting documentation;</li> <li>• Evaluating any guarantors for their feasibility to pay.</li> </ul> <p>The Bank's accounting policy on impairment of financial assets carried at amortised cost is shown in note 1(b) to the financial statements and related disclosures are included in notes 10 and 11.</p>
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Key observations communicated to the Bank's Audit Committee	Based on the 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.
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#### 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 €1.28m (2021: €1.28m) which was determined on the basis of 0.5% (2021: 0.5%) of the Bank's gross assets. This was deemed to be the appropriate benchmark for the calculation of materiality as this is a key area of the financial statements with which the users of the financial statements are principally concerned.

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 €768k (2021: €767k) which represents 60% (2021: 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 and the level of misstatements arising in previous audits.

We agreed to report any corrected or uncorrected adjustments exceeding €64k to the Board as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

### **The control environment**

We evaluated the design and implementation of those internal controls of the Bank which are relevant to our audit, such as those relating to the financial reporting cycle.

We deployed our internal IT audit specialists to obtain an understanding of the general IT environment..

### **Reporting on other information**

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

### **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 by 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 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.

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

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

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.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

### Identifying and assessing potential risks arising from irregularities, including fraud

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Bank's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Bank focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006, UK tax legislation or those that had a fundamental effect on the operations of the Bank including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- We enquired of the directors and management concerning the Bank's policies and procedures relating to:
  - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates.

### Audit response to risks identified

In respect of the above procedures:

- we corroborated the results of our enquiries through our review of the minutes of the Bank's board meetings, inspection of the compliance breaches register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- audit procedures performed by the engagement team in connection with the risks identified included:
  - reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
  - testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
  - evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
  - enquiry of management and legal advisors around actual and potential litigation and claims.
  - challenging the assumptions and judgements made by management in its significant accounting estimates; and
  - obtaining confirmations from third parties to confirm existence of a sample of transactions and balances.

- the Bank operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

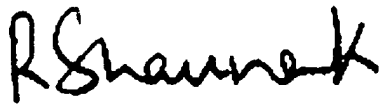
### Other requirements

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 3 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 Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.



Rakesh Shaunak FCA, CTA  
(Senior Statutory Auditor)  
for and on behalf of MHA MacIntyre Hudson, Statutory Auditor  
London, United Kingdom  
26 April 2023

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 € '000	2021 € '000
Interest receivable and similar income	2	10,725	3,694
Interest expense		(200)	14
<b>Net interest income</b>		<b>10,525</b>	<b>3,708</b>
Fees and commissions receivable	3	73	80
Fees and commissions payable		(1,171)	(40)
Foreign exchange gains/(losses)	4	(206)	28
Other operating income		-	1
<b>Total revenue</b>		<b>9,221</b>	<b>3,777</b>
Administrative expenses	5	(8,202)	(7,711)
Depreciation	12,13	(475)	(743)
<b>Operating profit/(loss)</b>		<b>544</b>	<b>(4,677)</b>
Other charges	24	41	12
<b>Profit/(loss) before provision and taxation</b>		<b>585</b>	<b>(4,665)</b>
Impairment on loans and advances	11	-	(2,643)
Impairment - other	11	(26)	-
<b>Profit/(loss) before taxation</b>		<b>559</b>	<b>(7,308)</b>
Tax recoverable on loss	6	-	-
<b>Profit/(loss) for the financial year</b>		<b>559</b>	<b>(7,308)</b>

The result for the year is derived entirely from continuing activities. The notes on pages 24 to 49 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	€ '000	€ '000
<b>Profit/(loss) for the financial year</b>	<b>559</b>	<b>(7,308)</b>
<b>Other comprehensive income</b>		
Pension remeasurement	21 (41)	(12)
Movement in other reserves	-	-
<b>Other comprehensive profit/(loss) for the year</b>	<b>(41)</b>	<b>(12)</b>
<b>Total comprehensive profit/(loss) for the year</b>	<b>518</b>	<b>(7,320)</b>

The notes on pages 24 to 49 form part of these financial statements.

**BALANCE SHEET  
AT 31 DECEMBER 2022**

	Note	2022 € '000	2021 € '000
<b>Assets</b>			
Cash and cash equivalents	8b	66,955	119,058
Loans and advances to banks	8a	234,811	177,182
Loans and advances to customers	9	8,260	8,899
Investments	10	-	-
Tangible assets	12	3,509	3,643
Intangible assets	13	219	513
Other assets	15	4,970	3,770
Prepayments and accrued income		1,329	668
Derivative Asset	17	136	-
<b>Total Assets</b>		<b>320,189</b>	<b>313,733</b>
<b>Liabilities</b>			
Deposits by banks	16	54,081	50,725
Customer accounts	16	3,980	4,004
Other liabilities	16	1,079	1,033
Accruals and deferred income	16	4,919	2,048
Derivative liabilities	17	-	311
<b>Total Liabilities</b>		<b>64,059</b>	<b>58,121</b>
<b>Shareholder's funds</b>			
Called up share capital	18	264,412	264,412
Retained earnings		(8,282)	(8,800)
<b>Total Equity</b>		<b>256,130</b>	<b>255,612</b>
<b>Total Equity and Liabilities</b>		<b>320,189</b>	<b>313,733</b>

The Financial Statements were approved by Board of Directors and authorised for issue on 26 April 2023 and signed on their behalf by:

  
**Davood Rezaei**  
*Deputy Chairman and Chief Executive Officer*

**STATEMENT OF CHANGE IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<b>Called-up share capital</b>	<b>Retained earnings</b>	<b>Other reserves</b>	<b>Total</b>
	<b>€ '000</b>	<b>€ '000</b>		<b>€ '000</b>
<b>At 1 January 2021</b>	<b>264,412</b>	<b>(1,480)</b>	<b>21</b>	<b>262,953</b>
Loss for the financial year	-	(7,308)	(21)	(7,329)
Other Comprehensive Loss for the year	-	(12)	-	(12)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(7,320)</b>	<b>(21)</b>	<b>(7,341)</b>
Issue of shares	-	-	-	-
<b>At 31 December 2021</b>	<b>264,412</b>	<b>(8,800)</b>	<b>-</b>	<b>255,612</b>
Profit for the financial year	-	559	-	559
Other Comprehensive Loss for the year	-	(41)	-	(41)
<b>Total comprehensive profit for the year</b>	<b>-</b>	<b>518</b>	<b>-</b>	<b>518</b>
<b>At 31 December 2022</b>	<b>264,412</b>	<b>(8,282)</b>	<b>-</b>	<b>256,130</b>

**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 and the US sanctions, 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. The Directors consider it appropriate to continue to adopt the going concern basis in preparation of the annual report and the financial statements. 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 25).



*(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**

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

**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.

### *Derivatives*

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in foreign exchange rate, specific interest rate, financial instrument price, commodity price, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

Derivatives, including forward foreign exchange contracts, are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of such derivatives is disclosed separately in the financial statements. Changes in fair value of derivatives are reflected 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

Freehold land is not depreciated.

### 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\$1.0682 (2021: €1=US\$1.1370) and €1=£0.8865 (2021: €1=£0.8396). The average of month end Euro exchange rates ruling at the Balance Sheet date against US Dollar and Sterling were €1=US\$1.0511 (2021: €1=US\$1.1811) and €1=£0.8550 (2021: €1=£0.8579).

**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 14 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 21 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 and includes the rent free period.

**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. Defined benefit pension scheme**

The Bank's defined benefit pension scheme was in surplus at 31 December 2022. No significant funding is estimated for 2022. The principal assumptions used for the pension scheme valuation are outlined in note 21.

**c. 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. On account of the uncertainty relating to future profits, deferred tax has not been recognised on the balance sheet. For more details refer to note 14.

**2. Interest income and similar income**

	2022	2021
	€'000	€'000
Loans and advances to customers	330	391
Loans and advances to banks	10,395	3,303
	<b>10,725</b>	<b>3,694</b>

Interest income is recognised in profit or loss using the 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. The Bank has a presence in the UK and Hong Kong. However, its main source of income is derived from the Iranian market.

**3. Fees and commission receivable**

	2022	2021
	€'000	€'000
Commissions	33	41
Account maintenance fees	40	39
	<u>73</u>	<u>80</u>

**4. Foreign exchange gains/(losses)**

	2022	2021
	€'000	€'000
Foreign exchange revaluation gains	(653)	339
Unrealised gains / (losses) on derivative instruments	447	(311)
	<u>(206)</u>	<u>28</u>

**5. Administrative expenses**

	2022	2021
	€'000	€'000
Staff costs - Salaries and wages	4,727	4,517
Social security costs	469	418
Other pension costs	404	387
	<u>5,600</u>	<u>5,322</u>
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts UK	115	105
Fees payable to the Company's auditor for the audit of the Company's annual accounts HK	14	33
Lease rentals in respect of leasehold premises	520	436
Legal and professional fees	851	639
Business Rates	199	196
Building and liability insurance	23	(16)
Building repairs and maintenance	34	369
Other administration expenses	846	627
	<u>8,202</u>	<u>7,711</u>

**Employee Information**

	2022	2021
Banking operations	10	9
Banking others	34	38
Administration	2	2
	<u>46</u>	<u>49</u>

The average number of employees in the Bank, excluding non-executive directors, during the year was 48 (2021: 49).

## 6. Taxation

### a) Analysis of charge for the year

	2022	2021
	€'000	€'000
<b>Current taxation:</b>		
UK corporation tax at 19.00% (2021: 19.00%) on taxable income for the year	-	-
UK corporation tax adjustment in relation to prior year	-	-
<b>Total current tax (note 6b)</b>	-	-
<b>Deferred taxation (note 14):</b>		
Adjustment in respect of prior years	-	-
Origination and reversal of timing differences	-	-
<b>Tax recoverable on loss</b>	-	-

### b) Factors affecting the tax charge

The tax assessed for the year is higher than the standard rate of corporate tax in UK of 19% (2021: 19%). The difference is explained below:

	2022	2021
	€'000	€'000
Total comprehensive profit (loss) for the year	518	(7,320)
Profit on ordinary activities multiplied by UK standard rate of corporation tax of 19.00% (2021: 19.00%)	98	(1,391)
Effects of:		
Expenses not deductible for tax purposes	1	40
Tax impact in respect of unrecognised deferred tax asset	(99)	1,351
Tax losses	-	-
Tax on loss (note 6a)	-	-

### c) Factors that may affect the future tax charges

The corporation tax main rate will remain at 19% for the financial year beginning 01 April 2022. The corporation tax main rate from 01 April 2023 will be increased to 25% applying to profits over £250,000. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by marginal relief providing gradual increase in the effective corporation tax rate.

## 7. Remuneration and interests of directors

	2022 €'000	2021 €'000
Aggregate remuneration including benefits	920	1,082
Pension contributions	75	44
Director's emoluments	<u>995</u>	<u>1,126</u>
Highest paid director's emoluments:		
Salary and bonus	177	268
Benefits:		
Arising from rented accommodation	30	34
Arising from use of company car	26	12
Arising from membership of medical scheme	8	14
UK income tax and national insurance	130	248
	<u>371</u>	<u>576</u>
Pension contributions	35	-
	<u>406</u>	<u>576</u>

One director at 31 December 2022 (2021: 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. Three directors are members of the defined contribution pension scheme.

## 8a. Loans and advances – banks

	2022 €'000	2021 €'000
Maturity:		
3 months or less	143,686	128,850
1 year or less but over 3 months	23,567	30,000
5 year or less but over 1 year	67,558	18,332
	<u>234,811</u>	<u>177,182</u>
Impairment provision	-	-
	<u>234,811</u>	<u>177,182</u>

## Loans and advances – banks comprises

Loans and advances to money market counterparties	57,000	57,000
Loans and advances to other banks	177,811	120,182
	<u>234,811</u>	<u>177,182</u>

Of the above amount 67.00% (2021: 56.00%) represents exposure to Iranian banks other than Group undertakings.

Due from Group undertakings	<u>19,867</u>	<u>20,182</u>
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The Bank does not consider the loans and advances to banks to be impaired. Please refer to note 22 for the Bank's assessment of credit risk.

**8b. Cash at bank and in hand**

	2022	2021
	€'000	€'000
Cash	3,566	3,761
Group	19,090	4,229
Other banks	44,299	111,068
	<b>66,955</b>	<b>119,058</b>

**9. Loans and advances – customers**

	2022	2021
	€'000	€'000
Repayable on demand or at short notice	-	-
Remaining maturity:		
3 months or less	-	1
1 year or less but over 3 months	1,039	1,041
5 years or less but over 1 year	2,855	3,298
5 years and above	-	391
Past due	23,373	17,683
	<b>27,267</b>	<b>22,414</b>
Impairment provisions (note 11)	(19,007)	(13,515)
	<b>8,260</b>	<b>8,899</b>

Of the above amount 51% (2021: 51%) 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
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
31-Dec-22							
Loan 1	3,679	-	-	-	-	-	3,679
Loan 2	-	-	-	-	-	4,366	4,366
Loan 3	-	-	-	215	-	-	215
Loan 4	-	-	-	-	-	-	-
Loan 5	-	-	-	-	-	-	-
Loan 6	-	-	-	-	-	-	-
Loan 7	-	-	-	-	-	-	-
<b>Total</b>	<b>3, 679</b>	<b>-</b>	<b>-</b>	<b>215</b>	<b>-</b>	<b>4,366</b>	<b>8,260</b>

\*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
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
31-Dec-21							
Loan 1	4,513	-	-	-	-	-	4,513
Loan 2	-	-	-	-	-	4,167	4,167
Loan 3	-	-	-	215	-	-	215
Loan 4	-	-	-	-	-	-	-
Loan 5	4	-	-	-	-	-	4
Loan 6	-	-	-	-	-	-	-
<b>Total</b>	<b>4,517</b>	<b>-</b>	<b>-</b>	<b>215</b>	<b>-</b>	<b>4,167</b>	<b>8,899</b>

\*The current information is included for completeness.

Loan 2 is partially impaired and is included in the impairment provision (note 11). At 31 December 2022, the net indebtedness was €4.37m (2021: €4.17m). This represents 53% of the loans and advances to customers portfolio at year end 2022 (2021: 47%). The net indebtedness is recoverable from a group company under a legally enforceable guarantee. The Bank's management have assessed the guarantor group company's financial position and are confident the repayment of the net indebtedness would be achieved under the Board approved recovery plan.

Loan 3 is 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. Loans 4, 6 and 7 are over 5 years past due and considered fully impaired. A 100% impairment provision has been set against these loans and are included in the impairment provisions figure (note 11).

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 2022, the effective interest rate earned on loans and advances to customers was 3.85% (2021: 3.75%). All financial instruments are measured at amortised cost under the provisions of FRS 102.

#### 10. Debt Securities

	2022	2022	2021	2021
At amortised cost				
	Fully Impaired Cost*	Original Cost	Fully Impaired Cost*	Original Cost
	€'000	€'000	€'000	€'000
<b>Investment securities – listed</b>				
Financial corporations				
Securities due one year or over	-	680	-	5,546
	-	680	-	5,546

The original cost has decreased in 2022 as some of the debt securities have matured, but remain unpaid. These debt securities have been reclassified as loans.

\*For impairment provisions see note 11.

#### Reconciliation of (unimpaired) book cost of debt securities

	2022	2021
Cost	€'000	€'000
At start of year	5,546	4,935
Security matured	(4,907)	-
Exchange rate impact	41	611
Book cost at end of year before impairment	680	5,546

At 31 December 2022 the effective interest rate earned on debt securities was 0% (2021: 0%).

## 11. Impairment provisions

	2022	2021
	€'000	€'000
Provision charge (release) in the year	-	2,643
Impairment other	26	-
Exchange rate movements	626	1,228
Impairment loss provision at start of year	19,061	15,190
<b>Impairment loss provision at year end</b>	<b>19,713</b>	<b>19,061</b>

The provision at year end 2022 of €19,713,000 is made up of €19,007,000 in respect of impaired loans and advances to customers (note 9), €680,000 in respect of debt securities (note 10) and a €26,000 provision in respect to a counter indemnity called but not honoured by the issuing bank. The exchange rate movements mainly relate to fully impaired loans denominated in Kuwaiti Dinars and US Dollars.

## 12. Tangible fixed assets

	Freehold Building	Freehold Land	Leasehold Building	Leasehold Improvements	Fixtures, Fittings and Equipment	Motor Vehicle	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Cost</b>							
At 31/12/2021	814	336	2,955	1,238	817	37	6,197
Additions	-	-	-	7	40	-	47
Disposals	-	-	-	-	-	-	-
<b>At 31/12/2022</b>	<b>814</b>	<b>336</b>	<b>2,955</b>	<b>1,245</b>	<b>857</b>	<b>37</b>	<b>6,244</b>
<b>Depreciation</b>							
At 31/12/2021	228	-	499	1,061	729	37	2,554
Disposals	-	-	-	-	-	-	-
Charge	16	-	45	55	65	-	181
<b>At 31/12/2022</b>	<b>244</b>	<b>-</b>	<b>544</b>	<b>1,116</b>	<b>794</b>	<b>37</b>	<b>2,735</b>
<b>Net book value at</b>							
31-12-22	570	336	2,411	129	63	-	3,509
31-12-21	814	336	2,456	177	88	-	3,643

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.

### 13. Intangible fixed assets

	IT- Intangibles	Total
	€'000	€'000
<b>Cost</b>		
At 31/12/2021	1,628	1,628
Additions	-	-
Disposals	-	-
At 31/12/2022	<u>1,628</u>	<u>1,628</u>
<b>Depreciation</b>		
At 31/12/2021	1,115	1,115
Disposals	-	-
Charge	294	294
At 31/12/2022	<u>1,409</u>	<u>1,409</u>
<b>Net book value at</b>		
31-12-22	<u>219</u>	<u>219</u>
31-12-21	<u>513</u>	<u>513</u>

### 14. Deferred tax

	2022	2021
	€'000	€'000
Bonus and holiday pay accruals	15	-
Tax losses	(174)	1,304
Accelerated capital allowances	53	52
Recoverable costs	-	1
Pension accrued	7	(6)
Deferred tax asset not recognised	99	(1,351)
Deferred tax movement	<u>-</u>	<u>-</u>

The deferred tax asset comprises the following amounts based on a rate of 25% (2021 - 19%)

	2022	2021
	€'000	€'000
Decelerated capital allowance	168	77
Bonus and holiday pay accruals	166	-
Tax losses	5,844	4,727
Recognition of fair value of investments	1	1
Recoverable costs	9	4
Pension accrued	9	-
Deferred tax asset not recognised	<u>(6,197)</u>	<u>(4,809)</u>
	<u>-</u>	<u>-</u>

The deferred tax not recognised has increased by €1,487,000 due to increase in tax rates from 19% to 25%. At 31 December 2022 the gross value of tax losses was €23,375,000 (2021: €24,292,000) and other timing differences €1,411,000 (2021: €1,017,000). The Bank has not recognised the deferred tax asset of €6,197,000 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.

#### 15. Other assets

	2022	2021
	€'000	€'000
Accrued tax (Hong Kong Branch)	671	661
Other debtors	4,299	3,109
	<b>4,970</b>	<b>3,770</b>

#### 16. 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-22	€'000	€'000	€'000	€'000	€'000	€'000
<b>Liabilities:</b>						
Deposits by banks	34,081	20,000	-	-	-	54,081
Customer accounts	3,980	-	-	-	-	3,980
Other liabilities	1,079	-	-	-	-	1,079
Accruals and deferred income	4,919	-	-	-	-	4,919
<b>Total financial liabilities</b>	<b>44,059</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,059</b>

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-21	€'000	€'000	€'000	€'000	€'000	€'000
<b>Liabilities:</b>						
Deposits by banks	19,062	31,663	-	-	-	50,725
Customer accounts	4,004	-	-	-	-	4,004
Other liabilities	1,033	-	-	-	-	1,033
Accruals and deferred income	2,048	-	-	-	-	2,048
<b>Total financial liabilities</b>	<b>26,147</b>	<b>31,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,810</b>

At 31 December 2022 the effective interest rate paid on deposits by banks was 0.0242% (2021: 0.0242%).

## 17. Derivative liabilities

	2022	2021
	€'000	€'000
Fair value liability -Forward FX contract	-	311
	<b>-</b>	<b>311</b>

## Derivative assets

	2022	2021
	€'000	€'000
Fair value asset -Forward FX contract	136	-
	<b>136</b>	<b>-</b>

The derivative financial instrument consists of a forward foreign exchange (FFX) contract with a notional amount of €4,000,000. FFX contracts are held at fair value. The movement in fair value is as a result of the exchange rate fluctuation in relation to the functional currency (Euro) within the year.

## 18. Authorised and called up share capital

	2022	2021
	€'000	€'000
<u>Authorised</u>		
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
	<b>453,129</b>	<b>453,129</b>
<u>Allotted, called up and fully paid</u>		
50,000 Ordinary shares of £1 each	68	68
264,343,895 Ordinary shares of €1 each	264,344	264,344
	<b>264,412</b>	<b>264,412</b>

There was no movement in the number of shares during the year. For restrictions on shares with regard to (i) the return of assets or (ii) dividends, please refer to the Company's Articles of Association (pages 5 and 22 respectively). The shares are wholly owned by Bank Melli Iran (the Bank's parent).

## 19. Operating lease commitments

As at 31 December 2022 the Bank had the following non-cancellable operating lease commitments:

	2022	2021
	€'000	€'000
Within one year	167	489
Between one and five years	313	41
	<b>480</b>	<b>530</b>

The operating leases are in respect of office premises of the Hong Kong Branch. In November 2022 the Hong Kong Branch signed a new lease agreement, which replaced the existing one, to move to new office premises with lower rent. This resulted in a significant reduction in the “within one year” lease commitment in 2022 compared to 2021.

## **20. Contingent liabilities and undrawn commitments**

Contingent liabilities in existence at 31 December 2022 was €Nil (2021: €Nil) in respect of letters of guarantee issued by the Bank. Undrawn commitments relating to letters of credit discounting and syndicated and bilateral loan facilities at 31 December 2022 was €Nil (2021: €Nil) and letters of credit refinancing was €Nil (2021: €Nil).

## **21. 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 2021.

The liabilities at the reporting date have been calculated by updating the results of the actuarial valuation of the Scheme as at 31 July 2021 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 2021 to 31 December 2022.

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 2021 revealed a funding surplus of £620,000. Therefore, no further contributions are currently due from the Company.

In addition, the Company will 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 9 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 2022) was approximately 43% equities; 21% fixed-interest bonds; 17% property and 19% 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.

	31-12-22 €'000	31-12-21 €'000
<b>Other Comprehensive Income reconciliation to plan:</b>		
Charge/(credit) recorded in other comprehensive income	2,223	1,348
Foreign exchange		
Surplus derecognition/ plan movements	(2,264)	(1,360)
Pension remeasurement	<u>(41)</u>	<u>(12)</u>

#### **The amounts recognised in other comprehensive income are:**

	31-12-22 €'000	31-12-21 €'000
Service cost:		
Net interest expense/(credit)	(41)	(12)
Charge/(credit) recognised in comprehensive income	<u>(41)</u>	<u>(12)</u>

**Remeasurements of the net liability:**

Return on scheme assets (excluding amount included in net interest expense)	1,448	(429)
Actuarial (gains)/losses	(3,671)	(919)
Charge/(credit) recorded in other comprehensive income	(2,223)	(1348)
Total defined benefit cost/(credit)	<u>(2,264)</u>	<u>(1,360)</u>

**The principal actuarial assumptions used were:**

	31-12-22	31-12-21
Liability discount rate	4.90%	1.80%
Inflation assumption - RPI	3.20%	3.75%
Inflation assumption - CPI	2.20%	2.75%
Rate of increase in salaries	0.00%	0.00%
Revaluation of deferred pensions	2.20%	2.75%
Increases for pensions in payment:		
Benefits accrued pre 97	3.00%	3.00%
Benefits accrued post 97	3.65%	3.90%
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:	86.1	86.2
Female aged 65 at year end:	88.4	88.6
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end:	87.1	87.1
Female aged 45 at year end:	89.6	89.8

**Reconciliation of scheme assets and liabilities**

	Assets	Liabilities	Total
	€'000	€'000	€'000
At the start of period	17,471	(15,178)	2,293
Benefits paid	(705)	705	-
Interest income / (expense)	308	(267)	41
Return on assets (excluding amount included in net interest expense)	(1,448)	-	(1,448)
Actuarial gains/(losses)	-	3,671	3,671
At end of period	<u>15,626</u>	<u>(11,069)</u>	<u>4,557</u>

**The return on plan assets was:**

	31-12-22	31-12-21
	€'000	€'000
Interest income	308	208
Return on plan assets (excluding amount included in net interest expense)	(1,448)	429
Total return on plan assets	<u>(1,140)</u>	<u>637</u>

The major categories of scheme assets are as follows:

	31-12-22	31-12-21
	€'000	€'000
UK Equities	1,626	2,112
Overseas Equities	2,600	3,038
Corporates (fixed interest)	1,997	2,234
Property	1,637	1,421
Other-Private Eq + Alternatives	1,587	1,308
Annuities	5,855	8,116
Cash	324	218
Total return on plan assets	15,626	18,447

## 22. 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 principal risks and uncertainties to be credit, concentration, liquidity and operational risks and the speed at which the Bank would be able to implement its strategy.

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. 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.

### 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 is 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
- a bank, corporate or personal guarantee
- 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 11.

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 5 accounts totalling €19,713,000. Provisions have been raised on accounts which are in default, but would also be made where other factors provide evidence of impairment such as changes in market and economic conditions.

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 one year but not more than five years	More than five years	Undated Items	Total
<b>31-Dec-22</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Assets:</b>							
Loans and advances banks	143,687	-	23,567	67,557	-	-	234,811
Cash at bank	66,955	-	-	-	-	-	66,955
Loans and advances customers	-	412	627	2,855	-	4,366	8,260
Other assets	4,970	-	-	-	-	-	4,970
Prepayment and accrued income	1,329	-	-	-	-	-	1,329
Derivative assets	-	-	136	-	-	-	136
<b>Total financial assets</b>	<b>216,941</b>	<b>412</b>	<b>24,330</b>	<b>70,412</b>		<b>4,366</b>	<b>316,461</b>
<b>Liabilities:</b>							
Deposits by banks	34,081	20,000	-	-	-	-	54,081
Customer accounts	3,980	-	-	-	-	-	3,980
Other liabilities	1,079	-	-	-	-	-	1,079
Accruals and deferred income	4,919	-	-	-	-	-	4,919
<b>Total financial liabilities</b>	<b>44,059</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,059</b>

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 one year but not more than five years	More than five years	Undated Items	Total
<b>31-Dec-21</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Assets:</b>							
Loans and advances banks	128,850	20,000	10,000	18,332	-	-	177,182
Cash at bank	119,058	-	-	-	-	-	119,058
Loans and advances customers	1	413	628	3,298	391	4,168	8,899
Other assets	3,770	-	-	-	-	-	3,770
Prepayment and accrued income	668	-	-	-	-	-	668
<b>Total financial assets</b>	<b>252,347</b>	<b>20,413</b>	<b>10,628</b>	<b>21,630</b>	<b>391</b>	<b>4,168</b>	<b>309,577</b>

**Liabilities:**

Deposits by banks	19,062	31,663	-	-	-	-	50,725
Customer accounts	4,004	-	-	-	-	-	4,004
Other liabilities	1,033	-	-	-	-	-	1,033
Accruals and deferred income	2,048	-	-	-	-	-	2,048
Derivative liabilities	-	-	311	-	-	-	311
<b>Total financial liabilities</b>	<b>26,147</b>	<b>31,663</b>	<b>311</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58,121</b>

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 manage its funding concentration risk.

Melli Bank Plc, as a UK incorporated bank, has the United Kingdom as its home country. At 31 December 2022 the countries of risk of its assets comprised:

	2022	2021
	€'000	€'000
Iran	202,306	172,256
Turkey	61,751	64,524
United Kingdom	22,855	23,035
Germany	20,995	47,317
Other	12,282	6,601
	<b>320,189</b>	<b>313,733</b>

### 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
- diversity and stability of funding sources
- approach to managing liquidity in different currencies, across borders, and across business lines and legal entities
- approach to intraday liquidity management
- 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 considers that it has adequate flexibility to address any periods of liquidity stress and the impact of new business on liquidity is monitored closely.

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.

### Operational Risk

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

The Bank's focus with regards to operational risk is on Operations, Compliance, Cybercrime and Governance and it has put in place measures to identify, assess, monitor and manage operational risk.

The Bank has full disaster recovery procedures in place which include 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 has policies and procedures addressing specific operational risks including anti-fraud, anti-money laundering and terrorist financing, anti-corruption and bribery, GDPR and cybersecurity. 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.

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

### Uncertainties

In addition to the above risks, there is some uncertainty over the speed in which the Bank would be able to implement its traditional business 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. A new business model for whilst the Bank is under these restrictions has been developed which focuses on lending, discounting transactions and interbank placements.

### 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 needs.

At 31 December 2022, the Bank's capital resources amounted to €255,912,000 (2021: €255,099,000) of which 100% was Common Equity Tier 1 (CET1) capital (2021: 100%). This reflects the strength of the Bank's capital resources given that the Bank's CET1 capital ratio is 60% (2021: 64%).

### 23. Foreign currency risk

	2022	2021
	€'m	€'m
Total assets of the Company by currency are as follows:		
Denominated in:		
US Dollars	-	1
Euro	289	283
Sterling	7	7
Other	24	22
	<b>320</b>	<b>313</b>
	2022	2021
	€'m	€'m
Total liabilities of the Company by currency are as follows:		
Denominated in:		
US Dollars	3	3
Euro	38	44
Sterling	6	5
Other	17	6
	<b>64</b>	<b>58</b>

A 10% appreciation in value of Sterling against the Euro would increase the net loss by €0.53m (2021: €0.53m). The effect on capital would be a reduction in capital of 0.21% (2021: 0.21%).

### 24. Other charges

Other charges consist of interest income of €41,000 (2021: €12,000) relating to the Bank's pension plan.

### 25. Related party disclosures

As at 31 December 2022 there were no loans to officers of the Company (2021: €Nil).

A loan with a net value of €4,366,000 at 31 December 2022 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.



**26. 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.