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**BANK SEPAH INTERNATIONAL plc**  
Company No: 04189598

**Annual Report and Financial Statements**  
**For the year ended 31 March 2020**

THURSDAY



\*A99F9UKP\*

A16 16/07/2020 #106  
COMPANIES HOUSE

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## Information about the Company

As at 31 March 2020

### Board of Directors

Mohammad Reza Fatemi  
Managing Director

Ian Coleman  
Chairman and Independent Non-Executive Director

Julian Anthony  
Independent Non-Executive Director

Robert Angel  
Non-Executive Director

Mohammad Reza Khorsandi  
Non-Executive Director

Hadi Akhlaghi Feizasar  
Non-Executive Director

### Company Secretary

Jenny Harding (appointed 16 August 2019)  
Jenny.Harding@banksepah.co.uk

### External Auditors

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London E14 5EY

### Internal Auditors

MHA Macintyre Hudson (appointed 28 June 2019)  
30-34 New Bridge Street  
London EC4V 6BJ

### Registered Office

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5/7 Eastcheap  
London EC3M 1JT  
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e-mail: [info@banksepah.co.uk](mailto:info@banksepah.co.uk)  
Website: [www.banksepah.co.uk](http://www.banksepah.co.uk)

### Management

Shahrokh Iranzad  
Deputy Managing Director  
[Shahrokh.Iranzad@banksepah.co.uk](mailto:Shahrokh.Iranzad@banksepah.co.uk)

### Banking and Operations

Gary Bishop  
Chief Operations Officer  
[Gary.Bishop@banksepah.co.uk](mailto:Gary.Bishop@banksepah.co.uk)

### Risk Management

Jervis Rhodes  
Chief Risk Officer  
[Jervis.Rhodes@banksepah.co.uk](mailto:Jervis.Rhodes@banksepah.co.uk)

### Finance and Information Technology

Nina Amini  
Chief Financial Officer  
[Nina.Amini@banksepah.co.uk](mailto:Nina.Amini@banksepah.co.uk)

### Compliance

Christine Johnston  
Chief Compliance Officer  
[Christine.Johnston@banksepah.co.uk](mailto:Christine.Johnston@banksepah.co.uk)

### Head of Treasury

Iain Goodchild  
[Iain.Goodchild@banksepah.co.uk](mailto:Iain.Goodchild@banksepah.co.uk)

### Human Resources

Frank Rich  
HR and Admin Manager  
[Frank.Rich@banksepah.co.uk](mailto:Frank.Rich@banksepah.co.uk)



## Managing Director's statement

The United States' unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and the consequential re-imposition of Office of Foreign Asset Control (OFAC) sanctions against numerous Iranian entities, including the Bank, together with the extra-territorial nature of those sanctions have severely curtailed the development of Iranian trade in Europe and consequently the Bank's business opportunities. Access to the Society for the Worldwide Interbank Financial Telecommunication (SWIFT) was suspended for some of Iran's State owned banks including BSIP in November 2018, despite its compliance with all UK regulations.

Since the Bank obtained authorisation from the Prudential Regulation Authority ("PRA") to resume banking activities in April 2016, it has embarked on a programme of change, involving recruitment of experienced management and qualified staff, upgrades of its banking systems, policies and procedures. Equation, the Bank's core banking system was upgraded in 2017 and a new Trade Finance system was implemented in December 2018. Industry standard customer screening systems and specialist reporting and modelling systems have been put in place. A Target 2 account with the Deutsche Bundesbank was opened and a network of correspondent banks put in place to support the Bank's planned European business expansion. The loss of SWIFT has been offset by this strong correspondent network and alternative messaging services.

The Bank identified quickly that the Brexit referendum decision to leave the European Union could further damage planned expansion in Europe and so it continues to explore opportunities to establish a permanent presence within The European Economic Area (EEA).

The Bank has continued to maintain strong capital and liquidity positions, utilising excess liquidity to achieve good returns in a low interest environment. The bond portfolio was increased during the year to provide further High Quality Liquid Assets (HQLA), under a Board-approved mandate. Carefully managed money market positions were taken to maximise returns on excess liquidity and a strong liquidity position maintained at the Deutsche Bundesbank. Bilateral and syndicated lending opportunities are being considered subject to the Bank's conservative approach to corporate lending, focusing on strong enforceable security. The Bank ends the year with capital and liquidity positions very comfortably above regulatory minimum levels.

Despite the Bank's financial strength, the combination of US actions limiting business opportunities and later in the year the Coronavirus crisis, made 2019-20 another challenging year for the Bank. Of course, the whole world has suffered as a result of Coronavirus, but the Bank has focused on protecting its staff, customers and stakeholders, with an organised plan and sensible precautions. In March 2020, responding to the rapidly escalating Coronavirus pandemic, and prior to government direction, the Bank took strict precautionary measures under its COVID 19 Business Continuity Plan and a comprehensive 'working from home' programme was implemented to protect its staff. The Bank's plan to deal with this health disaster has so far been successful and we thank all staff who have abided by the plan and best practice. Our prayers also go out to our colleagues, families and friends in Iran where the virus has also taken its toll.

The Bank's results for the year ended 31 March 2020 are set out in the Annual Report on Page 22. Whilst under different circumstances I might have wished, naturally, to see higher growth and profits I would like to emphasise that Bank Sepah and the BSIP Board continue to see a positive future for the Bank once the world recovers from the virus, current political hurdles are overcome and the trading environment improves.

The Board has continued to be a source of support and guidance for myself, the management team and staff. Despite the major challenges the Bank has faced during the year, it has moved forward with enhancing its systems, governance and business activity. I would like to thank our new Chairman, Ian Coleman, who has led the Board with acumen and clarity. Collectively the Board, with directors old and new, have provided challenge and guidance to the Executive whilst maintaining good governance. I give my personal thanks to my fellow directors and to all members of staff for their continued efforts and support during the past year.

Mohammed Reza Fatemi  
Managing Director  
19<sup>th</sup> June 2020



## **Strategic Report**

### **COVID 19**

The management has considered the impact of the COVID 19 pandemic through its specific COVID 19 Business Continuity Plan (BCP) which has been invoked and is being managed by the Executive Management Committee of the Bank with Board approval and oversight.

The Bank has provided sufficient IT and communication resources to its staff to ensure that they can continue to work remotely and keep in regular contact with colleagues and counterparties. The Bank can continue to operate remotely and will be able to do so for the foreseeable future. The security and systems are being maintained with limited physical presence at the Bank's premises. The Bank also has a general Business Continuity Plan (BCP) including a Disaster Recovery site to cover other disaster scenarios.

### **Financial impact assessment**

The Bank has no credit exposure to UK counterparties except its Payment Service Providers (PSPs) and legal advisors. These have confirmed they have operational plans for COVID 19 and the nature of their business means the virus has minimal financial impact on them. The Bank continues to monitor their performance. The majority of the Bank's credit exposure is to Financial Institutions, in Europe and Iran, government support is expected to be available to these institutions. In any event ILAAP, ICAAP and Recovery Plan stresses show the Bank can survive significant credit losses and would still meet its regulatory ratios.

### **Strategy**

The strategic decision in the summer of 2016 that the Bank would focus on euro-denominated business, was proved correct. US action and the result of the 2016 Brexit referendum vote put the Bank's ability to pursue its Euro business strategy to the test. The impact of Britain's impending departure from the EU highlighted the need to develop a European mainland presence to facilitate the business plan.

The US re-imposition of sanctions has resulted in the funds flow and/or the perfection of security to support bilateral or syndicated lending, remaining difficult. The loss of SWIFT access has affected trade finance business as this is the prime medium in which trade finance business is conducted throughout the World. The growth in correspondent relationships was curtailed as a result of US sanctions. Despite this, the Bank's strategy remains resolute: growth of Trade Finance business supported by good quality lending. The lack of opportunities to expand the lending book has resulted in money market placements to maintain profitability at plan levels. The Parent, Board and senior management recognise the current political climate will result in slower business growth than originally anticipated but they remain committed to a strategy designed to cement the long-term future of the Bank.

To support the business strategy, quality staff hires have been made and upgrades of the core IT systems have been concluded. Active engagement with trade associations, advisory services and government information services support our efforts to ensure all staff are equipped with the skills to meet their roles. In line with Board and regulatory foci, governance continues to be reviewed and enhanced with a suite of policies and procedures which fit together and are regularly reviewed. The senior management, under Board guidance, has committed to ensure the proposed European branch is similarly equipped with the staff and tools to ensure it is well run and contributes to overall profitability at the earliest opportunity.



## Results

The Bank's results before tax amounted to a profit of €24k for the year ended 31 March 2020 (2019: profit €352k).

	<b>2020</b>	<b>2019</b>
	<b>€ '000</b>	<b>€ '000</b>
Net interest income	5,754	5,596
Net fees and commission income	(42)	1
Foreign currency (losses) / gains	(193)	79
<b>Operating income</b>	<b>5,519</b>	<b>5,676</b>
Administrative expenses	(5,051)	(4,966)
Impairment losses	(444)	(358)
<b>Profit before tax</b>	<b>24</b>	<b>352</b>

A five-year performance summary follows on Page 5. The Bank has operated during the year with a staff number of 28 (2019: 28), 6 directors (2019: 6) of which 5 were non-executive directors (2019: 5) and total administrative expenses for the year were €5,051k (2019: €4,966k).



## Strategic Report (continued)

### Performance summary

	2020	2019	2018	2017	2016
	€ m	€ m	€ m	€ m	€ m
Total operating income	5	5	5	3	3
Administrative expenses	(5)	(5)	(5)	(4)	(3)
Impairment charge	-	-	(1)	-	-
Profit / (loss) before taxation	-	-	(1)	(1)	1
Taxation	-	-	-	(1)	1
Profit (loss) after taxation	-	-	(1)	(2)	-
Subordinated loan	-	-	-	-	53
Shareholders' funds	167	167	168	169	111
Total capital resources	167	167	168	169	164
Deposits from banks	188	188	190	191	194
Amounts owed to other depositors	2	2	2	4	4
Cash and cash equivalents	186	192	218	294	339
Placements with, loans and advances to banks	138	138	133	59	14
Loans and advances to customers	3	3	3	6	7
Total assets	358	359	361	364	364
Capital ratios					
Total capital to total risk- weighted assets	63.4%	91.5%	144.4%	111.8%	89.2%
Tier 1 capital to total risk- weighted assets	63.4%	90.6%	144.4%	111.8%	60.6%
Total equity to total assets	46.7%	46.7%	46.5%	46.4%	30.7%
Return on average equity					
- Profit / (loss) before taxation	0.01%	0.04%	(0.4) %	(0.5) %	0.7%
Return on average total assets					
- Profit / (loss) before taxation	0.01%	0.09%	(0.0) %	(0.2) %	0.3%
Cost / income ratio	91.5%	88.7%	106.6%	125.4%	91.5%
Year end exchange rate- EURO/USD	1.0954	1.1232	1.2319	1.0684	1.1376
Average exchange rate- EURO/USD	1.110	1.1582	1.1779	1.0936	1.1058
Year end exchange rate- EURO/GBP	0.8868	0.8578	0.8754	0.8558	0.7909
Average exchange rate- EURO/GBP	0.8753	0.8822	0.8817	0.8418	0.7320



## Strategic Report (continued)

### Capital Adequacy

The Bank has adopted the PRA's implementation of the EU's Capital Requirements Directive (CRD IV). The CRD IV framework consists of three Pillars.

Pillar 1 determines the minimum capital requirements of banks to cover credit, market and operational risks.

Pillar 2 can be divided into two major components: (i) institutions are expected to establish sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital commensurate to their risk profiles, an Internal Capital Adequacy Assessment Process (ICAAP), as well as robust governance and internal control arrangements and (ii) a supervisory review and evaluation process (SREP). The key purpose of the SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks that the institution may pose to the financial system.

As part of the CRD IV requirements an ICAAP has been approved by the Board which identifies a number of other risks faced by the Bank which attract capital under the Pillar 2 rules. The total capital requirement of the Bank is determined as the sum of the Pillar 1 and Pillar 2 capital requirements.

Pillar 3 of the CRD IV requires all banks to publish certain details of their risk exposures, capital adequacy and risk management procedures over and above that provided in the Annual Report and Financial Statements. This information, which has not been audited, has been published on the Bank's website, [www.bankseph.co.uk](http://www.bankseph.co.uk).

The Bank's minimum capital requirement (the Pillar 1 requirement) amounted to €21m as at 31 March 2020 (2019: €14.6m). Its capital has been well in excess of both the combined Pillar 1 and Pillar 2 as well as the PRA's requirements throughout the year. The Combined Buffer Requirement of the Bank was €63.3m as at 31 March 2020 (2019 €39.9m) which means that, with Tier 1 capital of €166m, the Bank had a capital surplus of 163% at the year-end.

### Liquidity

The Bank is subject to the requirements set out in the Prudential Handbook for Banks, Building Societies and Investment Firms (BIPRU) and since 1 October 2015, the PRA's Rulebook: ILAA Instrument 2015 (PRA 2015/49).

Individual Liquidity Guidance (ILG) is set by the PRA through a Supervisory Liquidity Review Process (SLRP) which, in turn, is guided by the Bank's own Internal Liquidity Adequacy Assessment Process (ILAAP).

The Bank continues to maintain sufficient liquidity to meet all known and likely demands which could be made upon it by its customers and ensures that such liquidity is available on a day-to-day basis. The Bank has maintained a healthy liquidity ratio throughout the year. The Liquidity Coverage Ratio (LCR) requires a bank's unencumbered high quality liquid assets to equal or exceed 100% of its total net cash outflow assumption, which is equivalent to the amount of HQLA needed to "cover" the potential net outflow of that liability over a 30 day period. As at 31 March 2020, the LCR ratio was 3,410% (2019: 2,333%).





## **Strategic Report (continued)**

### **Credit operations**

The Bank's credit risk policy and credit risk appetite are set by the Board. This is monitored by the Risk Committee and implemented through the Bank's Credit Committee which has a limited delegated authority. During the last year our bond portfolio has been increased with further HQLA qualifying instruments, a programme of Letters of Credit (L/C) trades have been completed and carefully managed Money Market activity undertaken in accordance with Board approved limits.

Cash, cash equivalents and deposits placed with banks comprise 90% of the Bank's asset portfolio as at 31 March 2020 (2019: 92%). Deposits with Deutsche Bundesbank comprise 9% of the Bank's assets at 31 March 2020 (2019: 7%).

The Bank has sought to maintain its core HQLA with the Deutsche Bundesbank but, in preparation of the final Brexit position, it has diversified its portfolio and expanded its HQLA holdings elsewhere.

### **Loans and Trade Finance**

The Bank has signed a number of letters of credit refinancing agreements with a number of good quality financial institutions, under approved limits. Although no notable transactions have taken place during the year the Bank remains ready to provide financing to cover quality trade transactions as they occur.

The volume of negotiated letters of credit has increased during the year although this business remains concentrated on a limited number of counterparties.

Total net outstanding commercial lending to customers represents only 1% (2019: 1%) of the Bank's asset portfolio.

### **Treasury**

Treasury operations are conducted under guidance of the Bank's Asset Liability Committee (ALCO) and in accordance with approved credit limits. Activities are reviewed by the Risk Committee. Interest rate risk and foreign exchange risk are monitored by ALCO. The Bank does not take proprietary positions.

The Bank has seen active non-Iranian correspondent banking relationships reduce, consequent to the US withdrawal from the JCPOA and the Bank's OFAC listing.

Treasury has expanded its Bond Portfolio under a Board delegated mandate, to include HQLA qualified, Euro instruments. A number of term placements have been made at good margins, despite a continued low interest environment, to make best use of excess liquidity. Separate negotiations have resulted in a number of deposits moving to 'Notice' terms improving the Bank's Liquidity Coverage Ratio (LCR).

At the year end, the Bank's cash and cash equivalents, being cash held and current account balances with correspondent banks, represent 52% of the Bank's total assets at 31 March 2020 (2019: 54%).



## **Strategic Report (continued)**

### **Risk management**

The Board of Directors is responsible for setting the Bank's overall risk appetite and documenting this within a Risk Appetite Statement (RAS). A Risk Framework which sets out the management structure, roles and operational systems is also set by the Board.

The Bank operates a "three lines of defence" methodology. Individual departments within the Bank are the first line of defence. The senior managers within the department are the risk owners. There is appropriate segregation of activities between departments consistent with the scale of the Bank's business. Each department is subject to the relevant policies and have their own departmental procedures. Policies are approved by the Board and procedures are approved by Executive Management Committee.

The second line of defence, comprising the separate Risk and Compliance departments, provide independent oversight of the first line of defence. In accordance with the Risk Framework the first and second lines are responsible for proposing changes to the policies and procedures to mitigate risk and for identifying emerging risks.

The Risk department provides particular oversight of credit, liquidity, market and operational risk. Compliance provides oversight in respect of regulatory risk and risk reporting. This second line of defence delivers regular standing and ad hoc reports to the Risk Committee which review these and provides recommendations to the Board.

The third line of defence consisting of the internal audit function which provides independent assurance and challenge, reporting to the Audit Committee. The internal audit function has been outsourced to an appropriately qualified firm of accountants separate from the Bank's external auditors.

### **Principal risks and uncertainties**

The principal risks the Bank faces are strategic, relating to its business model, and operational, in respect of its ability to make sterling payments. The Bank allocates capital against these and other risks and this is described in more detail in the Bank's Pillar III disclosures on the Bank's website.

The business model risk arises from the Bank's remit to finance trade between Europe and Iran and corporate groups with business activities in both jurisdictions. The imposition of US sanctions has significantly reduced the volume of trade between Europe and Iran and therefore the requirement for financing. Furthermore, the outcome of Brexit complicates the regulatory environment for undertaking business with European customers.

The operational risk arises because although the Bank's main operating currency is the Euro and it is able to make Euro payments through the Target2 system, the Bank does have sterling operating costs. Currently the Bank's access to the sterling payments system is significantly constrained by restrictions that financial institutions with US activity maintain on Iran related business.

### **Compliance and financial crime**

The Bank has comprehensive policies and procedures in place to ensure that all its activities are compliant with existing regulations, any applicable sanctions regimes and the Board's risk appetite.

Emphasis is placed on strict adherence to all aspects of financial crime and sanctions requirements. The Bank recognises that its risk profile is high and therefore understands that enhanced systems and controls must be put in place to ensure its adherence to the regulatory requirements. The Bank uses third party software managing the financial crime and sanctions risks and to maximise the effectiveness of controls.



## **Strategic Report (continued)**

There is no “straight-through” processing of transactions – there is manual intervention to ensure stringent checks on prospective customers and counterparties.

The Compliance function continually reviews financial crime and sanctions policies, procedures and staff training to ensure its framework remains appropriate. The Risk Committee reviews the performance of Compliance, to ensure the Bank meets all regulatory standards and Board risk appetite.

Compliance activities are reviewed annually by the internal audit function, now outsourced to HMA Macintyre Hudson. During the 2019-20 financial year this review was carried out by Mazars, the bank’s previous internal auditors. The change of internal auditors was unrelated to Mazars’ work or any of its findings.

In line with current regulations and best practice, all staff are trained in the Bank’s financial crime procedures and are required to complete an annual Anti-Money Laundering (AML) online training course and an online Anti-Bribery and Corruption course, both of which incorporate a completion test. In addition, Compliance issue guidance to staff on emerging threats or new legislation as they materialise throughout the year.

Through effective customer due diligence and ongoing monitoring of transactions, the Bank implemented Board directed policy on the prevention of money laundering and financial crime. Staff are encouraged to report suspicions via the Money Laundering Reporting Officer, through the Bank’s Suspicious Activity Report programme, who, in turn, assesses these reports and decides whether or not to forward them to the National Crime Agency.

Compliance produces a Compliance Monitoring Programme on a quarterly basis, encompassing all business areas of the Bank, and a report is made to the Risk Committee.

### **Corporate governance**

The Bank is committed to high standards of corporate governance and business integrity in all its activities.

#### **Board of directors**

The members of the Board are shown on Page 1. It comprises an executive director and five non-executive directors, two of whom are independent.

The Board of Directors is the principal decision making forum for the Bank. It has overall responsibility for leading and controlling the Bank and is accountable to the Bank’s shareholders for financial and operational performance. The Board approves strategy and monitors performance.

All directors participate in discussing strategy, performance and the financial and risk management of the Bank.

#### **Board balance and independence**

The Chairmanship of the Board and the Audit Committee are separate. The directors provide the Bank with the knowledge, mix of skills, experience and network of contacts required. The Board committees consist of directors and senior management with a variety of relevant skills and experience to ensure no undue reliance is placed upon any individual. The Board met 11 times during the financial year.

#### **Information**

All directors receive complete and timely information on all relevant matters. Any requests for further information or clarification are co-ordinated by the Company Secretary. In addition to the Executive Management Committee (EMC) the following committees report directly to the Board.



## Strategic Report (continued)

### Audit Committee

The Audit Committee is comprised of four non-executive directors. The Audit Committee held five meetings during the year.

The Audit Committee is responsible for:

- assisting the Board in discharging its responsibilities and in making all relevant disclosures in relation to the financial affairs of the Bank;
- reviewing the systems of internal control;
- making recommendations on the internal and external auditors' appointment and remuneration;
- discussing any matters arising from the audit and recommendations made by the internal and external auditors;
- reviewing the annual financial statements, financial reporting and regulatory compliance and
- monitoring the processes for internal audit, risk management and the external audit.

The Audit Committee undertakes an annual evaluation of the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements.

### Remuneration Committee

The Remuneration Committee makes recommendations to the Board in relation to remuneration.

The Remuneration Committee is comprised of the three UK based non-executive directors and the non-voting Managing Director.

The Remuneration Committee is responsible for:

- previewing the remuneration levels for all staff;
- review of bonus proposals prior to submission to Board for approval
- ensuring that any appointment to the Board of the Bank is made with due consideration to the Succession Plan and Diversity Policy of Directors.

### Risk Committee

The Risk Committee is comprised of three UK-based non-executive directors and the non-voting managing director. Its purpose is to:

- Safeguard the independence and oversee the performance of the Risk function;
- Assess the performance of the Chief Risk Officer;
- Safeguard the independence and oversight of the Compliance function;
- Assess the performance of the Compliance Officer;
- Formulate and support the Board's corporate governance responsibilities in relation to credit risk management and
- Approve the Bank's credit risk management framework, other risk management policies and arrangements and internal control policies relating to the management of credit and related risks.

BY ORDER OF THE BOARD  
Mohammad Reza Fatemi  
Managing Director



## **Directors' Report**

The directors present their annual report and the audited Financial Statements of the Bank for the year ended 31 March 2020.

### **Company name and number**

BSIP is an unlisted public limited company registered in England and Wales. The Company number is 04189598.

### **Principal activities and business review**

The Bank is a commercial bank and a wholly-owned subsidiary of Bank Sepah in Iran. The Bank is authorised under the Financial Services and Markets Act 2000 and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. In the normal course of business, the principal activity of the Bank is the provision of banking and financial services to customers with extensive business interests in Iran and the Middle East.

A review of business and performance indicators is outlined in the Strategic Report on pages 3-10.

### **Financial Risk Management**

The objective of financial risk management is to minimise the impact to the bank of adverse movements in exchange and interest rates and to contain credit and concentration risk, within the constraints of the Bank's risk appetite. The Bank's Risk Appetite Statement (RAS) sets out the Bank's board approved limits for each type of financial risk that the Bank faces.

The main financial risks faced by the Bank are credit, currency, interest rate, liquidity and operational risk. The Bank's approach to the management of these risks and indicative exposures is set out in Notes 25 and 26.

Further details of the Bank's risk exposures, capital and risk management procedures required under Pillar 3 of the CRD IV are published on the Bank's website.

### **Covid 19**

Covid-19 has presented the Bank with little financial impact as the Bank has no commercial business in the UK or EU that has been affected by the Covid 19 pandemic, with the exception of one loan for which drawdown has been delayed. Implementation of the Bank's Covid 19 Business Continuity Plan and remote working has been put in place without material effect to service, income or costs.

### **Post balance sheet events**

One of the Bank's counterparts was placed in administration during the financial year. However, by 18 June 20 the Bank received an initial payment of almost 90% of all its exposure from the administrator of the counterpart.

There has been no other material or adjusting post balance sheet events

### **Results and dividends**

The results for the year are set out in the Statement of Comprehensive Income on Page 23. The profit after tax for the year ended 31 March 2020 amounted to €24k (2019: Profit €146k).

The directors do not propose a payment of a dividend (2019: nil).



## **Directors' Report (continued)**

### **Going concern basis of accounting**

#### **Covid-19**

The Financial Statements have been prepared on a going concern basis, following an assessment of the impact of COVID-19 pandemic on the Bank's financial, liquidity and capital positions.

Based on this assessment the directors have a reasonable expectation that the Bank's capital resources will enable it to continue to meet its regulatory capital requirements for at least 12 months from the date of approval of these Financial Statements. The Directors are satisfied that the Bank will be able to continue to meet all its obligations as, and when, they fall due.

#### **Future developments**

The Bank's passported branch application for Vienna received approval from the Financial Markets Authority (FMA) in the summer of 2019 and it was formally registered in October. A third country branch application was to supersede the passported branch following the end of Brexit transition period. However, this would not be acceptable by FMA due to the inability of the branch to join the local depositor protection scheme and as a result the branch is not operational.

The Bank will continue to explore other possibilities within the EEA to mitigate the impact of Britain's impending departure from the EU to facilitate expansion of its activities in trade finance and commercial lending with a Treasury function to support these business activities whilst maintaining a strong liquidity position. Until the political climate changes, reducing the Iran risk averse nature of UK and European banks, any subsequent business activity is likely to be limited.

#### **Directors and directors' interests**

There have been no changes in the composition of the Board during the financial year as disclosed on page 1.

None of the directors has or had any beneficial interest in the share capital of the Bank. No rights to subscribe for shares in the Bank has been granted to, or exercised by, any director or member of his immediate family during the year. No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Bank.

The directors of the Bank were covered by indemnities in accordance with Article 120 of the Memorandum and Articles of Association during the course of the financial period ended 31 March 2020.

#### **Disclosure of information to auditors**

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



## Directors' Report (continued)

### Auditors

Ernest and Young LLP (EY) have expressed their willingness to continue in office as auditors. A resolution proposing their reappointment will be submitted at the Annual General Meeting.

A handwritten signature in black ink, appearing to read 'MR FAT', is written over a horizontal line.

BY ORDER OF THE BOARD  
Mohammad Reza Fatemi  
Managing Director  
19<sup>th</sup> June 2020



## **Statement of Directors' responsibilities**

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Bank for that period. In preparing these financial statements, the directors are required to:

- Make judgements and accounting estimates that are reasonable and prudent;
- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance and
- Comply with relevant IFRSs, subject to any material departures being disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis.





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF BANK SEPAH INTERNATIONAL PLC

### Opinion

We have audited the financial statements of Bank Sepah International plc ("the Bank") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 27, except part of note 25 marked as unaudited, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 below. 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 other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"><li>• The risk of inadequate expected credit loss provisions for loans and advances to customers and banks</li><li>• The risk of improper revenue recognition of interest income</li><li>• Impact of COVID-19</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall materiality of €1.68m which represents 1% of equity.</li></ul>



## Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>The risk of inadequate expected credit loss provisions for loans and advances to customers and banks</b></p> <p>Impairment losses are €444,000 (2019: €358,000).</p> <p>IFRS 9 Impairment loss provisions on loans and advances are € 2,432,000 (2019: € 2,299,000).</p> <p>Refer to Note 2 Significant accounting policies (Page 30); and Note 11 of the Financial Statements (Page 36).</p> <p>The key risks of inadequate expected credit loss provisions for loans and advances to customers and banks are that:</p> <p>(i) credit loss events may have occurred but have not been recognised by the Bank;</p> <p>(ii) assumptions that impact the recoverability of loans and advances may not be reasonable; and</p> <p>(iii) calculation of expected credit loss provisions may be inaccurate.</p> <p>There has been large scale business disruption as a result of COVID-19 that potentially gives rise to challenges for borrowers and for estimating ECL.</p> <p>The risk level has increased from last year due to impact of COVID-19.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Assessing the design effectiveness of key controls for identifying credit events and data validation;</li> <li>▶ Assessing the reasonableness of management's assumptions used in the expected credit losses model; this included testing the mathematical accuracy of the calculation;</li> <li>▶ Challenging management's assumptions concerning future cash flows, discount rate and alternative scenarios for the stage 3 expected credit loss;</li> <li>▶ Obtaining direct confirmation from counterparties for all significant loans and advances;</li> <li>▶ Reviewing key contractual and other documents underlying the loans and advances; and</li> <li>▶ Reviewing correspondence with counterparties and performing credit file reviews to assess the borrowers' ability to repay loans and advances.</li> </ul>	<p>As a result of the procedures performed, we did not identify any evidence of material misstatement in the expected credit losses provision.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>The risk of improper revenue recognition of interest income</b></p> <p>Interest income is € 6,322,000 (2019: € 6,107,000).</p> <p>Refer to Note 2 Significant accounting policies (page 27) and the Statement of Comprehensive Income (page 23).</p> <p>There is a risk of material misstatement if interest income is not recorded correctly in the appropriate accounting period.</p> <p>The risk level remains unchanged from 2019.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Obtaining an understanding of the revenue recognition process and assessing the design effectiveness of key controls over interest income processes;</li> <li>▶ Recalculating a sample of interest income and agreeing the inputs to the underlying contracts;</li> <li>▶ Performing year-end cut off testing to check that the revenue is recognised in the appropriate accounting period; and</li> <li>▶ Seeking to identify any adjustments that have characteristics that could indicate unusual or inappropriate adjustment to accounting records.</li> </ul>	<p>As a result of the procedures performed, we did not identify any evidence of material misstatement in the interest income. Also, no adjustments were identified that could indicate misstatement of interest income.</p>
<p><b>Impact of COVID-19</b></p> <p>Refer to Managing Director's statement (Page 2), Strategic Report (Page 3), Directors' Report (Page 11), Note 2 (a) (Page 27) which outline the uncertainties arising from the recent COVID-19 outbreak and their impact on the Bank's ability to continue as a going concern.</p> <p>COVID-19 was declared as a pandemic by the World Health Organization (WHO) in March 2020. The UK Government has taken various steps to reduce the spread of the virus including lockdown for an extended period. This has resulted in many businesses not being able to operate in their full capacity and the ability of the employees to work, impacting those businesses' financial, liquidity and capital positions.</p> <p>The areas of our audit most impacted by COVID-19 include:</p> <p><b>Going Concern:</b> Whilst there remains significant uncertainty regarding the future</p>	<p>We performed the following procedures.</p> <p><b>Going Concern:</b></p> <p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Obtaining an understanding of management's process for assessing the impact on the Bank posed by COVID-19;</li> <li>▶ Reviewing the directors' assessment of going concern;</li> <li>▶ Assessing the appropriateness of assumptions used in the directors' going concern assessment, taking into consideration the impact of (i) US sanctions on Iran, (ii) Brexit, and (iii) COVID 19;</li> <li>▶ Evaluating the appropriateness of the stress scenarios used and their impact on the Bank's capital and liquidity position;</li> <li>▶ Performing additional stress testing on the liquidity position of the Bank assuming cash</li> </ul>	<p>From the procedures performed, we concur with management, based on the evidence available and the cash held by the Bank, that it is reasonable to adopt the going concern basis. We consider the disclosures in the financial statements relating to going concern and events after the balance sheet date to be appropriate.</p> <p>Refer to separate key audit matter above relating to the risk of inadequate expected credit loss provisions for loans and advances to customers and banks.</p>

<p>development of the pandemic and timing and size of the future economic recovery, the Bank's financial statements are prepared on the going concern basis of accounting. This basis is dependent on the Bank's ability to meet its liabilities as they fall due. The directors are required to determine the appropriateness of preparing the financial statements on a going concern basis.</p> <p>The directors have considered the potential impacts on the Bank and its financial statements that have been caused by the pandemic. The directors in particular focused on developing forecasts, reflecting an assessment of the COVID-19 situation and its impact.</p> <p>Having regard to the range of potential uncertainties, the assumptions required and the scale of the potential impact on the Bank we consider that COVID-19 posed an increased risk to the going concern.</p> <p><b>The risk of inadequate expected credit loss provisions for loans and advances to customers and banks:</b></p> <p>Refer to separate key audit matter above for details.</p> <p><b>Events after the balance sheet date:</b></p> <p>COVID-19 was an evolving crisis as at 31 March 2020 year end. As a result, judgements were made by management to determine and evidence the conditions that existed at the balance sheet date and in determining whether events occurring after that date were adjusting or non-adjusting events.</p> <p>Management undertook a review of events that had occurred after the balance sheet date and concluded that there were none that required adjustment to the year-end position as at 31 March 2020. They also considered the adequacy of disclosure and determined there were no events occurring after the balance sheet date which warranted disclosure in the financial statements.</p> <p>The impact of COVID-19 is a new risk for the current year.</p>	<p>placed in Iran becomes inaccessible;</p> <ul style="list-style-type: none"> <li>▶ Reviewing board minutes, business plan and discussing with management the business performance and their future intentions;</li> <li>▶ Reviewing Capital and Liquidity returns to the PRA to assess the reasonableness;</li> <li>▶ Discussing the going concern assessment with the Audit Committee, especially the impact of COVID 19 and also the US sanctions on Iran and Brexit on the business model and the sustainability of the model; and</li> <li>▶ Assessing the disclosures in the financial statements against the applicable accounting standards and evaluated the consistency of the disclosures with our knowledge of the Bank.</li> </ul> <p><b>The risk of inadequate expected credit loss provisions for loans and advances to customers and banks:</b></p> <p>Refer to the separate key audit matter above for details of our audit response.</p> <p><b>Events after the balance sheet date:</b></p> <p>We reviewed all available, relevant management information, as well as key meeting minutes, and held discussions with management. We also reviewed and assessed the implications for the Bank of external market pronouncements.</p> <p>We evaluated the completeness and appropriateness of the financial statement disclosures as they pertain to events after the balance sheet date in relation to the impact of COVID-19,</p>	
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## **An overview of the scope of our audit**

### **Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### **Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Bank to be €1.68 million (2019: €1.68 million), which is 1% (2019: 1%) of equity. We believe that equity is an appropriate basis to determine materiality as the Bank is operating in a sanctions' environment. Consequently, the Bank has had low profitability compared to the balance sheet size in recent years. The main users of the financial statements are the parent company and the Prudential Regulatory Authority. The users of the financial statements generally do not expect the Bank to generate significant profits in the short term; instead, the current focus is more on capital maintenance and compliance with regulation.

During the course of our audit, we reassessed initial materiality and there was no change in final materiality from original assessment at planning.

### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely €0.84m (2019: €0.84m). We have set performance materiality at this percentage due to US sanctions on Iran.

### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €0.08m (2019: €0.08m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### **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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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 directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

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 directors' report.

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, and the relevant Prudential Regulation Authority and Financial Conduct Authority regulations.
- We understood how Bank Sepah International Plc is complying with those frameworks by enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and PRA, reviewed minutes of the Board, the Audit Committee and Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the Bank's Risk Framework and the internal controls processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risk identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition, we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **Other matters we are required to address**

- We were appointed by the Bank on 4<sup>th</sup> November 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. Our engagement letter was signed on 29 January 2018. The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31<sup>st</sup> March 2018 to 31<sup>st</sup> March 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee



## 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.

*Ernst & Young LLP*

*Kenneth Eglinton (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
19 June 2020*





## Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 € '000	2019 € '000
Interest and similar income		6,322	6,107
Interest expense and similar charges	3	(568)	(511)
<b>Net interest income</b>		<b>5,754</b>	<b>5,596</b>
Net fee and commission income		(42)	1
Foreign currency (losses) / gains		(193)	79
<b>Total operating income</b>		<b>5,519</b>	<b>5,676</b>
<b>Operating expenses</b>			
General administrative expenses	4	(5,051)	(4,966)
Credit impairment losses	11	(444)	(358)
<b>Profit before taxation</b>	5	<b>24</b>	<b>352</b>
Taxation charge	7	-	(206)
<b>Profit for the year after taxation</b>		<b>24</b>	<b>146</b>
<b>Other Comprehensive Income</b>		-	-
<b>Total Comprehensive profit for the year</b>		<b>24</b>	<b>146</b>

All items in the Statement of Comprehensive Income relate to continuing activities.

The notes to the Financial statements form an integral part of the Financial statements.



**Statement of Financial Position**  
As at 31 March 2020

	Note	2020 € '000	2019 € '000
<b>Assets</b>			
<b>Non-current assets</b>			
Placements with and loans and advances to banks	9	8,733	8,731
Property and equipment	14a	2,273	2,300
Intangible assets	14b	1,367	1,634
Debt instruments	18	17,062	10,150
<b>Total non-current assets</b>		<b>29,435</b>	<b>22,815</b>
<b>Current assets</b>			
Cash and cash equivalents	8	185,607	191,993
Placements with and loans and advances to banks	9	129,350	129,190
Loans and advances to customers	10	3,069	2,962
Other assets	12	9,815	10,751
Prepayments and accrued income	13	985	1,077
<b>Total current assets</b>		<b>328,826</b>	<b>335,973</b>
<b>Total assets</b>		<b>358,261</b>	<b>358,788</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Deposits from banks	15	187,630	188,083
Amounts owed to other depositors	16	2,025	2,063
Other liabilities	19	556	549
Accruals and deferred income	20	611	678
<b>Total liabilities</b>		<b>190,822</b>	<b>191,373</b>
<b>Equity</b>			
Called up share capital	21	160,000	160,000
Retained earnings		7,439	7,415
<b>Total equity</b>		<b>167,439</b>	<b>167,415</b>
<b>Total liabilities and equity</b>		<b>358,261</b>	<b>358,788</b>

The notes to the Financial statements form an integral part of the Financial Statements. These Financial Statements were approved by the Board of Directors on 19<sup>th</sup> June 2020 and signed on its behalf by:

Mohammad Reza Fatemi  
Managing Director



**Statement of Changes in Equity**  
**For the year ended 31 March 2020**

	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>€ '000</b>	<b>€ '000</b>	<b>€ '000</b>
<b>Balance as at 31 March 2018</b>	<b>160,000</b>	<b>7,515</b>	<b>167,515</b>
Profit for year ended 31 March 2019	-	146	146
Impact of adoption of IFRS 9 as at 1 April 2019	-	(297)	(297)
Deferred tax credit relating to IFRS 9		51	51
<b>Balance as at 31 March 2019</b>	<b>160,000</b>	<b>7,415</b>	<b>167,415</b>
Profit for year ended 31 March 2020	-	24	24
<b>Total Comprehensive Profit</b>	<b>-</b>	<b>24</b>	<b>24</b>
<b>Balance as at 31 March 2020</b>	<b>160,000</b>	<b>7,439</b>	<b>167,439</b>

The notes to the Financial Statements form an integral part of the Financial statements.



**Statement of Cash Flows**  
For the year ended 31 March 2020

	Note	2020 € '000	2019 € '000
<b>Cash flows from operating activities</b>			
Profit / (Loss) before taxation		24	352
Depreciation & Amortisation of assets	14	362	338
Amortisation of bond premiums & discounts	18	92	17
Net charge for impairment losses on loans and advances	11	444	358
Cash flows from operating profits before changes in operating assets and liabilities		922	1,065
Changes in operating assets and liabilities			
- net increase in loans and advances to banks	9	(367)	(4,690)
- net (increase) / decrease in loans and advances to customers	10	(163)	(851)
- net increase in other assets and prepayments and accrued income	12-13	777	(10,404)
- net decrease in deposits from banks	15	(453)	(2,042)
- net increase / (decrease) in other deposits	16	(38)	99
- net increase in accruals and deferred income	20	(67)	387
- net (decrease) / increase in other liabilities	19	7	(128)
<b>Net Cash from operating activities</b>		<b>618</b>	<b>(16,564)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	14a	(46)	(23)
Purchase of intangible assets	14b	(22)	(300)
Purchase of Debt instruments	18	(7,007)	(9,672)
<b>Cash used in investing activities</b>		<b>(7,075)</b>	<b>(9,995)</b>
<b>Net decrease in cash and cash equivalents</b>			
Foreign currency exchange gains		183	178
Cash and cash equivalents as at 1 April 2019 / 2018	8	192,052	218,433
<b>Cash and cash equivalents as at 31 March 2020 / 2019</b>	<b>8</b>	<b>185,778</b>	<b>192,052</b>

The notes to the Financial Statements form an integral part of the Financial Statements.



## Notes to the Financial Statements

For the year ended 31 March 2020

### 1. Financial sanctions against Iran

On 4 November 2018 the US reimposed sanctions on Iran following its announcement in May 2018, that the US would unilaterally withdraw from the Joint Comprehensive Plan of Action (JCPOA). The European and other signatories to the JCPOA have not changed their position.

### 2. Significant accounting policies

#### (a) Corporate Information

Bank Sepah International plc ("the Bank") is a public company limited by shares (company number 04189598) and the Bank is domiciled and incorporated in England with its registered office at 5-7 Eastcheap, London, England. The Bank is primarily involved in provision of trade finance services. These Financial Statements present information for the Bank only.

#### Basis of preparation

The Bank has prepared its Financial Statements in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standard Board (IASB), as adopted by the EU and effective for the Bank's reporting for the year ended 31 March 2020.

#### COVID-19

The impact of the COVID-19 pandemic on the Bank's financial, liquidity and capital positions has been considered as part of going concern assessment of the Bank.

The Bank has no credit exposure to UK counterparties except its PSP's and legal advisors. The majority of the Bank's credit exposure is to Financial Institutions, in Europe and Iran, government support is expected to be available to these institutions. In any event ILAAP, ICAAP and Recovery Plan stresses show the Bank can survive significant credit losses and would still be within its regulatory ratios.

Based on the assessment performed, the Directors have a reasonable expectation that the Bank has sufficient resources to continue its operation for the foreseeable future. Whilst there still remains uncertainty regarding the future development of the pandemic and the timing and size of the future economic recovery, this does not impact the Bank's ability to continue as a going concern and hence the financial statements have been prepared on this basis of accounting. The Bank has a robust capital base to sustain the Bank with sufficient capital adequacy and a healthy liquidity profile, as described on page 7 in the Strategic Report.

#### Standards and interpretations in issue, not yet effective

There are no applicable accounting standards in issue which are not yet effective for the Bank.

#### (b) Interest income and expense

Interest income and expense for all interest-bearing instruments are recognised in profit or loss, on an accruals basis, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.



## Notes (continued)

### 2. Significant accounting policies (continued)

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank including fees, expected early redemptions and related penalties and premiums and discounts that are an integral part of the overall return as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument. For fixed rate financial assets this is the original effective interest rate and for floating rate financial assets this is the current effective interest rate.

#### (c) Fees and commission income

Fees and commissions are generally recognised at point in time when the performance obligation is satisfied. Loan participation fees are amortised over the term of the loan through inclusion in the effective interest rate. Commissions arising from trade finance related business such as advising and payments under letters of credit are recognised at the transaction date.

#### (d) Financial assets, impairment losses and financial liabilities

All financial assets are classified based on the business model for managing the asset and its contractual terms and measured based on one of the following categories:

- Amortised Cost (AC)
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit and loss (FVPL)

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### (e) Cash and cash equivalents

Cash and cash equivalents consist of cash and on-demand balances with correspondent banks. Cash flows arising from operating activities are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

#### (f) Functional and reporting currencies

The directors regard the Euro as the currency of the primary economic environment in which the Bank operates. Accordingly, the Euro is regarded as being the functional currency of the Bank, which is also the reporting currency of the Bank.

Transactions in foreign currencies are recorded in Euros at the rate of exchange prevailing at the end of the month in which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the prevailing rate of exchange at the Statement of Financial Position date.

Any resulting exchange differences are included in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

The closing Euro: USD exchange rate at 31 March 2020 was 1.0954 (2019: 1.1232).  
The closing Euro: GBP exchange rate at 31 March 2020 was 0.8868 (2019: 0.8578).



## Notes (continued)

### 2. Significant accounting policies (continued)

#### (g) Property and equipment

Depreciation commences when an asset is available for use. Depreciation is provided to write off the cost less estimated residual value of tangible assets (other than freehold land) by equal instalments over their estimated useful economic lives, as follows:

Freehold buildings	-	50 Years
Furniture and equipment	-	4 Years
Computer hardware	-	4 Years

All property and equipment are stated at historical cost less depreciation and adjustment in the case of impairment.

#### (h) Intangible assets

Intangible assets comprise of computer software only which are amortised when an asset is available for use

- over the contractual terms of the licence, where applicable;
- or 5 years

#### (i) Financial Instruments

IFRS 9 requires that all financial assets are classified as using one of the following categories based on the business model:

1. Amortised Cost (AC)

These assets are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest.

2. Fair value through other comprehensive income (FVOCI)

Assets which may be held to collect the contractual cash flows until maturity or until sale and contain contractual terms that give rise on specified dates to cashflows that are solely payments of principal and interest.

3. Fair value through profit and loss (FVPL)

Derivatives are recognised initially and subsequently measured at fair value. When the fair value is positive they are classified as assets and when the value is negative they are classified as liabilities.

The Bank did not hold any derivatives during the year.

The classification and basis of measurement are subject to Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below.

#### Business Model Assessment

An assessment of the bank's business model for managing financial assets is fundamental to the classification of the financial asset. Financial assets are measured at amortised cost if they are held within the business model whose objective is to collect contractual cash flows, and their contractual cashflows represent solely payments of principal and interest. Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flow represents solely payment of principal and interest. Other financial assets are measured at FVTPL.



## Notes (continued)

### 2. Significant Accounting policies (continued)

#### (i) Financial Instruments (continued)

##### Solely Payments of Principal and Interest Test

The Bank assesses the contractual terms of financial assets to confirm they meet this test. Principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the asset if there are repayments of principal or amortisation of premium/discount. The interest for a financial instrument reflects the credit risk, duration and currency of the asset. Contractual terms that give rise to volatility in contractual cash flows require the instrument to be measured at FVPL. The Bank had not such financial instruments.

##### Impairment Basis

IFRS 9 requires a forward looking expected credit loss methodology. All financial assets not held at FVPL and any undrawn commitments are assessed for an allowance for expected credit loss.

The expected credit loss ("ECL") is calculated as the probability of default ("PD") applied to a forecast exposure at default ("EAD") multiplied by the Loss Given Default ("LGD"), which is the inverse of the anticipated recovery rate, to calculate the expected credit exposure ("ECE"). The ECE is then discounted by the effective interest rate ("EIR") to calculate the ECL.

##### Expected Credit Loss Methodology

For a financial instrument ECL is calculated as the Expected Credit Exposure ("ECE") discounted by EIR.

The ECE is calculated for the following exposures:

- Financings and debt instruments not held at FVPL
- Amounts due from financial institutions and customers
- Cash and balances with banks
- Other assets representing amounts held in advance of payments to creditors
- Off-balance sheet credit exposures for which capital is allocated under CRD IV such as undrawn committed facilities, letters of credit and guarantees.

Financings subject to the calculation of ECE are allocated into three stages.

Stage 1: This is the stage allocated to the exposure when recorded. At the time of recording an ECE is calculated based on a one-year probability of default. This continues until derecognised or moves to stage 2 or 3.

Stage 2: Where a credit exposure has experienced a significant increase in credit risk since origination the Bank allocates the exposure to Stage 2. The PDs and LGDs are recalculated over the contractual maturity of the instrument or if overdue but not impaired on an expected maturity.

Stage 3. Credit exposures considered impaired are transferred to stage 3. The PD for these exposures is fixed at 100%. The LGD is calculated on an individual basis as the weighted average of different scenarios in accordance with individual scenarios. Impairment losses and releases are considered separately from the Expected Credit Loss calculation for stage 1 and stage 2 exposures.

##### Write-offs

Financial Assets are written off when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.





## Notes (continued)

### 2. Significant Accounting policies (continued)

#### (i) Financial Instruments (continued)

##### Interest income basis

Interest is calculated on the gross value of the interest-bearing instruments for stage 1 and stage 2 financial assets. Per IFRS 9, for credit-impaired financial assets, the Bank applies the effective interest rate of the amortised cost of the financial asset in subsequent reporting periods.

##### Definitions- ECL Calculation Components

**PD:** The estimate of the likelihood of a payment default over a given time horizon. PDs are allocated to ratings in accordance with Board approved Expected Credit Loss Policy. Individual exposures are allocated to exposures by Credit Committee at the time of annual review or approval and are reviewed at the year end.

**EAD:** The outstanding exposure at default prior to any adjustment for collateral held. Committed facilities are assumed to be fully drawn. Uncommitted facilities or exposures on demand are calculated on actual balance. Bonds and other securities are calculated on the amount repayable on maturity.

**LGD:** This is the loss following an event of default which is measured based on the anticipated recovery rate following the default at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral held.

The LGD is the inverse of the recovery rate. The Bank has unsecured LGD rates which are approved by the Board. Adjustments for security are approved individually by Credit Committee and, if the facility is subject to Board approval the Board.

**EIR:** The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

##### Significant Increase in Credit Risk

The allocation of exposures from Stage 1 to Stage 2 and therefore from 12 month ECL to lifetime ECL is determined by whether there has been a significant increase in credit risk over the life of the instrument.

For this assessment, a significant increase would be based upon factors such as

- a downgrade as measured under the Banks Internal Credit Grade matrix since booking;
- a reclassification under forbearance arrangements or
- payments past due in excess of 30 days

The change in counterparty rating since origination is the most likely cause for a significant increase in credit risk. The Bank allocates counterparties an internal rating of between 1 and 20 at the time of origination which is mapped to External Credit Assessment Institution (ECAI) ratings for those exposures subject to ECAI ratings. Counterparty ratings are reviewed by Credit Committee. A two notch deterioration is considered to represent a significant increase in credit risk.

##### Default

A counterparty is considered to be in default if a payment obligation has been overdue for 90 days or more and has not been cured or subject to agreed forbearance measures.



## Notes (continued)

### 2. Significant Accounting policies (continued)

#### (j) Pension costs

##### Defined Contribution Pension Scheme

The Bank operates a defined contribution pension scheme, with benefits accruing from 1 January 2002. Contributions are charged to the Statement of Comprehensive Income, as they become payable in accordance with the rules of the scheme, on an accruals basis.

#### (k) Corporation Tax

Corporation tax on the profit or loss for the year comprises current tax and deferred tax. Corporation tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income in which case it is recognised in other comprehensive income.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using rates enacted by the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the Income Statement, except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The directors believe that the judgements made in determining the Bank's tax liabilities are reasonable and appropriate; however actual experience may differ and materially affect future tax charges.

#### (l) Critical accounting judgements and key accounting estimates and assumptions

##### Deferred tax asset

The management of the Bank has an obligation to make judgements in respect of tax assets to assess the likelihood that such tax differences may be realised in future years. Following the imposition of US sanctions against the Bank in November 2018 and in the view of the future income forecast the Bank has decided not to recognise a deferred tax asset arising from tax losses as set out in Note 17.

##### Impairment losses on financial assets

Under IFRS 9, the Bank uses judgements in relation to ECL based upon PD of the counterparty, the LGD of the exposure and the expected exposure amount. Refer to note 2(d) and 2(i) for further detail.

### 3. Interest payable

The Bank pays no interest on deposits held for customers. However, as a result of the European Central Bank's policy to apply negative interest to euro deposits, interest payable consists entirely of negative interest charged by other banks on euro balances. This amounted to €568k during the year (2019: €511k).



## Notes (continued)

### 4. General Administrative expenses

	2020	2019
	€ '000	€ '000
Salaries	2,356	2,403
Social security costs	298	293
Defined contribution pension scheme costs	464	456
Total staff employment costs	3,118	3,152
Other staff costs	272	223
Other administrative costs	1,300	1,253
Depreciation of property and equipment (Note 14 a)	72	68
Amortisation of intangible assets (Note 14 b)	289	270
	<b>5,051</b>	<b>4,966</b>

The average number of persons employed by the Bank during the year was 34 (2019: 34), comprising 6 directors (2019: 6), of which 5 were non-executive, and 28 other staff (2019: 28).

The Bank operates a defined contribution pension scheme for the staff whereby the Bank contributes in accordance with a fixed formula. In the year ended 31 March 2020 the Bank paid €353k (2019: €287k) by way of contributions into the scheme.

The Bank also made payments during the current year to a defined contribution pension scheme in respect of the executive director of €111k (2019: €169k).

### 5. Profit before taxation

	2020	2019
	€ '000	€ '000
Profit before taxation is arrived at after charging:		
Fees payable to the Bank's auditor for:		
audit of the Bank's Financial Statements	124	130
Depreciation of property, equipment & amortisation of intangibles	361	338

### 6. Emoluments of directors

	2020	2019
	€ '000	€ '000
Directors' fees, salaries and other emoluments	541	590
Defined contribution pension scheme	111	169
	<b>652</b>	<b>759</b>
Highest paid director:		
Remuneration excluding pension contributions	396	416
Defined contribution pension scheme - Contributions	88	87
Defined contribution pension scheme – Tax payable on contributions; paid through the pension fund	23	82
	<b>507</b>	<b>585</b>



## Notes (continued)

### 7. Taxation

	2020 € '000	2019 € '000
<i>Current taxation:</i>		
UK corporation tax on income for the period	0	0
	<u>0</u>	<u>0</u>
<i>Deferred taxation:</i>		
Charge for the year	0	196
Write off	0	10
	<u>0</u>	<u>206</u>
<i>Tax reconciliation:</i>		

The taxation charge for the year differs from the standard rate of corporation tax that has applied in the UK during the year of 19%. The differences are explained below.

	2020 € '000	2019 € '000
Profit before taxation	<u>24</u>	<u>352</u>
Theoretical tax at UK corporation tax rate of 19% (2019: 19%)	4	67
Effects of:		
Tax losses utilised during the year	(8)	0
Expenses not deductible	4	13
Tax losses no longer deemed recoverable in the foreseeable future	0	138
Difference between the current Tax rate and Deferred Tax rate	0	(22)
Write off	0	10
Total tax charge	<u>0</u>	<u>206</u>

### 8. Cash and Cash Equivalents

	2020 € '000	2019 € '000
Cash and cash equivalents	185,778	192,052
Less: IFRS 9 impairment provisions	(171)	(59)
	<u>185,607</u>	<u>191,993</u>

The year-end cash and cash equivalents balances include inactive nostros of €1,789k (2019: €1,747k), whose repayment date is uncertain due to the borrowers' internal policy towards Iran; these balances are considered most likely to be repaid between 1-5 years. These balances are with overseas banks and repayment is subject to authority being granted by the home regulator, which the Bank anticipates will be forthcoming in due course.



## Notes (continued)

### 9. Loans and advances to other banks

	2020 € '000	2019 € '000
Other loans and advances remaining maturity:		
- 3 months or less, excluding on demand or at short notice	55,009	54,993
- 3 months or more but less than 1 year	74,546	74,323
	<b>129,555</b>	<b>129,316</b>
Less: IFRS 9 impairment provisions	(205)	(126)
	<b>129,350</b>	<b>129,190</b>
Other loans and advances remaining maturity:		
- Over 1 year	8,733	8,733
Less: IFRS 9 impairment provisions	-	(2)
	<b>8,733</b>	<b>8,731</b>

### 10. Loans and advances to customers

	2020 € '000	2019 € '000
Repayable on demand or at short notice	10	11
Other loans and advances remaining maturity:		
- 3 months or more but less than 1 year	34	-
Remaining maturity:		
- Overdue	5,252	5,122
	<b>5,296</b>	<b>5,133</b>
Less: IFRS 9 impairment provisions (Note 11)	(2,227)	(2,171)
	<b>3,069</b>	<b>2,962</b>
Impaired loans and advances to customers		
- before impairment allowances	5,252	5,122
- impairment allowances	(2,227)	(2,171)
- after impairment allowances	<b>3,025</b>	<b>2,951</b>



## Notes (continued)

### 11. IFRS 9 Impairment losses

The below table shows the expected credit losses for each class of financial asset.

As at 1 April 2019	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Cash and cash equivalents	58	1	-	59
Loans and advances to banks	128	-	-	128
Loans and advances to customers	-	-	2,171	2,171
Debt instruments	1	-	-	1
Other assets	42	-	-	42
	<b>229</b>	<b>1</b>	<b>2,171</b>	<b>2,401</b>

As at 31 March 2020	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Cash and cash equivalents	171	0	-	171
Loans and advances to banks	205	0	-	205
Loans and advances to customers	0	-	2,227	2,227
Debt instruments	4	-	-	4
Other assets	3	-	290	293
	<b>383</b>	<b>0</b>	<b>2,517</b>	<b>2,900</b>

An analysis of the significant changes in gross carrying amount is shown below:

ECL	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Balances as at 1 April 2019	340,428	10,481	5,122	356,031
Changes due to transfers between stages				
• Transfers from stage 1	(4,733)	-	-	(4,733)
• Transfers to stage 2	-	-	-	-
• Transfers to stage 3	-	-	4,733	4,733
Originations	31,947	-	-	31,947
Derecognitions	(32,101)	-	-	(32,101)
Foreign currency adjustments	(28)	41	130	143
<b>Balances as at 31 March 2020</b>	<b>335,513</b>	<b>10,522</b>	<b>9,985</b>	<b>356,020</b>

During the year one of the Bank's counterparties went into administration resulting in all related exposures being transferred from stage 1 to stage 3. This accounts for the entirety of the stage 1 to 3 transfer.



## Notes (continued)

### 11. IFRS 9 Impairment losses (continued)

An analysis of the net movement in provisions during is shown below:

	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Cash and cash equivalents	58	1	-	59
Loans and advances to banks	128	-	-	128
Loans and advances to customers	-	-	2,171	2,171
Debt instruments	1	-	-	1
Other assets	42	-	-	42
<b>Balances as at 31 March 2019</b>	<b>229</b>	<b>1</b>	<b>2,171</b>	<b>2,401</b>

ECL	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Balances as at 1 April 2019	229	1	2,171	2,401
Changes due to transfers between stages				
• Transfers from stage 1	(15)	-	-	(15)
• Transfers to stage 2	-	-	-	-
• Transfers to stage 3	-	-	15	15
New or increased provisions (net of releases)	169	(1)	276	444
Foreign currency adjustments	-	-	55	55
<b>Balances as at 31 March 2020</b>	<b>383</b>	<b>0</b>	<b>2,517</b>	<b>2,900</b>

An analysis of carrying value of the financial assets is shown below:

As at 31 March 2019	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Cash and cash equivalents	190,246	1,747	-	191,993
Loans and advances to banks	129,188	8,733	-	137,921
Loans and advances to customers	11	-	2,951	2,962
Debt instruments	10,150	-	-	10,150
Other assets	10,604	-	-	10,604
	<b>340,199</b>	<b>10,480</b>	<b>2,951</b>	<b>353,630</b>



## Notes (continued)

### 11. IFRS 9 Impairment losses (continued)

An analysis of carrying value of the financial assets is shown below:

As at 31 March 2020	Stage 1 Collective € '000	Stage 2 Collective € '000	Stage 3 Specific € '000	Total € '000
Cash and cash equivalents	183,818	1,789	-	185,607
Loans and advances to banks	129,350	8,733	-	138,083
Loans and advances to customers	43	-	3,026	3,069
Debt instruments	17,062	-	-	17,062
Other assets	4,856	-	4,443	9,299
	<b>335,129</b>	<b>10,522</b>	<b>7,469</b>	<b>353,120</b>

### 12. Other assets

	2020 € '000	2019 € '000
VAT recoverable	104	29
Balances held with professional intermediaries	9,592	10,647
Other	412	117
	<b>10,108</b>	<b>10,793</b>
Less: IFRS 9 impairment provisions (Note 11)	(293)	(42)
	<b>9,815</b>	<b>10,751</b>

### 13. Prepayments and accrued income

	2020 € '000	2019 € '000
Interest receivable	709	903
Expense prepayments	276	174
	<b>985</b>	<b>1,077</b>





## Notes (continued)

### 14 (a) Property and equipment

	Freehold Land/ Buildings € '000	Equipment € '000	Total € '000
<b>Cost</b>			
As at 1 April 2019	2,428	473	2,901
Additions	32	13	45
<b>At 31 March 2020</b>	<b>2,460</b>	<b>486</b>	<b>2,946</b>
<b>Accumulated depreciation</b>			
As at 1 April 2019	255	346	601
Charge for year	16	56	72
<b>At 31 March 2020</b>	<b>271</b>	<b>402</b>	<b>673</b>
<b>Net book value at 31 March 2020</b>	<b>2,189</b>	<b>84</b>	<b>2,273</b>
<b>Net book value at 31 March 2019</b>	<b>2,173</b>	<b>127</b>	<b>2,300</b>

	Freehold Land/ Buildings € '000	Equipment € '000	Total € '000
<b>Cost</b>			
As at 1 April 2018	2,408	470	2,878
Additions	20	3	23
Disposals	-	-	-
<b>At 31 March 2019</b>	<b>2,428</b>	<b>473</b>	<b>2,901</b>
<b>Accumulated depreciation</b>			
As at 1 April 2018	240	293	533
Charge for year	15	53	68
Disposals	-	-	-
<b>At 31 March 2019</b>	<b>255</b>	<b>346</b>	<b>601</b>
<b>Net book value at 31 March 2019</b>	<b>2,173</b>	<b>127</b>	<b>2,300</b>
<b>Net book value at 31 March 2018</b>	<b>2,168</b>	<b>177</b>	<b>2,345</b>



## Notes (continued)

### 14 (b) Intangible Assets

	2020 € '000	2019 € '000
<b>Cost</b>		
As at 1 April 2019 / 2018	2,067	1,956
Additions	22	300
Disposals	-	(189)
<b>At 31 March</b>	<b>2,089</b>	<b>2,067</b>

### Accumulated depreciation

As at 1 April 2019 / 2018	433	327
Charge for the year	289	270
Disposals	-	(164)
<b>At 31 March</b>	<b>722</b>	<b>433</b>

### Net book value at 31 March

<b>1,367</b>	<b>1,634</b>
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Intangible assets comprise solely of computer software.

### 15. Deposits from banks

	2020 € '000	2019 € '000
Repayable on demand or at short notice	5,186	5,700
With agreed maturity dates of periods or notice, by remaining maturity:		
- 3 months or less, excluding on demand or at short notice	52,444	52,383
- 1 year or more	130,000	130,000
	<b>187,630</b>	<b>188,083</b>
Amounts include:		
- due to parent company	<b>183,860</b>	<b>184,290</b>

### 16. Amounts owed to other depositors

	2020 € '000	2019 € '000
Repayable on demand or at short notice	1,279	1,291
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less, excluding on demand or at short notice	742	768
- 1 year or less, but over 3 months	4	4
	<b>2,025</b>	<b>2,063</b>



## Notes (continued)

### 17. Deferred taxation

Under IAS 12 deferred tax balances should be calculated at the rate at which the balances are expected to unwind, based on tax rates that have been substantively enacted or enacted at the balance sheet date. A reduction in the main rate of corporation tax to 17% from 1 April 2020 was substantively enacted in the Finance Act 2016. However, on 17 March 2020 it was substantively enacted that the UK corporation tax rate would remain at 19% and not reduce to 17% from 1 April 2020. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019 19%). The deferred tax assets are calculated on this basis, and only recognised on the Bank's balance sheet if it is forecasted that there will be future taxable profits available in the foreseeable future against which the Bank can utilise the benefits therefrom.

The deferred tax assets at the year-end comprised of:

	2020 € '000	2019 € '000
Decelerated capital allowances	(126)	(125)
Trading losses	81	80
IFRS9 Transitional Adjustment	45	45
<b>Deferred tax assets at 31 March</b>	<b>0</b>	<b>0</b>

The movement in the deferred tax asset is analysed below:

Deferred tax asset as at 1 April	0	144
Charge for the year	0	(196)
As a result of transition to IFRS 9	0	52
<b>Deferred tax assets at 31 March</b>	<b>0</b>	<b>0</b>

The Bank has corporation tax losses of €13,295k (2019: €13,278k) which are available for carry forward against future taxable income.

As at 31 March 2020 the bank has corporation tax losses of €12,879k (2019: €12,830k) on which no deferred tax asset has been recognised as there is uncertainty as to whether the Bank will benefit from them in the foreseeable future.

### 18. Debt instruments

	2020 € '000	2019 € '000
Corporate bonds – nominal	6,000	6,000
Sovereign bonds – nominal	9,800	4,000
	<b>15,800</b>	<b>10,000</b>
Net premium/discount on acquisition	1,375	168
Premium/discount amortised	(109)	(17)
Net carrying amount	<b>17,066</b>	<b>10,151</b>
Less: IFRS 9 impairment provisions (Note 11)	(4)	(1)
	<b>17,062</b>	<b>10,150</b>

These bonds are held to collect.



## Notes (continued)

### 19. Other liabilities

	2020	2019
	€ '000	€ '000
Other Sundry creditors	556	549

### 20. Accruals and deferred income

	2020	2019
	€ '000	€ '000
Expense accruals	603	636
Interest Payable	8	42
	<u>611</u>	<u>678</u>

### 21. Share capital

	2020	2019
<b>Authorised</b>		
5,000,000 ordinary shares of £1 each	£5,000,000	£5,000,000
200,000,000 ordinary shares of \$1 each	\$200,000,000	\$200,000,000
200,000,000 ordinary shares of €1 each	€200,000,000	€200,000,000
	<b>2020</b>	<b>2019</b>
	€ '000	€ '000
<b>Issued and fully paid</b>		
160,000,000 ordinary shares of €1 each	<u>160,000</u>	<u>160,000</u>

### 22. Contingent liabilities

	2020	2019
	€ '000	€ '000
Loan commitments	<u>15,000</u>	-

### 23. Related party disclosure

During the course of the year the Bank entered into transactions with Bank Sepah, its parent company. Details of Bank Sepah's country of incorporation, address and its relationship with the Bank are disclosed in Note 24. The Bank received no fee income (2019: €nil) from Bank Sepah.

At 31 March 2020 Bank Sepah had deposits of €1m (2019: €2m) available on demand, notice deposits of €52m (2019: €52m) and collateral deposits of €130m (2019: €130m). No interest was paid on these deposits (2019: €nil).

The Bank had Nostro balances with Bank Sepah of €109m (2019: €103m) at the year end and short-term placements with Bank Sepah, totalling €50m (2019: €50m). Interest received during the year on the balances amounted to €4m (2019: €3.8m).

Bank Sepah holds 100% of the issued share capital of €160m (2019: €160m).

At 31 March 2020, the Bank had no committed facility to Bank Sepah for the purpose of refinancing letters of credit (2019: nil).



## Notes (continued)

### 23. Related party disclosure (continued)

#### Remuneration of Key Management Personnel

	2020	2019
	€ '000	€ '000
Salaries and other short term employee benefits	899	845
Post employment benefits	106	98
Long term benefits	-	-
	<u>1,005</u>	<u>943</u>

Key management personnel comprise members of the Executive Committee.

No director (2019: nil) were accruing retirement benefits in respect of a qualifying services under a defined benefit scheme or money purchase scheme.

The aggregate amount of remuneration paid to Directors was €652k (2019: €759k). The highest paid Director's remuneration in the year was €507k (2019: €585).

### 24. Ultimate Parent Undertaking

The Bank's ultimate parent undertaking is Bank Sepah of Negin Sepah Building, Nowrouz St, Africa Highway, Argentina Square, Tehran, Iran. The Bank's results are consolidated in the accounts of Bank Sepah. The Group financial statements can be obtained from the above address.



## Notes (continued)

### 25. Financial Risk management

The Bank is exposed to credit, currency, interest rate and liquidity risk. The management of each of these risks is documented below.

#### Credit Risk

The Bank has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The Bank has classified its financial assets as loans and advances and Held-To-Collect investments and makes provisions for impairment as described in Notes 2(d) and 2(i). The impairment losses as at 31 March 2020 are shown in Note 11.

#### Concentrations of assets and off-balance sheet items

The tables below show the composition and geographical and sectoral concentration of the Bank's credit risks as at 31 March 2020. The United Kingdom is the home country of the Bank and the geographic concentrations represent the ultimate country of risk in respect of assets owed by counterparties.

With the exception of the United Kingdom, Germany and Iran no other individual country comprised more than 10% of assets. At 31 March 2020, the Bank had no derivative contracts; and no committed facility to its parent, Bank Sepah, for the purpose of refinancing letters of credit (2019: nil).

	2020	2019
	€ '000	€ '000
Cash and balances at banks	185,607	191,993
Placements with and loans and advances to banks	138,083	137,921
Loans and advances to customers	3,069	2,962
Investment	17,062	10,150
Others	14,440	15,762
<b>Total</b>	<b>358,261</b>	<b>358,788</b>

The Bank regularly reviews its credit risk exposure to its counterparties and does not consider that any of these counterparties pose an unacceptable level of credit risk to the Bank.



## Notes (continued)

### 25. Financial risk management (continued)

#### Credit quality of financial assets: At 31 March 2020

The on-balance sheet assets have the following credit risk profile:

	Cash and cash equivalents	Placements with and loans and advances to banks	Loans & advances to customers	Investments	Others	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Gross exposure	185,778	138,288	5,296	17,066	14,733	361,161
Allowance for impairment	(171)	(205)	(2,227)	(4)	(293)	(2,900)
<b>Carrying amount</b>	<b>185,607</b>	<b>138,083</b>	<b>3,069</b>	<b>17,062</b>	<b>14,440</b>	<b>358,261</b>
Neither past due nor impaired v						
<i>Credit rating:</i>						
AAA to AA-	33,182	-	-	-	-	33,182
A+ to A-	1,801	-	-	11,944	-	13,745
BBB+ to BBB-	5	-	-	5,122	-	5,127
BB+ to BB-	-	8,733	-	-	-	8,733
B+ to B-	-	39,323	-	-	-	39,323
Unrated	150,790	90,232	5,296	-	14,733	261,051
Allowance for impairment	(171)	(205)	(2,227)	(4)	(293)	(2,900)
<b>Total carrying amount</b>	<b>185,607</b>	<b>138,083</b>	<b>3,069</b>	<b>17,062</b>	<b>14,440</b>	<b>358,261</b>



## Notes (continued)

### 25. Financial risk management (continued)

#### Asset concentration by geography:

	2020	2019
	€ '000	€ '000
United Kingdom	30,287	31,625
Germany	100,902	110,930
Other European countries	15,387	10,974
Iran	208,906	202,523
Asia and Australia	2,719	2,675
Middle East and Africa	9	9
Americas	51	53
<b>Total</b>	<b>358,261</b>	<b>358,788</b>

#### Interest and similar income by geography:

	2020	2019
	€ '000	€ '000
Iran	6,238	5,996
UK	16	67
Others	68	44
<b>Total</b>	<b>6,322</b>	<b>6,107</b>

In the year ended 31 March 2020 two counterparties generated income in excess of 10% of the total interest received (2019: two).

#### Assets by sector:

	2020	2019
	€ '000	€ '000
Cash and cash equivalents, placements with and loans to banks		
• Iran	205,881	204,562
• UK	14,808	9,864
• Germany	100,902	110,930
• Other	2,099	4,558
	<b>323,690</b>	<b>329,914</b>
Investments held to collect		
• China	995	993
• Europe	15,072	8,163
• UK	995	994
	<b>17,062</b>	<b>10,150</b>





## Notes (continued)

### 25. Financial risk management (continued)

#### Assets by sector

	2020	2019
	€ '000	€ '000
Customer loans and receivables		
• Iran	3,026	2,951
• UK	43	11
	<b>3,069</b>	<b>2,962</b>
Other		
• UK	14,440	15,762
	<b>358,261</b>	<b>358,788</b>

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations. This is aided, in part, by obtaining collateral or security in support of bilateral corporate loan facilities. The type and level of security is determined on a case-by-case basis but normally takes the form of one, or more, of the following:

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

No Bank's assets were encumbered as at 31 March 2020 (2019: nil).



## Notes (continued)

### 25. Financial risk management (continued)

#### Market risk

The Bank takes on exposure to market risk. Market risk is the risk of a change in the market value, earnings or future cashflows of a financial asset. It is caused by movements in market variables such as bond, equity or security prices, interest and exchange rates. The Bank's Treasury Department function has the responsibility for managing market, liquidity, interest rate and foreign exchange rate risks.

#### Currency risk

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 March 2020. Included in the table are the Bank's assets and liabilities. The assets are disclosed net of Expected Credit Loss under IFRS9.

All figures in € '000 equivalent At 31 March 2020	EUR '000	USD '000	CHF '000	GBP '000	JPY '000	Other '000	Total '000
<b>Assets</b>							
Cash and balances at banks	182,716	1,763	5	1,064	-	59	185,607
Due from banks	138,083	-	-	-	-	-	138,083
Investments	17,062	-	-	-	-	-	17,062
Loans and advances to customers	-	3,026	-	43	-	-	3,069
Other assets	9,465	-	-	4,975	-	-	14,440
<b>Total assets</b>	<b>347,326</b>	<b>4,789</b>	<b>5</b>	<b>6,082</b>	<b>-</b>	<b>59</b>	<b>358,261</b>
<b>Liabilities</b>							
Deposits from banks	182,955	4,404	32	228	-	11	187,630
Due to customers	406	158	4	1,279	178	-	2,025
Other liabilities	-	456	-	100	-	-	556
Accruals and deferred income	8	-	-	603	-	-	611
Share capital and reserves	167,439	-	-	-	-	-	167,439
<b>Total liabilities</b>	<b>350,808</b>	<b>5,018</b>	<b>36</b>	<b>2,210</b>	<b>178</b>	<b>11</b>	<b>358,261</b>
<b>Net on-balance sheet position</b>	<b>(3,482)</b>	<b>(229)</b>	<b>(31)</b>	<b>3,872</b>	<b>(178)</b>	<b>48</b>	<b>-</b>



## Notes (continued)

### 25. Financial risk management (continued)

All figures in € '000 equivalent At 31 March 2019	EUR '000	USD '000	CHF '000	GBP '000	JPY '000	Other '000	Total '000
<b>Assets</b>							
Cash and balances at banks	189,078	1,719	4	1,131	-	61	191,993
Due from banks	137,921	-	-	-	-	-	137,921
Investments	10,150	-	-	-	-	-	10,150
Loans and advances to customers	-	2,951	-	11	-	-	2,962
Other assets	12,342	-	-	3,420	-	-	15,762
<b>Total assets</b>	<b>349,491</b>	<b>4,670</b>	<b>4</b>	<b>4,562</b>	<b>-</b>	<b>61</b>	<b>358,788</b>
<b>Liabilities</b>							
Deposits from banks	183,511	4,295	30	236	-	11	188,083
Due to customers	409	154	3	1,326	171	-	2,063
Other liabilities	-	445	-	104	-	-	549
Accruals and deferred income	109	-	-	569	-	-	678
Share capital and reserves	167,415	-	-	-	-	-	167,415
<b>Total liabilities</b>	<b>351,444</b>	<b>4,894</b>	<b>33</b>	<b>2,235</b>	<b>171</b>	<b>11</b>	<b>358,788</b>
<b>Net on-balance sheet position</b>	<b>(1,953)</b>	<b>(224)</b>	<b>(29)</b>	<b>2,327</b>	<b>(171)</b>	<b>50</b>	<b>-</b>

### Sensitivity to movements in exchange rates

A 5% adverse movement in exchange rates applied to the open foreign exchange positions at 31 March 2020 would give rise to a loss of €0.2m (2019: loss €0.0 million). A 5% favourable movement in exchange rates would result in a profit of €0.22 million (2019: profit €0.3 million).



## Notes (continued)

### 25. Financial risk management (continued)

#### Interest rate risk

Interest rate risk is the risk that the future fair value of a financial instrument or future cash flows will fluctuate because of changes in market interest rates.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

All figures in € '000	Demand	1 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Non-interest bearing	Total
<b>At 31 March 2020</b>							
<b>Assets</b>							
Cash and bank balances	185,607	-	-	-	-	-	185,607
Due from other banks	-	55,007	35,125	39,218	8,733	-	138,083
Loans to customers	9	-	34	-	-	3,026	3,069
Investments	-	-	-	-	17,062	-	17,062
Other assets	9,299	-	-	-	-	5,141	14,440
<b>Total assets</b>	<b>194,915</b>	<b>55,007</b>	<b>35,159</b>	<b>39,218</b>	<b>25,795</b>	<b>8,167</b>	<b>358,261</b>
<b>Liabilities</b>							
Deposits from banks	5,186	52,444	-	-	130,000	-	187,630
Due to customers	1,279	-	742	4	-	-	2,025
Other liabilities	-	-	-	-	-	556	556
Accruals and deferred income	-	-	-	-	-	611	611
Share capital and reserves	-	-	-	-	-	167,439	167,439
<b>Total liabilities</b>	<b>6,465</b>	<b>52,444</b>	<b>742</b>	<b>4</b>	<b>130,000</b>	<b>168,606</b>	<b>358,261</b>
<b>Interest sensitivity gap</b>	<b>188,450</b>	<b>2,563</b>	<b>34,417</b>	<b>39,214</b>	<b>(104,205)</b>	<b>(160,439)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>188,450</b>	<b>191,013</b>	<b>225,430</b>	<b>264,644</b>	<b>160,439</b>	<b>-</b>	



## Notes (continued)

### 25. Financial risk management (continued)

#### Interest rate risk

All figures in € '000	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Non-interest bearing	Total
<b>At 31 March 2019</b>							
<b>Assets</b>							
Cash and bank balances	191,993	-	-	-	-	-	191,993
Due from other banks	-	54,959	34,956	39,275	8,731	-	137,921
Loans to customers	-	-	-	-	-	2,962	2,962
Investments	-	-	-	-	10,150	-	10,150
Other assets	-	-	-	-	-	15,762	15,762
<b>Total assets</b>	<b>191,993</b>	<b>54,959</b>	<b>34,956</b>	<b>39,275</b>	<b>18,881</b>	<b>18,724</b>	<b>358,788</b>
<b>Liabilities</b>							
Deposits from banks	5,700	52,383	-	-	130,000	-	188,083
Due to customers	1,291	768	4	-	-	-	2,063
Other liabilities	-	-	-	-	-	549	549
Accruals and deferred income	-	-	-	-	-	678	678
Share capital and reserves	-	-	-	-	-	167,415	167,415
<b>Total liabilities</b>	<b>6,991</b>	<b>53,151</b>	<b>4</b>	<b>-</b>	<b>130,000</b>	<b>168,642</b>	<b>358,788</b>
<b>Interest sensitivity gap</b>	<b>185,002</b>	<b>1,808</b>	<b>34,952</b>	<b>39,275</b>	<b>(111,119)</b>	<b>(149,918)</b>	
	<b>185,002</b>	<b>186,810</b>	<b>221,762</b>	<b>261,037</b>	<b>149,918</b>	<b>-</b>	

#### Sensitivity to movements in interest rates

The effect of an increase in interest rates of 2% in all currencies and in all maturities on 1 April 2020 would be a gain of €0.4m (2019: €0.8m). This calculation assumes that all interest rate gaps were closed in the market by taking deposits, or placing amounts, at interest rates 2% above or below the actual rate applied to each gap in each currency.



## Notes (continued)

### 25. Financial risk management (continued)

#### Liquidity risk

The following table analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

All figures in € '000 At 31 March 2020	Demand	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
<b>Assets</b>							
Cash and bank balances	183,818	-	-	1,789	-	-	185,607
Due from other banks	-	55,007	74,343	8,733	-	-	138,083
Loans to customers	-	-	43	-	3,026	-	3,069
Investment	-	-	-	17,062	-	-	17,062
Other assets	9,299	-	-	-	-	5,141	14,440
<b>Total assets</b>	<b>193,117</b>	<b>55,007</b>	<b>74,386</b>	<b>27,584</b>	<b>3,026</b>	<b>5,141</b>	<b>358,261</b>
<b>Liabilities</b>							
Deposits from banks	5,186	52,444	-	130,000	-	-	187,630
Due to customers	1,279	-	746	-	-	-	2,025
Other liabilities	-	-	-	-	-	556	556
Accruals and deferred income	-	-	-	-	-	611	611
Share capital and reserves	-	-	-	-	-	167,439	167,439
<b>Total liabilities</b>	<b>6,465</b>	<b>52,444</b>	<b>746</b>	<b>130,000</b>	<b>-</b>	<b>168,606</b>	<b>358,261</b>
<b>Undrawn Commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net liquidity gap</b>	<b>186,652</b>	<b>2,563</b>	<b>73,640</b>	<b>(102,416)</b>	<b>3,026</b>	<b>(163,465)</b>	
<b>Cumulative liquidity gap</b>	<b>186,652</b>	<b>189,215</b>	<b>262,856</b>	<b>160,440</b>	<b>163,464</b>	<b>-</b>	

The table is derived from an analysis of principal amounts of assets and liabilities at 31 March 2020 and includes cash flows arising from interest payments or receipts. Undrawn committed facilities are assumed to be drawn on demand and repaid at the end of their contractual period.

The year-end cash and bank balances include inactive bank balances of €10.5m (2019 €10.5m). The repayment date is uncertain due to these banks' policies towards Iran; the balances are considered most likely to be repaid between 1-5 years. The €3,026k loan to customers relates to a past due loan, which is most likely to be repaid in the 5-7 years' maturity time band.



## Notes (continued)

### 25. Financial risk management (continued)

#### Liquidity risk (continued)

All figures in € '000 At 31 March 2019	Demand	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
<b>Assets</b>							
Cash and bank balances	190,245	-	-	1,748	-	-	191,993
Due from other banks	-	54,959	74,231	-	8,731	-	137,921
Loans to customers	11	-	-	2,951	-	-	2962
Investment	-	-	-	10,150	-	-	10,150
Other assets	9,425	-	-	-	-	6,337	15,762
<b>Total assets</b>	<b>199,681</b>	<b>54,959</b>	<b>74,231</b>	<b>14,848</b>	<b>8,731</b>	<b>6,337</b>	<b>358,788</b>
<b>Liabilities</b>							
Deposits from banks	5,700	52,383	-	130,000	-	-	188,083
Due to customers	1,291	767	4	-	-	-	2,063
Other liabilities	104	-	-	-	-	445	549
Accruals and deferred income	-	219	-	-	-	460	678
Share capital and reserves	-	-	-	-	-	167,415	167,415
<b>Total liabilities</b>	<b>7,095</b>	<b>53,370</b>	<b>4</b>	<b>130,000</b>	<b>-</b>	<b>168,320</b>	<b>358,788</b>
<b>Undrawn Commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net liquidity gap</b>	<b>192,586</b>	<b>1,590</b>	<b>74,227</b>	<b>(115,152)</b>	<b>8,731</b>	<b>(161,982)</b>	
<b>Cumulative liquidity gap</b>	<b>192,586</b>	<b>194,176</b>	<b>268,403</b>	<b>153,251</b>	<b>161,982</b>	<b>-</b>	

#### Fair value analysis

The carrying value of all assets and liabilities with the exception of the banks bonds approximates to their fair values as at 31 March 2020 and 31 March 2019. The banks bonds market value as at 31 March 2020 was €16.7m against a carrying value of €17.1m. This mark to market value was arrived at using quoted market prices (level 1 of the fair value measurement hierarchy).



## Notes (continued)

### 25. Financial risk management (continued)

#### Capital Management:

The Bank monitors its capital and liquidity positions on a daily basis.

During the current financial year, its key regulatory ratios have been, and are, well above regulatory minimums, with its year-end position showing a capital surplus over CRD IV and regulatory minimum requirements of 163%.

The Bank's Total Regulatory Capital comprises only Tier one resources.

The regulatory capital of the Bank at 31 March 2020 was as follows:

	2020	2019
	€ '000	€ '000
Share Capital	160,000	160,000
Retained Earnings	7,439	7,415
Total Capital	<b>167,439</b>	<b>167,415</b>
Total Capital	<b>167,439</b>	<b>167,415</b>
Deductions from Capital: intangible assets	(1,367)	(1,634)
Total Regulatory capital	<b>166,072</b>	<b>165,781</b>
Total Capital Requirement & Combined Buffer Requirements (unaudited)	63,255	39,878
Capital surplus (unaudited)	102,817	125,903
Capital surplus over regulatory minimum	163%	315%





## **Notes (continued)**

### **26. Operational risk management**

Operational risk is the risk that the Bank will incur direct or indirect losses resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank has an Operational Risk Management Policy that is reviewed annually, which includes a framework to identify, monitor, measure and, where possible, to mitigate the operational risks. Any changes to the Operational Risk Policy requires Board approval. Regulatory, reputational and legal risks are mitigated through procedures which are subject to operational risk reporting.

Operational risk exposures are "owned" by individual departments and monitored by the Risk Department.

A monthly report of key indicators and other identified risks forms the basis of a monthly report to the Executive Management Committee. The operational risk reporting is proportional to the volume and scope of business activities that has occurred during the year.

### **27. Post Balance Sheet Events**

One of the Bank's counterparts was placed in administration during the financial year. However, by 18 June 20 the Bank received an initial payment of almost 90% of all its exposure from the administrator.

There has been no other material or adjusting post balance sheet events.